

**HOLMES COUNTY  
DISTRICT SCHOOL BOARD**

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Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended  
June 30, 2008



## BOARD MEMBERS AND SUPERINTENDENT

Holmes County District School Board members and the Superintendent who served during the 2007-08 fiscal year are listed below:

	<i>District</i>
	<u>No.</u>
<i>Rickey D. Callahan, Vice-Chair to 11-19-07</i>	<i>1</i>
<i>Gary Scott</i>	<i>2</i>
<i>Jason Motley, Vice-Chair from 11-20-07</i>	<i>3</i>
<i>Anthony Register, Chair to 11-19-07</i>	<i>4</i>
<i>Vernon Lewis, Jr., Chair from 11-20-07</i>	<i>5</i>
 <i>Steve Griffin, Superintendent</i>	

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

The audit team leader was Jason Law, and the audit was supervised by Patricia S. Crutchfield, CPA. For the information technology portion of this audit, the audit team leader was Amanda B. Fazio, CPA, and the supervisor was Nancy M. Reeder, CPA, CISA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Manager, by e-mail at [gregcenters@aud.state.fl.us](mailto:gregcenters@aud.state.fl.us) or by telephone at (850) 487-9039.

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## EXECUTIVE SUMMARY

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### Summary of Report on Financial Statements

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

### Summary of Report on Internal Control and Compliance

We noted certain matters involving the District's internal control over financial reporting and its operation that we consider to be significant deficiencies as summarized below. However, these significant deficiencies are not considered 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*; however, we noted certain additional matters as summarized below.

#### SIGNIFICANT DEFICIENCIES

Finding No. 1: Improvements are needed in District procedures to ensure that transactions are properly reported on the financial statements.

Finding No. 2: Certain access controls protecting the District's information technology resources needed improvement.

#### ADDITIONAL MATTERS

Finding No. 3: Procedures could be enhanced for timely obtaining the required fingerprints and background checks for employees.

Finding No. 4: The District did not correct a number of outstanding deficiencies cited in prior year relocatable inspection reports.

Finding No. 5: The District did not conduct a review and evaluation of the reasons for the collection of social security numbers (SSNs), prepare written statements notifying individuals of the purpose for collection of the numbers, or submit the certification of its compliance with the new SSN requirements to the Legislature, contrary to Section 119.071(5)(a), Florida Statutes.

Finding No. 6: The food service program has experienced operating losses over the past four years, necessitating assistance from unrestricted General Fund moneys to fund the program.

Finding No. 7: The District did not have formal policies and procedures regarding the use of cellular telephones and did not report to the Internal Revenue Service the taxable value of the cellular telephones as income.

Finding No. 8: The District's security awareness training program needed improvement.

### Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Special Education Cluster, Title I, and Twenty-First Century programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that were applicable to the major Federal programs tested except for the Twenty-First Century program. We noted compliance and internal control findings that are summarized below.

Federal Awards Finding No. 1: The District had not developed adequate procedures to ensure that it met the matching requirements for the Twenty-First Century program, and could not document \$117,231.85 in matching costs or contributions for its summer program award.

Federal Awards Finding No. 2: Improvements could be made in procedures to provide the required contractual provisions for expenditures funded with Federal moneys.

Federal Awards Finding No. 3: The District had not developed procedures to timely determine whether vendors were suspended or debarred from receiving Federal funds.

### 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. 2008-116.

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, 2008. 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*.



David W. Martin, CPA  
AUDITOR GENERAL

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

## INDEPENDENT AUDITOR'S REPORT ON 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, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the school internal funds, which represent 14 percent of the assets and 24 percent of the liabilities of the aggregate remaining fund information. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the school internal funds, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information for the Holmes County District School Board as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

The **MANAGEMENT'S DISCUSSION AND ANALYSIS** (pages 3 through 12) and the **BUDGETARY COMPARISON SCHEDULE** (shown as Exhibit – L) are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is presented for purposes of additional analysis as required by the United States Office of Management and Budget *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Respectfully submitted,



David W. Martin, CPA  
February 20, 2009



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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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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, 2008. 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 in Exhibits A through K.

### FINANCIAL HIGHLIGHTS

Key financial highlights for the 2007-08 fiscal year are as follows:

- The District's net assets decreased by \$932,116.60 (or 2 percent).
- During the current year, the General Fund's fund balance decreased by \$711,576.67, primarily as a result of an increase in instructional expenditures. This may be compared to last year's results when the General Fund's fund balance increased by \$313,406.98. The June 30, 2008, General Fund fund balance is \$1,452,342.48.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements consist of three components:

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

In addition to the basic financial statements, management's discussion and analysis and the budgetary comparison schedule are included as required supplementary information.

