

**HOLMES COUNTY
DISTRICT SCHOOL BOARD**

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

For the Fiscal Year Ended
June 30, 2014



BOARD MEMBERS AND SUPERINTENDENT

Board members and the Superintendent who served during the 2013-14 fiscal year are listed below:

	<u>District No.</u>
Rusty Williams, Chair	1
Debbie Kolmetz	2
Jason Motley, Vice Chair	3
Shirley Owens	4
Sid Johnson	5

Eddie Dixon, Superintendent

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

The audit team leader was Juan A. Fernandez, CPA, and the audit was supervised by Shelly G. Curti, CPA. Please address inquiries regarding this report to Douglas R. Conner, CPA, Audit Manager, by e-mail at dougconner@aud.state.fl.us or by telephone at (850) 412-2730.

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

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

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

ADDITIONAL MATTERS

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

Finding No. 2: The District needed to enhance its procedures to require verification of eligibility of dependents covered by the District's health insurance plan.

Finding No. 3: Controls over monitoring school bus drivers could be enhanced.

Finding No. 4: Procurement procedures could be enhanced to provide for routine review of required statements of financial interests for consideration in making procurement decisions.

Finding No. 5: Controls over virtual instruction program (VIP) operations and related activities could be enhanced by developing and maintaining comprehensive, written VIP policies and procedures.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Child Nutrition Cluster 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 a noncompliance and control deficiency finding as summarized below.

Federal Awards Finding No. 2014-001: Improvements were needed in procedures used to perform free and reduced price meal application verifications.

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. 2014-141.

The scope of this audit included an examination of the District's basic financial statements and the Schedule of Expenditures of Federal Awards as of and for the fiscal year ended June 30, 2014. We obtained an understanding of the District's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements and Federal awards. We also examined various transactions to determine whether they were executed, both in manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

Audit Methodology

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



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

INDEPENDENT AUDITOR'S REPORT

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, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the school internal funds, which represent 13 percent of the assets and 17 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, 2014, 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 District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF 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 16, 2015

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, 2014. 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 2013-14 fiscal year are as follows:

- The District's net position decreased by \$2,861,352.58, or 7.6 percent. The net position decreased in the previous fiscal year by 5.9 percent.
- During the current fiscal year, the General Fund's fund balance decreased by \$808,493.81. This may be compared to last fiscal year's results when the General Fund's fund balance decreased by \$265,134.05. The June 30, 2014, General Fund fund balance is \$954,963.46.

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 District's financial health. The statement of activities presents information about the change in the District's net position, the results of operations, during the fiscal year. An increase or decrease in net position is an indication of whether the District's financial health is improving or deteriorating.

All of the District's activities and services are reported in the government-wide financial statements as governmental activities. The District's governmental activities include instruction, student support services, instructional support services, administrative support services, facility maintenance, transportation, and food services. State and Federal revenues, 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 its school buildings and administrative facilities.

Fund Financial Statements

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

Governmental Funds: Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, the governmental funds utilize spendable financial resources measurement focus rather than the economic resources measurement focus found in the government-wide financial statements. This 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 funds statements provide a detailed short-term view that may be used to evaluate the District's near-term financing requirements. This short-term view is useful when compared to the long-term view presented as governmental activities in the government-wide financial statements. To facilitate this comparison, both the governmental balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation of governmental funds to governmental activities.

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

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

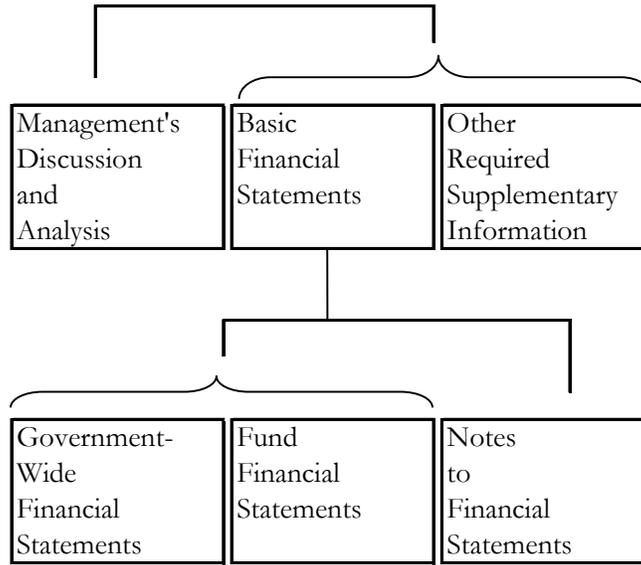
The District uses agency funds to account for resources held for student activities and groups.

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position over time may serve as a useful indicator of a government’s financial health. The following is a summary of the District’s net position as of June 30, 2014, compared to net position as of June 30, 2013:

	Net Position, End of Year	
	Governmental Activities	
	6-30-14	6-30-13
Current and Other Assets	\$ 4,153,545	\$ 6,266,634
Capital Assets	36,494,414	36,428,770
Total Assets	40,647,959	42,695,404
Long-Term Liabilities	5,255,157	4,385,152
Other Liabilities	780,029	836,126
Total Liabilities	6,035,186	5,221,278
Net Position:		
Net Investment in Capital Assets	34,789,178	35,464,509
Restricted	677,420	946,657
Unrestricted (Deficit)	(853,825)	1,062,960
Total Net Position	\$ 34,612,773	\$ 37,474,126

The largest portion of the District’s net position 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. Although the investment in capital assets is reported net of related debt, the resources used to repay the debt must be provided from other sources, since the capital assets cannot be used to liquidate these liabilities.

The restricted portion of the District’s net position represents resources that are subject to external restrictions on how they may be used. The deficit unrestricted net position was the result, in part, of accruing \$2,382,892.99 in compensated absences payable and \$1,167,028 in other postemployment benefit obligations.

The key elements of the changes in the District’s net position for the fiscal years ended June 30, 2014, and June 30, 2013, are as follows:

	Operating Results for the Fiscal Year Ended	
	Governmental Activities	
	6-30-14	6-30-13
Program Revenues:		
Charges for Services	\$ 332,944	\$ 403,063
Operating Grants and Contributions	1,955,474	1,975,122
Capital Grants and Contributions	112,697	113,625
General Revenues:		
Property Taxes, Levied for Operational Purposes	2,660,570	2,771,189
Property Taxes, Levied for Capital Projects	676,655	
Grants and Contributions Not Restricted to Specific Programs	22,055,389	20,749,992
Unrestricted Investment Earnings	4,864	10,094
Miscellaneous	230,285	198,031
Total Revenues	28,028,878	26,221,116
Functions/Program Expenses:		
Instruction	16,401,532	15,288,779
Student Personnel Services	750,227	667,079
Instructional Media Services	530,838	515,383
Instruction and Curriculum Development Services	261,703	285,797
Instructional Staff Training Services	474,690	339,115
Instruction Related Technology	265,173	203,607
School Board	197,416	178,448
General Administration	306,309	259,958
School Administration	2,123,824	1,868,074
Fiscal Services	317,118	288,889
Food Services	1,643,666	1,717,948
Central Services	651,461	689,591
Student Transportation Services	1,433,378	1,317,769
Operation of Plant	2,540,085	2,496,389
Maintenance of Plant	1,324,626	889,728
Administrative Technology Services	1,536	424
Unallocated Interest on Long-Term Debt	39,385	46,284
Unallocated Depreciation Expense	1,627,264	1,536,736
Total Functions/Program Expenses	30,890,231	28,589,998
Change in Net Position	(2,861,353)	(2,368,882)
Net Position - Beginning	37,474,126	39,843,008
Net Position - Ending	\$ 34,612,773	\$ 37,474,126

The largest revenue source is the State of Florida (72.1 percent). Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data, and is designed to maintain equity in funding across all Florida school districts, taking into consideration the District’s funding ability based on the local property tax base.

Grants and contributions not restricted to specific programs revenues increased by \$1,305,397, or 6.3 percent, primarily due to an increase in FEFP revenues from the State. FEFP revenues increased, in part, because the State increased the base student allocation in the current fiscal year.