#### Government-wide Financial Statements

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

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

### **Fund Financial Statements**

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

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

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

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

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

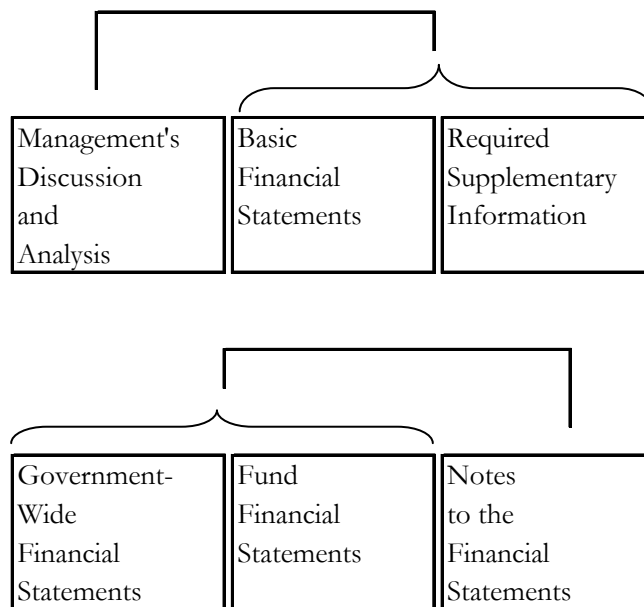
**Proprietary Funds.** Proprietary funds may be established to account for activities in which a fee is charged for services. The District maintains one type of proprietary fund, an internal service fund. This fund is used to account for resources set aside to fund a portion of the District’s compensated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

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

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

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 School District's Government-Wide and Fund Financial Statements**

	Government-Wide Statements	Fund Statements Governmental Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary
Required financial statements	Statement of net assets	Balance sheet
	Statement of activities	Statement of revenues, expenditures, and changes in fund balances
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial 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 up and liabilities that come due during the year or soon thereafter; no capital assets included
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

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of a government’s financial position. The following is a summary of the District’s net assets as of June 30, 2008, compared to net assets as of June 30, 2007:

	<b>Net Assets, End of Year</b>	
	Governmental Activities	
	6-30-08	6-30-07
Current and Other Assets	\$ 6,587,156.26	\$ 6,836,119.04
Capital Assets	43,311,749.14	44,542,439.36
<b>Total Assets</b>	<b>49,898,905.40</b>	<b>51,378,558.40</b>
Long-Term Liabilities	4,907,420.77	4,766,685.75
Other Liabilities	1,069,269.97	1,757,541.39
<b>Total Liabilities</b>	<b>5,976,690.74</b>	<b>6,524,227.14</b>
Net Assets:		
Invested in Capital Assets -		
Net of Related Debt	41,491,048.26	42,595,359.08
Restricted	2,235,758.09	1,216,959.90
Unrestricted	195,408.31	1,042,012.28
<b>Total Net Assets</b>	<b>\$ 43,922,214.66</b>	<b>\$ 44,854,331.26</b>

The largest portion of the District’s net assets (94.5 percent) reflects its investment in capital assets (e.g., land, buildings, furniture and equipment), less any related debt still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending.

The restricted portion of the District’s net assets (5.1 percent) represents resources that are subject to external restrictions on how they may be used. The unrestricted net assets (0.4 percent) may be used to meet the government’s ongoing obligations to students, employees, and creditors.

The key elements of the changes in the District’s net assets for the fiscal years ended June 30, 2008, and June 30, 2007, are as follows:

	<b>Operating Results for the Year</b>	
	Governmental	
	Activities	
	6-30-08	6-30-07
Program Revenues:		
Charges for Services	\$ 539,628.04	\$ 526,453.06
Operating Grants and Contributions	2,075,871.33	2,092,453.61
Capital Grants and Contributions	1,754,777.02	367,241.24
General Revenues:		
Property Taxes	2,305,954.34	2,383,646.45
Grants and Contributions Not Restricted to Specific Programs	23,670,939.07	22,588,598.33
Other	613,406.46	624,979.64
<b>Total Revenues</b>	<b>30,960,576.26</b>	<b>28,583,372.33</b>
Functions/Program Expenses:		
Instruction	16,327,219.90	15,029,783.50
Pupil Personnel Services	685,591.84	617,812.50
Instructional Media Services	612,323.59	587,535.26
Instruction and Curriculum Development Services	561,299.84	907,287.38
Instructional Staff Training Services	643,165.30	35,136.71
Instruction Related Technology	306,173.27	250,674.26
Board of Education	185,663.06	163,700.05
General Administration	260,052.74	267,714.98
School Administration	1,947,614.23	1,764,362.67
Facilities Acquisition and Construction	188.07	43,228.36
Fiscal Services	318,027.57	299,108.25
Food Services	1,683,066.24	1,609,250.56
Central Services	1,100,286.83	796,109.87
Pupil Transportation Services	1,368,322.60	1,311,020.74
Operation of Plant	2,816,802.91	2,700,070.60
Maintenance of Plant	1,142,733.38	879,050.89
Community Services	33,385.38	876.36
Interest on Long-Term Debt	85,048.11	90,521.14
Unallocated Depreciation Expense	1,815,728.00	1,892,895.00
Loss on Disposal of Capital Assets		24,738.35
<b>Total Functions/Program Expenses</b>	<b>31,892,692.86</b>	<b>29,270,877.43</b>
<b>Decrease in Net Assets</b>	<b>\$ (932,116.60)</b>	<b>\$ (687,505.10)</b>

State revenues increased by \$2,674,121, or 13 percent, primarily due to increases in State of Florida Education Finance Program, Class Size Reduction, and Classrooms for Kids funding.

The largest revenue source is the State of Florida (76 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.

Other State revenues are primarily for acquisition, construction, and maintenance of educational facilities. These revenues increased by \$1,428,685, or 267 percent, from the previous year due mainly to the receipt of Class Size Reduction Construction funds.

Instructional expenses represent 51 percent of total governmental expenses in the 2007-08 fiscal year. Instructional expenses increased by \$1,297,436.40, or 9 percent, from the previous year due mainly to a Districtwide pay raise and employment of additional staff.

### **FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

#### **Major Governmental Funds**

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved fund balance is \$1,443,107.76, while the total fund balance is \$1,452,342.48. The unreserved fund balance decreased by \$683,643.40, while the total fund balance decreased by \$711,576.67 during the fiscal year. The majority of the decrease in the 2007-08 is the result of an increase in instructional expenditures.

The Special Revenue – Food Service Fund has a total fund balance of \$82.08. A \$262,000 transfer from the General Fund was used to ensure a positive fund balance.

The Special Revenue – Other Fund has a zero fund balance at the end of the current fiscal year. Because revenue is recognized to the extent that eligible expenditures have been incurred, this fund does not generally accumulate a fund balance.

The Debt Service – Other Fund has a total fund balance of \$918,668.11, all of which is available to fund the loan repayment related to the energy savings contract.

The Capital Projects – Public Education Capital Outlay Fund has a total fund balance of \$1,404,487.02, all of which is legislatively restricted to be used for educational capital outlay needs, including new construction and renovation and remodeling projects. A fund balance increase of \$901,556.72 was due primarily to an increase in Class Size Reduction Construction and Classrooms for Kids funding.

### **GENERAL FUND BUDGETARY HIGHLIGHTS**

The District's budget is prepared according to Florida law and is based on the modified accrued basis of accounting. The most significant budgeted fund is the General Fund. No significant variances were noted between the original budget, final budget, and actual revenues and expenditures.

During the course of the 2007-08 fiscal year, the District amended its General Fund budget as needed, to comply with Florida law and local District policies.

**CAPITAL ASSETS AND LONG-TERM DEBT**

**Capital Assets**

There were no major capital asset events during the current year. Additional information on the District’s capital assets can be found in Note 4 to the financial statements. The following table reflects the District’s investment in capital assets, net of accumulated depreciation, at June 30, 2008, and June 30, 2007:

	<b>Capital Assets</b>	
	Governmental Activities	
	6-30-08	6-30-07
Land	\$ 450,583.66	\$ 450,583.66
Improvements Other Than Buildings	423,102.27	479,541.27
Buildings	40,185,425.63	41,331,156.63
Furniture and Equipment	1,155,549.80	1,310,011.12
Motor Vehicles	1,097,087.78	971,146.68
<b>Total Capital Assets</b>	<b>\$ 43,311,749.14</b>	<b>\$ 44,542,439.36</b>

**Long-Term Debt**

The following table discloses the 2007-08 fiscal year debt principal payments and outstanding debt at June 30, 2008:

	<b>Long-Term Debt</b>	
	2007-08	6-30-08
	Debt Payments	Debt Outstanding
State School Bonds	\$ 40,000.00	\$ 870,000.00
Note Payable	86,379.40	950,700.88
<b>Total</b>	<b>\$ 126,379.40</b>	<b>\$ 1,820,700.88</b>

Additional information on the District’s long-term debt can be found in Notes 6 through 8 to the financial statements.