Property tax revenue levied for capital projects increased by \$676,655 from the prior fiscal year, due to the levy of 1.5 mills for local capital improvement in the current fiscal year. This millage was not levied in the 2012-13 fiscal year.

Instruction expenses represent 53.1 percent of total governmental expenses in the 2013-14 fiscal year. Instruction expenses increased by \$1,112,753, or 7.3 percent, primarily as a result of an increase in salaries and benefits.

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 \$1,601,685.19 during the fiscal year to \$1,712,222.92 at June 30, 2014. Approximately 29.1 percent of this amount is unassigned fund balance (\$498,679.42), 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 (\$130,502.20), 2) restricted for particular purposes (\$656,733.32), or 3) assigned for particular purposes (\$426,307.98).

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 \$845,147.87, while the total fund balance is \$954,963.46. Total fund balance decreased by \$808,493.81 during the fiscal year. The key factor impacting the change in fund balance is an increase in total expenditures of \$3,046,095.53, or 13.8 percent, mainly due to increases in the Instruction and Maintenance of Plant functions. With the reduction in Federal economic stimulus program funds, the District used General Fund resources to maintain a certain level of instructional services. Maintenance and repair expenditures increased due to unexpected emergency repairs in the current fiscal year.

The Special Revenue – Other Fund and the Special Revenue – Federal Economic Stimulus Fund have zero fund balances at the end of the current fiscal year. The District uses the funds to account for certain Federal program resources. Since Federal revenue is recognized to the extent that total expenditures have been incurred, these funds do not generally accumulate a fund balance. Revenues and expenditures in the Special Revenue – Other Fund decreased by \$454,754.51 each or 15.7 percent in the current fiscal year due to an overall decrease in federal grant funding primarily in the Special Education and Title I programs. Revenues and expenditures in the Special Revenue – Federal Economic Stimulus Fund decreased by \$86,487.97 each or 43 percent in the current fiscal year due to the expiration of Federal stimulus programs.

The Capital Projects – Public Education Capital Outlay (PECO) Fund has a deficit fund balance of \$(346,468.45), which represents expenditures for construction paid in advance of a 2014-15 fiscal year special allocation for specific construction needs through the Public Education Capital Outlay and Debt Service Trust Fund – Special Facility

Construction account. In anticipation of the receipt of the special allocation, \$1,270,340 was encumbered for capital projects at June 30, 2014.

The Capital Projects – Local Capital Improvement Fund has a fund balance of \$491,225.62, which is restricted to acquisition, construction, and maintenance of capital assets. Expenditures and other financing sources in this fund increased by \$1,171,082 during the current fiscal year, due to the purchase of 11 buses through an installment-purchase contract.

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 2013-14 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

Major capital asset events during the current fiscal year included the purchase of 11 buses and construction in progress related to an architect contract for the design phase of the new Holmes County K-8 school. Additional information on the District’s capital assets can be found in notes I.F.4 and III.C to the financial statements. The following table reflects the District’s net investment in capital assets at June 30, 2014, and June 30, 2013:

	Capital Assets	
	Governmental Activities	
	6-30-14	6-30-13
Land	\$ 450,584	\$ 450,584
Construction in Progress	346,468	
Improvements Other Than Buildings	193,914	206,905
Buildings and Fixed Equipment	33,353,869	34,487,848
Furniture, Fixtures, and Equipment	490,965	514,211
Motor Vehicles	1,658,614	769,222
Total Capital Assets	\$ 36,494,414	\$ 36,428,770

Long-Term Debt

The following table discloses the 2013-14 fiscal year debt principal payments and outstanding as of June 30, 2014:

	Outstanding Debt	
	Total Payments	Debt Outstanding
June 30, 2014	\$ 430,107	\$ 1,705,236

The District entered into a \$1,171,082 installment-purchase for 11 buses in the 2013-14 fiscal year. Additional information on the District’s long-term debt can be found in notes III.I through III.J to the financial statements.

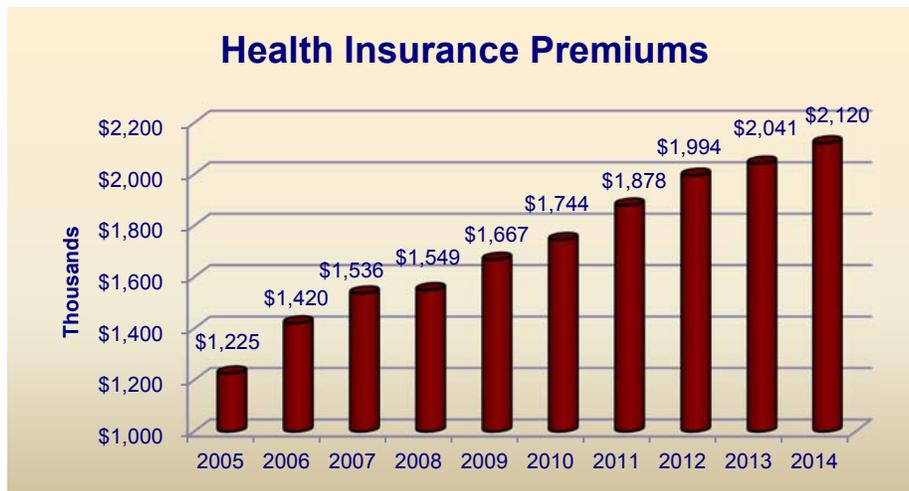
OTHER MATTERS OF SIGNIFICANCE

Construction Project

Pursuant to Section 1013.14, Florida Statutes, the District received a special allocation in the 2014-15 fiscal year for the specific construction needs through the Public Education Capital Outlay and Debt Service Trust Fund – Special Facilities Construction account. The Board will receive the first of three encumbrance authorizations in the amount \$2,100,000 during the 2014-15 fiscal year. The funding will be used for construction of the new Holmes County K-8 school.

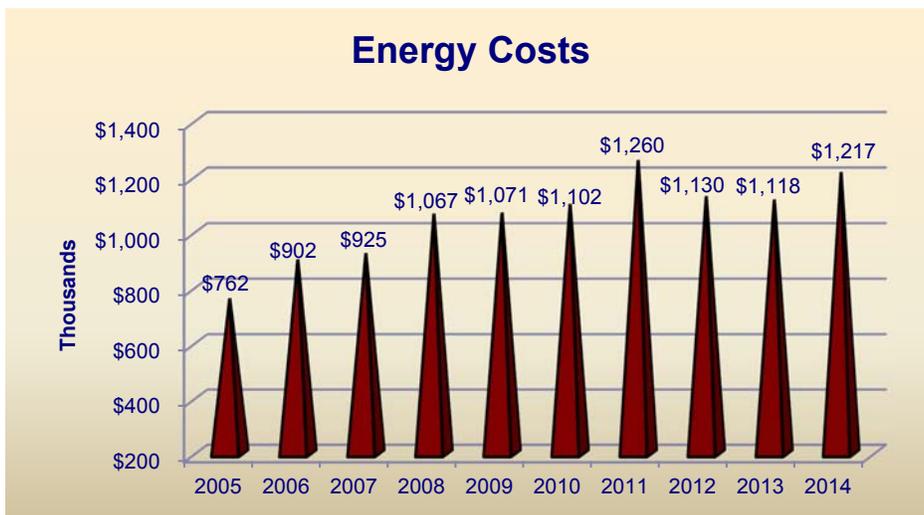
Insurance Premiums

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 75 percent of the premium cost for employee health coverage. The District’s total cost for health insurance benefits is reflected in the chart below for the June 30 fiscal year-ends as indicated:



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 costs of terminal payments and terminal pay 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, 2014**

	<u>Governmental Activities</u>
ASSETS	
Cash	\$ 3,833,746.13
Investments	34,110.68
Accounts Receivable	1,154.97
Due from Other Agencies	154,031.47
Inventories	130,502.20
Capital Assets:	
Nondepreciable Capital Assets	797,052.11
Depreciable Capital Assets, Net	<u>35,697,361.82</u>
TOTAL ASSETS	<u>40,647,959.38</u>
LIABILITIES	
Salaries and Benefits Payable	168,811.46
Payroll Deductions and Withholdings	457,524.07
Accounts Payable	153,693.67
Long-Term Liabilities:	
Portion Due Within One Year	724,721.96
Portion Due After One Year	<u>4,530,435.05</u>
TOTAL LIABILITIES	<u>6,035,186.21</u>
NET POSITION	
Net Investment in Capital Assets	34,789,177.91
Restricted for:	
Debt Service	12,355.94
Capital Projects	491,225.62
Food Service	173,838.37
Unrestricted	<u>(853,824.67)</u>
TOTAL NET POSITION	<u>\$ 34,612,773.17</u>

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

**HOLMES COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2014**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Instruction	\$ 16,401,532.38	\$ 38,159.85	\$	\$	\$ (16,363,372.53)
Student Personnel Services	750,227.09				(750,227.09)
Instructional Media Services	530,837.56				(530,837.56)
Instruction and Curriculum Development Services	261,703.07				(261,703.07)
Instructional Staff Training Services	474,689.90				(474,689.90)
Instruction Related Technology	265,172.56				(265,172.56)
School Board	197,415.85				(197,415.85)
General Administration	306,309.35				(306,309.35)
School Administration	2,123,823.77				(2,123,823.77)
Facilities Acquisition and Construction				32,122.08	32,122.08
Fiscal Services	317,117.72				(317,117.72)
Food Services	1,643,665.68	278,760.55	1,326,568.11		(38,337.02)
Central Services	651,460.53				(651,460.53)
Student Transportation Services	1,433,378.09	16,023.40	628,906.00		(788,448.69)
Operation of Plant	2,540,085.34				(2,540,085.34)
Maintenance of Plant	1,324,626.28				(1,324,626.28)
Administrative Technology Services	1,536.23				(1,536.23)
Unallocated Interest on Long-Term Debt	39,385.34			80,574.63	41,189.29
Unallocated Depreciation Expense	1,627,264.00				(1,627,264.00)
Total Governmental Activities	\$ 30,890,230.74	\$ 332,943.80	\$ 1,955,474.11	\$ 112,696.71	(28,489,116.12)
General Revenues:					
Taxes:					
					2,660,569.65
					676,655.24
					22,055,389.00
					4,864.54
					230,285.11
Total General Revenues					25,627,763.54
Change in Net Position					(2,861,352.58)
Net Position - Beginning					37,474,125.75
Net Position - Ending					\$ 34,612,773.17

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, 2014**

	General Fund	Special Revenue - Other Fund	Special Revenue - Federal Economic Stimulus Fund	Capital Projects - Public Education Capital Outlay Fund
ASSETS				
Cash	\$ 1,469,536.94	\$ 1,479.04	\$ 125.00	\$
Investments	5,000.83			
Accounts Receivable	1,154.97			
Due from Other Funds				
Due from Other Agencies	15,441.26	120,039.73		
Inventories	109,815.59			
TOTAL ASSETS	\$ 1,600,949.59	\$ 121,518.77	\$ 125.00	\$ 0.00
LIABILITIES AND FUND BALANCES				
Liabilities:				
Salaries and Benefits Payable	\$ 39,355.02	\$ 117,838.35	\$	\$
Payroll Deductions and Withholdings	457,524.07			
Accounts Payable	149,107.04	3,680.42	125.00	
Due to Other Funds				346,468.45
Total Liabilities	645,986.13	121,518.77	125.00	346,468.45
Fund Balances:				
Nonspendable:				
Inventories	109,815.59			
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	845,147.87			(346,468.45)
Total Fund Balances	954,963.46			(346,468.45)
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,600,949.59	\$ 121,518.77	\$ 125.00	\$ 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
\$ 143,603.79	\$ 565,004.31	\$ 2,179,749.08
	21,813.57	26,814.40
		1,154.97
346,468.45		346,468.45
1,153.38	17,397.10	154,031.47
	20,686.61	130,502.20
<u>\$ 491,225.62</u>	<u>\$ 624,901.59</u>	<u>\$ 2,838,720.57</u>
\$	\$ 11,618.09	\$ 168,811.46
	781.21	457,524.07
		153,693.67
		346,468.45
	<u>12,399.30</u>	<u>1,126,497.65</u>
	20,686.61	130,502.20
	153,151.76	153,151.76
	12,355.94	12,355.94
491,225.62		491,225.62
<u>491,225.62</u>	<u>165,507.70</u>	<u>656,733.32</u>
	215,173.52	215,173.52
	211,134.46	211,134.46
	426,307.98	426,307.98
		498,679.42
<u>491,225.62</u>	<u>612,502.29</u>	<u>1,712,222.92</u>
<u>\$ 491,225.62</u>	<u>\$ 624,901.59</u>	<u>\$ 2,838,720.57</u>

HOLMES COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2014

Total Fund Balances - Governmental Funds \$ 1,712,222.92

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. 36,494,413.93

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:

Installment-Purchase Payable	\$ 930,076.17	
Note Payable	280,159.85	
Bonds Payable	495,000.00	
Compensated Absences Payable (net of \$1,661,293.33 set aside in the Internal Service Fund to fund a portion of the liability)	721,599.66	
Other Postemployment Benefits Payable	1,167,028.00	(3,593,863.68)
	1,167,028.00	(3,593,863.68)

Net Position - Governmental Activities \$ 34,612,773.17

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

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**HOLMES COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2014**

	General Fund	Special Revenue - Other Fund	Special Revenue - Federal Economic Stimulus Fund	Capital Projects - Public Education Capital Outlay Fund
Revenues				
Intergovernmental:				
Federal Direct	\$ 60,433.50	\$	\$ 114,561.50	\$
Federal Through State and Local State	336.98 19,860,580.71	2,438,330.19		
Local:				
Property Taxes	2,660,569.65			
Charges for Services - Food Service				
Miscellaneous	266,804.07			
Total Local Revenues	<u>2,927,373.72</u>			
Total Revenues	<u>22,848,724.91</u>	<u>2,438,330.19</u>	<u>114,561.50</u>	
Expenditures				
Current - Education:				
Instruction	14,380,477.95	1,858,771.88	34,783.55	
Student Personnel Services	657,842.07	79,362.35		
Instructional Media Services	520,186.64			
Instruction and Curriculum Development Services	158,951.88	98,334.12		
Instructional Staff Training Services	212,454.57	243,549.02	13,301.10	
Instruction Related Technology	193,077.94	1,008.98	66,476.85	
School Board	194,365.85			
General Administration	208,085.99	96,502.62		
School Administration	2,170,238.01			
Fiscal Services	320,021.68			
Food Services				
Central Services	660,163.32	31,861.30		
Student Transportation Services	1,392,299.11	18,362.32		
Operation of Plant	2,520,605.02			
Maintenance of Plant	1,320,708.99			
Administrative Technology Services	1,536.23			
Fixed Capital Outlay:				
Facilities Acquisition and Construction				346,468.45
Other Capital Outlay	165,325.55	10,577.60		
Debt Service:				
Principal				
Interest and Fiscal Charges				
Total Expenditures	<u>25,076,340.80</u>	<u>2,438,330.19</u>	<u>114,561.50</u>	<u>346,468.45</u>
Deficiency of Revenues Over Expenditures	<u>(2,227,615.89)</u>			<u>(346,468.45)</u>
Other Financing Sources (Uses)				
Transfers In	1,419,122.08			
Proceeds of Installment Purchase				
Transfers Out				
Total Other Financing Sources (Uses)	<u>1,419,122.08</u>			
Net Change in Fund Balances	<u>(808,493.81)</u>			<u>(346,468.45)</u>
Fund Balances, Beginning	1,763,457.27			
Fund Balances, Ending	<u>\$ 954,963.46</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ (346,468.45)</u>