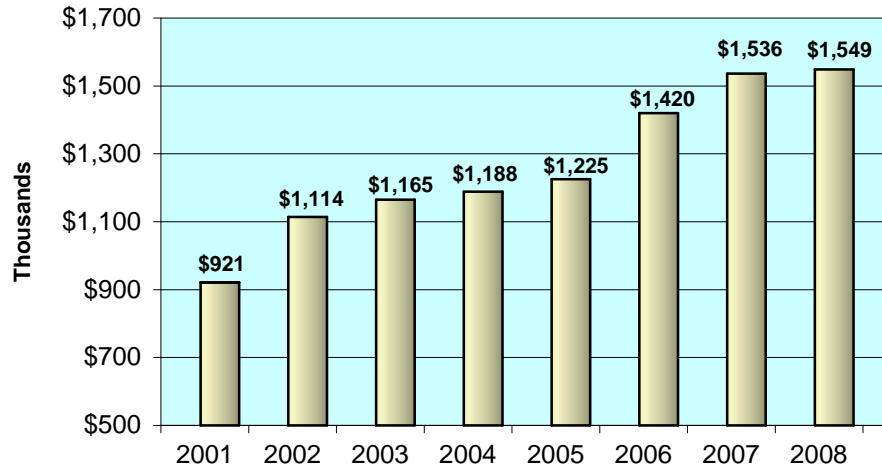


**OTHER MATTERS OF SIGNIFICANCE**

**Insurance Premiums**

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

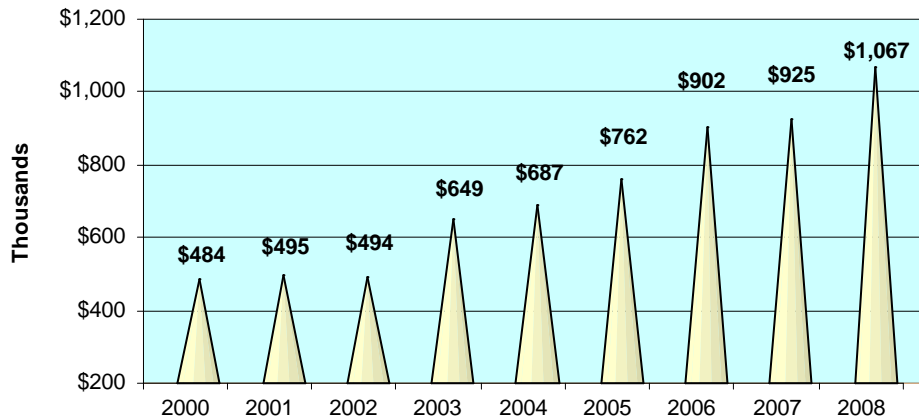
**Health Insurance Premiums**



**Energy Costs**

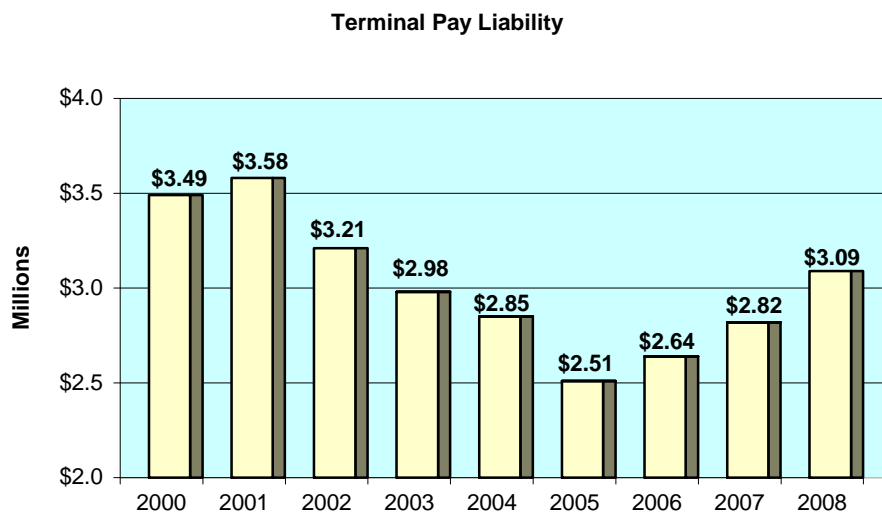
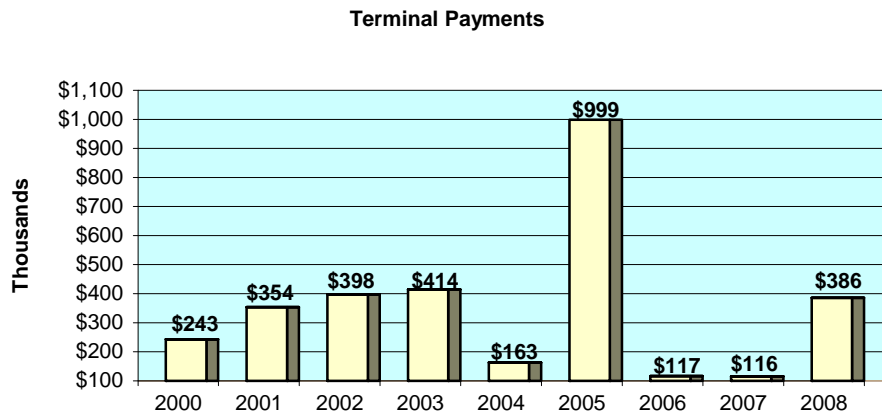
Energy costs for the operation of plant have impacted the District’s cost containment ability. These energy costs are reflected in the chart below for the last nine years.

**Energy Costs**



**Terminal Pay Benefits**

Terminal pay benefits are a significant annual cost and liability for the District. The District purchases leave from employees during participation in DROP (Deferred Retirement Option Program), when an employee terminates from employment, and at the rate of 80 percent of the value of sick leave earned on an annual basis by current employees with certain limits. The following reflects the total cost of terminal pay costs and terminal pay liability for the last nine years.



**REQUESTS FOR INFORMATION**

The financial report is designed to provide a general overview of the Holmes County District School Board’s finances. Questions concerning information provided in this report 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

**EXHIBIT - A  
HOLMES COUNTY  
DISTRICT SCHOOL BOARD  
STATEMENT OF NET ASSETS  
June 30, 2008**

	Governmental Activities
<b>ASSETS</b>	
Current Assets:	
Cash	\$ 4,590,801.42
Investments - Other	120,261.76