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

Capital Projects - Local Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
\$	\$	\$
	1,301,568.11	60,433.50
	346,946.71	3,854,796.78
676,655.24		20,207,527.42
	278,760.55	3,337,224.89
1,280.64	5,224.79	278,760.55
<u>677,935.88</u>	<u>283,985.34</u>	<u>273,309.50</u>
<u>677,935.88</u>	<u>1,932,500.16</u>	<u>3,889,294.94</u>
		16,274,033.38
		737,204.42
		520,186.64
		257,286.00
		469,304.69
		260,563.77
		194,365.85
		304,588.61
		2,170,238.01
		320,021.68
	1,623,107.65	1,623,107.65
		692,024.62
		1,410,661.43
		2,520,605.02
		1,320,708.99
		1,536.23
		346,468.45
1,171,082.00	4,437.00	1,351,422.15
	430,106.90	430,106.90
	<u>39,385.34</u>	<u>39,385.34</u>
<u>1,171,082.00</u>	<u>2,097,036.89</u>	<u>31,243,819.83</u>
<u>(493,146.12)</u>	<u>(164,536.73)</u>	<u>(3,231,767.19)</u>
	241,000.00	1,660,122.08
1,171,082.00		1,171,082.00
<u>(918,000.00)</u>	<u>(283,122.08)</u>	<u>(1,201,122.08)</u>
<u>253,082.00</u>	<u>(42,122.08)</u>	<u>1,630,082.00</u>
<u>(240,064.12)</u>	<u>(206,658.81)</u>	<u>(1,601,685.19)</u>
<u>731,289.74</u>	<u>819,161.10</u>	<u>3,313,908.11</u>
<u>\$ 491,225.62</u>	<u>\$ 612,502.29</u>	<u>\$ 1,712,222.92</u>

**HOLMES COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2014**

Net Change in Fund Balances - Governmental Funds \$ (1,601,685.19)

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

Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital outlays in excess of depreciation expense in the current fiscal year. 83,758.04

The undepreciated cost of capital assets which are sold or otherwise disposed of is expensed statement of activities. In the governmental funds, the cost of these assets was recognized as an expenditure in the fiscal year purchased. Thus, the change in net position differs from the change in fund balance by the undepreciated cost of the disposed assets. (18,114.29)

Long-term debt proceeds provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount by which proceeds exceed repayments in the current fiscal year.

Proceeds of Installment-Purchase	\$ (1,171,082.00)	
Repayment of Installment-Purchase Payable	241,005.83	
Repayment of Note Payable	134,101.07	
Repayment of Bonds Payable	55,000.00	(740,975.10)

In the statement of activities, the cost of compensated absences is measured by the amounts earned during the fiscal year, while in the governmental funds, expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences used in excess of the amount earned in the current fiscal year. 158,267.88

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. (287,298.00)

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. (455,305.92)

Change in Net Position - Governmental Activities \$ (2,861,352.58)

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, 2014**

	Governmental Activities - Internal Service Fund
ASSETS	
Current Assets:	
Cash	\$ 1,653,997.05
Noncurrent Assets:	
Investments in SBA Fund B Surplus Funds Trust Fund	7,296.28
TOTAL ASSETS	<u>1,661,293.33</u>
LIABILITIES	
Noncurrent Liabilities:	
Compensated Absences Payable	<u>1,661,293.33</u>
NET POSITION	
Unrestricted	<u><u>\$ 0.00</u></u>

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

**HOLMES COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION -
PROPRIETARY FUND
For the Fiscal Year Ended June 30, 2014**

		Governmental Activities - Internal Service Fund
OPERATING REVENUE		
Decrease in Compensated Absences Payable	\$	455,305.92
		455,305.92
Operating Income		455,305.92
NONOPERATING REVENUES		
Interest Revenue		3,694.08
		3,694.08
Income Before Transfers		459,000.00
Transfers Out		(459,000.00)
		0.00
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, 2014**

		Governmental Activities - Internal Service Fund
		Fund
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfer to Other Funds	\$	(459,000.00)
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of Investments		1,578,373.10
Interest Income		3,694.08
Net Cash Provided by Investing Activities		1,582,067.18
Net Increase in Cash		1,123,067.18
Cash, Beginning		530,929.87
Cash, Ending	\$	1,653,997.05

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

Operating Income	\$	455,305.92
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Changes in Assets and Liabilities:		
Compensated Absences Payable		(455,305.92)
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, 2014**

	Agency Funds
<hr/>	
ASSETS	
Cash	\$ 334,948.00
	<hr/> <hr/>
LIABILITIES	
Internal Accounts Payable	\$ 334,948.00
	<hr/> <hr/>

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

**HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-wide Financial Statements

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

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

B. Reporting Entity

The Holmes County District School Board (Board) has direct responsibility for operation, control, and supervision of District schools and is considered a primary government for financial reporting. The District is considered part of the Florida system of public education, operates under the general direction of the Florida Department of Education, 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, 2014**

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 – Public Education Capital Outlay Fund – to account for the financial resources generated by the State Public Education Capital Outlay and Debt Service Trust Fund to be used for educational capital outlay needs, including new construction and renovation and remodeling projects.
- Capital Projects – Local Capital Improvement Fund – to account for the financial resources generated by the local capital improvement tax levy to be used for educational capital outlay needs, including new construction and renovation and remodeling projects, and debt service payments on installment-purchase payable for school buses.

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

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

During the course of operations the District has activity between funds for various purposes. Any residual balances outstanding at 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.

**HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

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.

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, 2014**

2. Investments

Investments consist of amounts placed in the SBA debt service accounts for investment of debt service moneys and amounts placed with the SBA for participation in the Florida PRIME and Fund B Surplus Funds Trust Fund (Fund B) investment pools created by Sections 218.405 and 218.417, Florida Statutes. 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 1.84438408 at June 30, 2014. 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.

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.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Improvements Other Than Buildings	20 - 35 years
Buildings and Fixed Equipment	10 - 50 years
Furniture, Fixtures, and Equipment	5 - 10 years
Motor Vehicles	5 - 10 years

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

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.

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DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

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 may include 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, 2014.

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 fiscal 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 fiscal year when the adjustments are made.

The State provides financial assistance to administer certain educational programs. SBE rules require that revenue earmarked for certain programs be expended only for the program for which the money is provided, and require that the money not expended as of the close of the fiscal year be carried forward into the following fiscal year to be expended for the same educational programs. The 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 2013 tax levy on September 17, 2013. 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.

**HOLMES COUNTY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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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. The liability for compensated absences includes salary-related benefits, where applicable.

6. Proprietary Fund Operating and Nonoperating Revenues and Expenses

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

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Deficit Fund Balance

The Capital Projects - Public Education Capital Outlay Fund showed a deficit fund balance at June 30, 2014, of \$(346,468.45). The deficit is due to expenditures related to the design phase of the new Holmes County K-8 School, which were incurred in advance of a special allocation of Public Education Capital Outlay and Debt Service Trust Fund - Special Facility Construction Account funds to be received in the 2014-15 fiscal year.

III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Cash Deposits with Financial Institutions

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

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

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

B. Investments

As of June 30, 2014, the District had the following investments and maturities:

<u>Investments</u>	<u>Maturities</u>	<u>Fair Value</u>
SBA:		
Florida PRIME	40 Day Average	\$ 10,001.60
Fund B	2.86 Year Average	11,753.14
Debt Service Accounts	6 Months	12,355.94
Total Investments		<u><u>\$ 34,110.68</u></u>

➤ Interest Rate Risk

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

Florida PRIME had a weighted average days to maturity (WAM) of 40 days at June 30, 2014. 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, 2014, is estimated at 2.86 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; SEC registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits in qualified public depositories, as defined in Section 280.02, Florida Statutes; and direct obligations of the United States Treasury. The District’s investment policy limits investments to bids from qualified depositories, financial deposit instruments insured by the Federal Deposit Insurance Corporation, time deposits, securities of the United States Government, State-managed cooperative investment plans, and other forms of investments as authorized by Section 218.415, Florida Statutes, as well as Florida PRIME.

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

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

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

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
Construction in Progress		346,468.45		346,468.45
Total Capital Assets Not Being Depreciated	450,583.66	346,468.45		797,052.11
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	3,869,245.64	193,471.59	364,045.29	3,698,671.94
Motor Vehicles	3,577,033.98	1,171,082.00		4,748,115.98
Total Capital Assets Being Depreciated	63,200,499.52	1,364,553.59	364,045.29	64,201,007.82
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	1,516,252.00	12,991.00		1,529,243.00
Buildings and Fixed Equipment	19,543,214.00	1,133,980.00		20,677,194.00
Furniture, Fixtures, and Equipment	3,355,035.00	198,603.00	345,931.00	3,207,707.00
Motor Vehicles	2,807,812.00	281,690.00		3,089,502.00
Total Accumulated Depreciation	27,222,313.00	1,627,264.00	345,931.00	28,503,646.00
Total Capital Assets Being Depreciated, Net	35,978,186.52	(262,710.41)	18,114.29	35,697,361.82
Governmental Activities Capital Assets, Net	\$ 36,428,770.18	\$ 83,758.04	\$ 18,114.29	\$ 36,494,413.93

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

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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.

The State of Florida establishes contribution rates for participating employers and employees. Contribution rates during the 2013-14 fiscal year were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (A)
FRS, Regular	3.00	6.95
FRS, Elected County Officers	3.00	33.03
FRS, Senior Management Service	3.00	18.31
DROP - Applicable to Members from All of the Above Classes	0.00	12.84
FRS, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.20 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.

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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, 2012, June 30, 2013, and June 30, 2014, totaled \$1,135,666.42, \$1,208,360.53, and \$1,787,150.11, respectively, which were equal to the required contributions for each fiscal year.

There were 22 District participants in the Investment Plan during the 2013-14 fiscal year. The District's contributions including employee contributions to the Investment Plan totaled \$95,171.09, which was equal to the required contribution for the 2013-14 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, Bureau of Financial Reporting Statewide Financial Reporting Section by mail at 200 E. Gaines Street, Tallahassee, Florida 32399-0364; by telephone at (850)413-5511; or at the Department's Web site (www.myfloridacfo.com). 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, Research and Education Section, by mail at P.O. Box 9000, Tallahassee, Florida 32315-9000; by telephone toll free at (877)377-1737 or (850)488-5706; by e-mail at rep@dms.myflorida.com; or at the Division's Web site (www.frs.myflorida.com).

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 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 2013-14 fiscal year, 109 retirees received other postemployment benefits. The District provided required contributions of \$328,102 toward the annual OPEB cost, net of retiree contributions totaling \$576,596, which represents 5.07 percent of covered payroll).

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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)	\$ 261,942
Amortization of Unfunded Actuarial Accrued Liability	350,930
Annual Required Contribution	612,872
Interest on Net OPEB Obligation	37,389
Adjustment to Annual Required Contribution	(34,861)
Annual OPEB Cost (Expense)	615,400
Contribution Toward the OPEB Cost	(328,102)
Change in Net OPEB Obligation	287,298
Net OPEB Obligation, Beginning of Year	879,730
Net OPEB Obligation, End of Year	\$ 1,167,028

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, 2014, and the two preceding fiscal years, were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011-12	\$ 546,431	57.2%	\$ 592,311
2012-13	585,051	50.9%	879,730
2013-14	615,400	53.3%	1,167,028

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.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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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, 2014, and the District's 2013-14 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 percent initially beginning October 2013 plan year, reduced to an ultimate rate of 5.9 percent beginning October 2028. The investment rate of return and projected salaries increases rate include a general price inflation of 3 percent. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis over a 30-year period. The remaining amortization period at June 30, 2014, was 25 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 FRS. In addition to payments for accrued leave and regular termination benefits, the District reported expenditures, totaling \$16,593, during the 2013-14 fiscal year for five employees that received special termination benefits.

**HOLMES COUNTY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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G. Construction and Other Significant Commitments

Encumbrances. Appropriations in governmental funds are encumbered upon issuance of purchase orders for goods and services. Even though appropriations lapse at the end of the fiscal year, unfilled purchase orders of the current year are carried forward and the next year's appropriations are likewise encumbered. At June 30, 2014, the Capital Projects – Public Education Capital Outlay Fund had encumbrances totaling \$1,270,340.

Construction Contracts. A major construction contract commitment at fiscal year-end is as follows:

<u>Project</u>	<u>Contract Amount</u>	<u>Completed to Date</u>	<u>Balance Committed</u>
New Holmes County K-8 School: Architect	<u>\$ 1,587,924.50</u>	<u>\$ 317,584.89</u>	<u>\$ 1,270,339.61</u>

H. Risk Management Programs

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Holmes County District School Board is a member of the Panhandle Area Educational Consortium – Risk Management Consortium (Consortium) under which several district school boards have established a combined limited self-insurance program for property protection, general liability, automobile liability, workers' compensation, 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.

I. Installment-Purchase Payable

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

	<u>Asset Balance</u>
Motor Vehicles	<u>\$ 1,171,082</u>

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

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 241,005.83	\$ 227,523.98	\$ 13,481.85
2016	241,005.83	230,822.03	10,183.80
2017	241,005.83	234,167.90	6,837.93
2018	241,005.83	237,562.26	3,443.57
Total	\$ 964,023.32	\$ 930,076.17	\$ 33,947.15

The imputed interest rate is 1.45 percent.

J. Long-Term Liabilities

1. Note Payable

Note payable is comprised of the following:

<u>Regions Bank</u>	<u>Balance at June 30</u>
\$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.	<u>\$ 280,159.85</u>

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

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 146,701.51	\$ 138,179.98	\$ 8,521.53
2016	146,701.51	141,979.87	4,721.64
Total	\$ 293,403.02	\$ 280,159.85	\$ 13,243.17

**HOLMES COUNTY
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2. Bonds Payable

Bonds payable at June 30, 2014, are as follows:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 2010A, Refunding	<u>\$ 495,000</u>	4 - 5	2021

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

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
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	86,250	75,000	11,250
2020-2021	<u>177,500</u>	<u>165,000</u>	<u>12,500</u>
Total State School Bonds	<u>\$ 596,500</u>	<u>\$ 495,000</u>	<u>\$ 101,500</u>

3. Changes in Long-Term Liabilities

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

Description	Beginning Balance	Additions	Deductions	Ending Balance	Due In One Year
GOVERNMENTAL ACTIVITIES					
Installment-Purchase Payable	\$	\$ 1,171,082.00	\$ 241,005.83	\$ 930,076.17	\$ 227,523.98
Note Payable	414,260.92		134,101.07	280,159.85	138,179.98
Bonds Payable	550,000.00		55,000.00	495,000.00	60,000.00
Compensated Absences Payable	2,541,160.87	210,444.83	368,712.71	2,382,892.99	299,018.00
Other Postemployment Benefits Payable	879,730.00	615,400.00	328,102.00	1,167,028.00	
Total Governmental Activities	<u>\$ 4,385,151.79</u>	<u>\$ 1,996,926.83</u>	<u>\$ 1,126,921.61</u>	<u>\$ 5,255,157.01</u>	<u>\$ 724,721.96</u>

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

**HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

K. 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.

L. Interfund Receivable and Payable

The following is a summary of interfund receivable and payable reported in the fund financial statements:

Funds	Interfund	
	Receivable	Payable
Major:		
Capital Projects:		
Local Capital Improvement	\$ 346,468.45	\$
Public Education Capital Outlay		346,468.45
 Total	\$ 346,468.45	\$ 346,468.45

The interfund receivable and payable represents loans to finance expenditures paid by the Capital Projects - Local Capital Improvement Fund on behalf of the Capital Projects - Public Education Capital Outlay Fund with the expected repayment in the subsequent fiscal year.

**HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

M. Revenues and Expenditures/Expenses

1. Schedule of State Revenue Sources

The following is a schedule of the District’s State revenue sources for the 2013-14 fiscal year:

<u>Source</u>	<u>Amount</u>
Florida Education Finance Program	\$ 16,174,559.00
Categorical Educational Program - Class Size Reduction	3,242,307.00
Voluntary Prekindergarten Program	157,450.17
Motor Vehicle License Tax (Capital Outlay and Debt Service)	113,921.70
School Recognition	109,343.00
Discretionary Lottery Funds	28,988.00
Miscellaneous	380,958.55
	<hr/>
Total	\$ 20,207,527.42
	<hr/> <hr/>

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

2. Property Taxes

The following is a summary of millages and taxes levied on the 2013 tax roll for the 2013-14 fiscal year:

<u>GENERAL FUND</u>	<u>Millages</u>	<u>Taxes Levied</u>
Nonvoted School Tax:		
Required Local Effort	5.148	\$ 2,396,389.74
Basic Discretionary Local Effort	0.748	348,193.38
<u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	1.500	698,248.76
Total	<hr/> <hr/>	<hr/> <hr/>

**HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

N. Interfund Transfers

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	\$ 1,419,122.08	\$
Capital Projects:		
Local Capital Improvement		918,000.00
Nonmajor Governmental	241,000.00	283,122.08
Internal Service		459,000.00
Total	\$ 1,660,122.08	\$ 1,660,122.08

The interfund transfers were to reimburse the General Fund for capital outlay and maintenance expenditures, terminal pay expenditures, and food service expenditures. The transfer into the nonmajor fund was to transfer funds from the Capital Projects – Local Capital Improvement Fund to the Debt Service – Other fund for the installment-purchase debt service payment.

IV. SUBSEQUENT EVENTS

Pursuant to Section 1013.64, Florida Statutes, the District will receive a special allocation of \$6,300,000 in the 2014-15 fiscal year for specific construction needs through the Public Education Capital Outlay and Debt Service Trust Fund – Special Facility Construction account. The funding will be used for the construction of the new Holmes County K-8 School. In January 2015, the Board selected a construction management firm for the construction project. As of March 13, 2015, a guaranteed maximum price for the project had not been established yet and the District had not received any of the special allocation funding.

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OTHER REQUIRED SUPPLEMENTARY INFORMATION

**HOLMES COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE -
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 2014**

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	\$ 65,000.00	\$ 65,000.00	\$ 60,433.50	\$ (4,566.50)
Federal Through State and Local State	19,534,806.00	19,534,806.00	19,860,580.71	325,774.71
Local:				
Property Taxes	2,636,499.00	2,737,364.00	2,660,569.65	(76,794.35)
Miscellaneous	244,186.00	143,321.00	266,804.07	123,483.07
Total Local Revenues	<u>2,880,685.00</u>	<u>2,880,685.00</u>	<u>2,927,373.72</u>	<u>46,688.72</u>
Total Revenues	<u>22,480,491.00</u>	<u>22,480,491.00</u>	<u>22,848,724.91</u>	<u>368,233.91</u>
Expenditures				
Current - Education:				
Instruction	13,827,044.00	14,382,477.81	14,380,477.95	1,999.86
Student Personnel Services	602,937.00	659,842.00	657,842.07	1,999.93
Instructional Media Services	540,045.00	522,186.94	520,186.64	2,000.30
Instruction and Curriculum Development Services	84,191.00	160,952.00	158,951.88	2,000.12
Instructional Staff Training Services	199,781.00	214,455.00	212,454.57	2,000.43
Instruction Related Technology	116,105.00	195,077.49	193,077.94	1,999.55
School Board	222,184.00	196,366.00	194,365.85	2,000.15
General Administration	226,447.00	210,086.05	208,085.99	2,000.06
School Administration	1,997,647.00	2,172,238.19	2,170,238.01	2,000.18
Fiscal Services	339,533.00	322,022.00	320,021.68	2,000.32
Central Services	699,425.00	662,163.38	660,163.32	2,000.06
Student Transportation Services	1,646,235.00	1,394,299.59	1,392,299.11	2,000.48
Operation of Plant	2,506,409.00	2,522,605.00	2,520,605.02	1,999.98
Maintenance of Plant	1,031,112.00	1,322,709.00	1,320,708.99	2,000.01
Administrative Technology Services		3,536.00	1,536.23	1,999.77
Community Services	2,000.00	2,000.00		2,000.00
Fixed Capital Outlay:				
Other Capital Outlay		165,325.55	165,325.55	
Total Expenditures	<u>24,041,095.00</u>	<u>25,108,342.00</u>	<u>25,076,340.80</u>	<u>32,001.20</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(1,560,604.00)</u>	<u>(2,627,851.00)</u>	<u>(2,227,615.89)</u>	<u>400,235.11</u>
Other Financing Sources				
Transfers In	1,150,000.00	1,150,000.00	1,419,122.08	269,122.08
Total Other Financing Sources	<u>1,150,000.00</u>	<u>1,150,000.00</u>	<u>1,419,122.08</u>	<u>269,122.08</u>
Net Change in Fund Balances	<u>(410,604.00)</u>	<u>(1,477,851.00)</u>	<u>(808,493.81)</u>	<u>669,357.19</u>
Fund Balances, Beginning	1,763,457.00	1,763,457.27	1,763,457.27	
Fund Balances, Ending	<u>\$ 1,352,853.00</u>	<u>\$ 285,606.27</u>	<u>\$ 954,963.46</u>	<u>\$ 669,357.19</u>

Special Revenue - Other Fund				Special Revenue - Federal Economic Stimulus Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
\$ 2,563,600.00	\$ 2,468,600.00	\$ 2,438,330.19	\$ (30,269.81)	\$ 150,000.00	\$ 150,000.00	\$ 114,561.50	\$ (35,438.50)
<u>2,563,600.00</u>	<u>2,468,600.00</u>	<u>2,438,330.19</u>	<u>(30,269.81)</u>	<u>150,000.00</u>	<u>150,000.00</u>	<u>114,561.50</u>	<u>(35,438.50)</u>
2,085,300.00	1,860,143.05	1,858,771.88	1,371.17		36,784.00	34,783.55	2,000.45
75,700.00	81,362.00	79,362.35	1,999.65				
188,700.00	100,171.00	98,334.12	1,836.88				
100,100.00	247,999.00	243,549.02	4,449.98	150,000.00	28,542.00	13,301.10	15,240.90
21,600.00	1,398.35	1,008.98	389.37		69,114.00	66,476.85	2,637.15
70,000.00	98,503.00	96,502.62	2,000.38				
	33,814.00	31,861.30	1,952.70				
22,200.00	20,362.00	18,362.32	1,999.68				
	<u>10,577.60</u>	<u>10,577.60</u>					
<u>2,563,600.00</u>	<u>2,454,330.00</u>	<u>2,438,330.19</u>	<u>15,999.81</u>	<u>150,000.00</u>	<u>134,440.00</u>	<u>114,561.50</u>	<u>19,878.50</u>
	<u>14,270.00</u>		<u>(14,270.00)</u>		<u>15,560.00</u>		<u>(15,560.00)</u>
	<u>14,270.00</u>		<u>(14,270.00)</u>		<u>15,560.00</u>		<u>(15,560.00)</u>
<u>\$ 0.00</u>	<u>\$ 14,270.00</u>	<u>\$ 0.00</u>	<u>\$ (14,270.00)</u>	<u>\$ 0.00</u>	<u>\$ 15,560.00</u>	<u>\$ 0.00</u>	<u>\$ (15,560.00)</u>

**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, 2014**

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, student 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.
- Budgets are prepared using the same modified accrual basis as is used to account for governmental funds.
- Budgetary information is integrated into the accounting system and, to facilitate budget control, budget balances are encumbered when purchase orders are issued. Appropriations lapse at fiscal year-end and encumbrances outstanding are honored from the subsequent year's appropriations.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**HOLMES COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2014**

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	13002	\$ 297,090.80
National School Lunch Program	10.555 (2)	13001, 13003	<u>1,011,351.24</u>
Total United States Department of Agriculture			<u>1,308,442.04</u>
United States Department of Education:			
Indirect:			
Special Education Cluster:			
Florida Department of Education:			
Special Education - Grants to States	84.027	263	692,739.73
Special Education - Preschool Grants	84.173	267	<u>28,318.00</u>
Total Special Education Cluster			<u>721,057.73</u>
Florida Department of Education:			
Title I Grants to Local Educational Agencies	84.010	212, 223, 226	955,396.88
Career and Technical Education - Basic Grants to States	84.048	161	73,369.73
Twenty-First Century Community Learning Centers	84.287	244	438,790.24
Rural Education	84.358	110	61,004.17
Improving Teacher Quality State Grants	84.367	224	188,711.44
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395 (3)	RL111, RD211, RG311, RG411	114,561.50
Washington County District School Board: ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395 (3)	None	<u>1,914.42</u>
Total United States Department of Education			<u>2,554,806.11</u>
United States Department of Health and Human Services:			
Indirect:			
Florida Department of Health:			
Injury Prevention and Control Research and State and Community Based Programs	93.136	None	<u>400.00</u>
United States Department of Defense:			
Direct:			
Army Junior Reserve Officers Training Corps	None	N/A	<u>60,433.50</u>
Total Expenditures of Federal Awards			<u>\$ 3,924,081.65</u>

- Notes: (1) Basis of Presentation. The Schedule of Expenditures of Federal Awards represents amounts expended from Federal programs during the fiscal year as determined based on the modified accrual basis of accounting. The amounts reported on the Schedule have been reconciled to and are in material agreement with amounts recorded in the District's accounting records from which the basic financial statements have been reported.
- (2) Noncash Assistance National School Lunch Program. Includes \$50,069.93 of donated food used during the fiscal year. Donated foods are valued at fair value as determined at the time of donation.
- (3) ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act. Total CFDA No. 84.395 expenditures: \$116,475.92.



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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, 2014, 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 16, 2015, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the school internal funds as described in our report on the District's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free 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 16, 2015



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

INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE 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, 2014. The District’s major Federal programs are identified in the **SUMMARY OF AUDITOR’S RESULTS** section of the accompanying **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, 2014.

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 No. 2014-001. Our opinion on each major Federal program is not modified with respect to this matter.

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 a certain deficiency in internal control over compliance as described in the accompanying **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding No. 2014-001 that we consider to be a significant deficiency.

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 16, 2015

**HOLMES COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	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
84.395	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, 2014**

ADDITIONAL MATTERS

Finding No. 1: Compensation and Salary Schedules

Section 1001.42(5)(a), Florida Statutes, requires the Board to designate positions to be filled, prescribe qualifications for those positions, and provide for the appointment, compensation, promotion, suspension, and dismissal of employees, subject to the requirements of Chapter 1012, Florida Statutes. Section 1012.22(1)(c)4.b., Florida Statutes, provides that, for instructional personnel, the Board must provide differentiated pay based on 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 instructional personnel entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4.b., Florida Statutes. Such a documented process could specify the factors to be used as the basis for determining differentiated pay, the process for applying the factors, and the individuals responsible for making such determinations.

The salary schedule and union contract provided for certain types of differentiated pay; however, 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. 2013-132 and 2014-141.

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. 2: Health Insurance Plan – Participant Eligibility

For the 2013-14 fiscal year, the Board-adopted collective bargaining agreements required the District to contribute a maximum amount of \$384 per month toward the health insurance of each full-time employee and, pursuant to Section 112.0801, Florida Statutes, retired employees and their dependents participated in the District's health insurance plan at their own expense, but at the rate of current employees. District personnel were responsible for deducting the insurance premium costs from employee pay and submitting payments to the insurance carrier. Employees may enroll in the District's health insurance plan during open enrollment periods and make changes to their coverage outside of open enrollment periods for certain qualifying events such as marriage, divorce, death, or birth of a dependent. There were 346 employees who contributed a total of \$699,711 and 109 retirees who contributed a total of \$576,596 to participate in the District's health insurance plan, and the District contributed \$2 million toward the plan. Also, 96 dependents participated in the health insurance plan.

District personnel reconciled health insurance billings to payroll records to ensure that insurance premiums and related claims payments were only for eligible employees and retirees. However, the District did not require

employees or retirees purchasing health insurance for their dependents to provide documentation, such as birth certificates, evidencing the dependents' eligibility. Without verifying the eligibility of dependents covered through the District's health insurance plan, there is an increased risk that the dependents receiving insurance coverage may be ineligible participants.

Although employees and retirees are required to pay health insurance premiums for dependent coverage, future premium rates for the District's health insurance plan are based on claims experience. Therefore, claims for an ineligible dependent could result in future increases in health insurance premiums paid by the District for employees' healthcare coverage.

Recommendation: The District should enhance its procedures to require verification of eligibility of dependents covered by the District's health insurance plan.

Finding No. 3: Bus Drivers

State Board of Education (SBE) Rule 6A-3.0141(4) and (9), Florida Administrative Code (FAC), 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. SBE Rule 6A-3.0141(6), FAC, requires the District to obtain and review the Florida Department of Highway Safety and Motor Vehicles (FDHSMV) driver's history record for school bus drivers prior to initial employment and the first day of the fall semester, and thereafter using automated weekly updates.

During the 2013-14 fiscal year, the District employed 78 bus drivers. 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 FDHSMV records disclosed three bus drivers had suspended commercial vehicle driving licenses for not timely submitting medical examiner's certificates. One bus driver drove regularly scheduled bus routes from September 2013 to June 2014, another bus driver drove regularly scheduled bus routes from March 2014 to June 2014, and the remaining bus driver drove as a substitute from March 2014 to May 2014. While District personnel maintained a copy of the current medical examiner's certificate for each of these employees, they were unaware that the certificates were not provided to the FDHSMV and that the employees' licenses were suspended. The District became aware of these suspensions while generating a FDHSMV driver history report for all bus drivers before the 2014-15 school year began. After providing the required medical examiner's certificate and license reinstatement fee to the FDHSMV, the FDHSMV restored the license of one of the bus drivers in July 2014, another bus driver in August 2014, and the substitute bus driver's license in October 2014. Until the licenses were reinstated, the District did not allow the bus drivers to drive for the 2014-15 school year.

To promote school bus safety and to reduce the risk of accidents caused by school bus drivers, it is important that District personnel appropriately monitor bus driver history records and ensure the drivers meet the requirements to operate school buses. A similar finding was noted in our report No. 2014-141.

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

Finding No. 4: Purchasing Procedures

Board-adopted policies prohibit conflicts of interest and the District had certain procedures to reduce the risk of contractual relationships that cause conflicts of interest. For example, District personnel indicated that the Finance Department monitors the vendor selection and contracting process and would generally be aware of potential conflicts of interest given the size of the District.

The Superintendent, Board members, and Finance Officer were required to file statements of financial interests pursuant to Section 112.3145, Florida Statutes; although, the Finance Officer inadvertently did not file the required statement for the 2013-14 fiscal year. However, the statements that were filed were not provided to Finance Department personnel for review. Providing for routine review of statements of financial interests by the Finance Department would enhance the District's procurement practices and reduce the risk of questioned procurement transactions or contractual obligations.

Recommendation: The District should strengthen its procedures to ensure that employees file required statements of financial interests and provide for routine review of required statements of financial interests by the Finance Department for consideration in making procurement decisions.

Finding No. 5: Virtual Instruction Program Policies and Procedures

Pursuant to Section 1001.41(3), Florida Statutes, school districts are responsible for prescribing and adopting standards and policies to provide each student the opportunity to receive a complete education. Education methods to implement such standards and policies may include the delivery of learning courses through traditional school settings, blended courses consisting of both traditional classroom and online instructional techniques, participation in a virtual instruction program (VIP), or other methods. Section 1002.45, Florida Statutes, establishes VIP requirements and requires school districts to include mandatory provisions in VIP provider contracts; provide timely written parental notification of VIP options; ensure the eligibility of students participating in VIPs; ensure VIP students comply with compulsory attendance requirements; and provide computer equipment, Internet access, and instructional materials to eligible students.

The District used an FDOE-approved provider and a Florida Virtual School franchise to administer certain aspects of the VIP. For the 2013-14 fiscal year, the District had 10 students enrolled full-time and 133 students enrolled part-time in the VIP. While the District generally administered the VIP in accordance with applicable State requirements, the District had not established comprehensive, written policies and procedures for administering the VIP. Written policies and procedures would promote compliance with VIP statutory requirements, evidence management's expectations of key personnel, and communicate management's commitment to, and support of, effective controls. Additionally, the lack of written VIP policies and procedures may have contributed to the following instances of noncompliance and control deficiencies:

- Section 1002.45(10), Florida Statutes, requires that school districts provide information to parents and students about their right to participate in a VIP, and Section 1002.45(1)(b), Florida Statutes, requires school districts to provide parents with timely, written notification of the open enrollment periods for their VIPs. The District Web site contained information about one of the District's VIP options and District personnel indicated that parents were provided with additional information upon request. While these methods indicate efforts by District personnel to communicate with parents and students about the VIP for the 2013-14 school year, District records did not evidence that written notifications were provided directly to parents. Without such direct notifications, some parents may not be informed of available VIP options and associated enrollment periods, potentially limiting student access to virtual instruction types.

- Section 1002.455(1), Florida Statutes, authorizes students to participate in a VIP if they meet certain eligibility criteria as specified in Section 1002.455(2), Florida Statutes, such as attending a Florida public school in the prior school year and being funded by the Florida Education Finance Program. However, District records did not evidence the verification of each student’s eligibility. Absent effective procedures to verify and document student eligibility, there is an increased risk that ineligible students may participate in a VIP.
- Section 1002.45(6)(a), Florida Statutes, requires each student enrolled in a VIP to comply with the compulsory attendance requirements prescribed in Section 1003.21, Florida Statutes, and requires school districts to verify student attendance. However, the District did not maintain attendance records to evidence that students satisfied the statutorily required compulsory attendance requirements. Absent effective procedures to verify student attendance and records evidencing such verification, VIP students may not be satisfying the statutorily required compulsory attendance requirements.
- Section 1002.45(3)(c), Florida Statutes, requires that each student enrolled in a VIP be provided with all necessary instructional materials. District personnel indicated that they relied upon the VIP provider to ensure that all necessary instructional materials were appropriately delivered to VIP students, without independently verifying delivery. Without procedures to verify receipt of all the necessary instructional materials, there is an increased risk that VIP students may not possess the materials necessary to successfully complete VIP course requirements.
- Section 1002.45(3)(d), Florida Statutes, requires the District to provide all necessary equipment, such as computers, monitors, and printers, and Internet access for online instruction, to full-time VIP students who are eligible for free or reduced price school lunches, or who are on the direct certification list, and who do not have a computer or Internet access at home. The District did not provide computers or Internet access to any VIP students. District records did not evidence that parents of all eligible VIP students were contacted to determine whether the students had all necessary computer resources to participate in the VIP. Without direct communication to parents of the availability of computer resources and documented determinations of whether families had computer resources, students may not be provided resources necessary to successfully complete VIP courses.

Recommendation: The District should develop and maintain comprehensive, written VIP policies and procedures to enhance the effectiveness of its VIP operations and related activities. Such policies and procedures should include appropriate action to remedy the noncompliance and control deficiencies identified above.

FEDERAL AWARDS FINDING AND QUESTIONED COSTS

Federal Awards Finding No. 2014-001:
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. Children qualify for free or reduced meals based on household income or categorical eligible children that are automatically eligible for free meal benefits because they, or any household member, receive benefits from or are eligible for certain other assistance programs. Also, 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. Before performing the verification process, someone other than the individual making the initial eligibility determination must review the application for accuracy.

In addition, 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.

The District had a total of 918 free and reduced priced applications for the 2013-14 fiscal year, requiring verification of 28 applications but, due to errors in the sampling process, the District only verified 26 applications. Also, our test of a total of seven free and reduced applications included in the Bonifay Middle School (BMS) and Ponce de Leon High School (PDLHS) verification process disclosed the following noncompliance and deficiencies:

- The family income listed on four of the seven applications tested was not within the required income guidelines for error-prone applications. One of these four applications was a categorically eligible application rather than an income based application. The flaws in the verification process occurred because District personnel were unaware of the current laws and regulations relating to the verification procedures. Consequently, the sample selection was incorrect, decreasing the chances of selecting applications containing errors.
- For one application, the District accepted a tax return as written evidence of household income, although Federal regulations did not identify this as acceptable income evidence. 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 student in the household should have been changed from free to reduced-price meals. As such, the student received meals for which they were not entitled.
- At both BMS and PDLHS, no one other than the individual who made the initial eligibility determination reviewed the applications for accuracy before verification and, at PDLHS, applications did not include the signature of the verifying official or the date of the verification. Without such, the risk is increased for applications to contain inaccurate information.

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. A similar finding was noted in our report No. 2014-141.

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

District Contact Person: Carmen Bush, Federal Programs/Food Services Administrator

PRIOR AUDIT FOLLOW-UP

The District had taken corrective actions for findings included in our report No. 2014-141 except as shown in the following table:

Current Fiscal Year Finding Numbers	2012-13 Fiscal Year Audit Report and Finding Numbers	2011-12 Fiscal Year Audit Report and Finding Numbers
1	Audit Report No. 2014-141, Finding No. 2	Audit Report No. 2013-132, Finding No. 1
3	Audit Report No. 2014-141, Finding No. 6	NA
Federal Awards Finding No. 2014-001	Audit Report No. 2014-141, Federal Awards Finding No. 2	NA

NA – Not Applicable (Note: Above chart limits recurring findings to two previous audit reports.)

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, 2014*

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
2014-141 (1)	Child Nutrition Cluster (CFDA Nos. 10.553 and 10.555) - Indirect Costs	Improvements were needed to ensure that indirect costs are properly calculated for the Child Nutrition Cluster programs.	Corrected.	
2014-141 (2)	Child Nutrition Cluster (CFDA Nos. 10.553 and 10.555) - Eligibility and Special Tests and Provisions - Verification	Improvements were needed in procedures used to perform free and reduced price meal application verifications.	Not Corrected.	The District will implement new procedures in the 2014-15 school year.
2014-141 (3)	State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act (CFDA No. 84.395) - Equipment Management	The District had not implemented adequate controls over tangible property purchased with Federal funds.	Corrected.	

EXHIBIT A
MANAGEMENT'S RESPONSE



Holmes District School Board
701 Pennsylvania Avenue
Bonifay, FL 32425

SUPERINTENDENT
Eddie Dixon
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BOARD MEMBERS
Rusty Williams, Chairman
Sid Johnson, Vice Chairman
Debbie Kolmetz
Shirley Owens
Alan Justice

March 11, 2015

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 for the fiscal year ended June 30, 2014.

- Finding No. 1: School Board negotiations are continuing with the Holmes County Teachers Association to finalize the District plan for District determined factors and the amounts for differentiated pay.
- Finding No. 2: While the District believes that the insurance company's procedures provide for verification of eligibility for its employees and dependents, the District will consider enhancing its procedures to ensure verification of dependent eligibility.
- Finding No. 3: Procedural reviews have been implemented to determine compliance with applicable law for bus drivers.
- Finding No. 4: All statements of financial interests required by Section 112.3145, Florida Statutes were filed as of July 1, 2014 for the 2014-2015 fiscal year. District procedures have been enhanced to provide for routine review of these statements by the Finance Department.
- Finding No. 5: The School Board intends to enhance procedures to ensure compliance with the Virtual Instruction Program standards.
- Federal Awards Finding No. 2014-001: Alternate procedures have been employed to enhance compliance with the Federal regulations of the Child Nutrition Cluster program.

Respectively,

Eddie Dixon
Superintendent of Schools