Accounts Receivable	154,015.44
Due from Other Agencies	1,357,462.75
Inventories	103,573.04
<b>Total Current Assets</b>	<b>6,326,114.41</b>
Noncurrent Assets:	
Investments in SBA Fund B Surplus Funds Trust Fund	261,041.85
Capital Assets:	
Nondepreciable Capital Assets	450,583.66
Depreciable Capital Assets, Net	42,861,165.48
<b>Total Noncurrent Assets</b>	<b>43,572,790.99</b>
<b>TOTAL ASSETS</b>	<b>\$ 49,898,905.40</b>
<b>LIABILITIES</b>	
Current Liabilities:	
Payroll Deductions and Withholdings	\$ 360,765.30
Accounts Payable	529,372.96
Due to Other Agencies	179,131.71
Long-Term Liabilities -- Portion Due Within One Year:	
Note Payable	89,834.57
Bonds Payable	45,000.00
Compensated Absences Payable	228,282.00
<b>Total Current Liabilities</b>	<b>1,432,386.54</b>
Noncurrent Liabilities:	
Long-Term Liabilities -- Portion Due After One Year:	
Note Payable	860,866.31
Bonds Payable	825,000.00
Compensated Absences Payable	2,858,437.89
<b>Total Noncurrent Liabilities</b>	<b>4,544,304.20</b>
<b>Total Liabilities</b>	<b>5,976,690.74</b>
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	41,491,048.26
Restricted for:	
State Categorical Programs	777.20
Debt Service	21,577.54
Capital Projects	2,213,403.35
Unrestricted	195,408.31
<b>Total Net Assets</b>	<b>43,922,214.66</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 49,898,905.40</b>

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

**EXHIBIT - B  
HOLMES COUNTY  
DISTRICT SCHOOL BOARD  
STATEMENT OF ACTIVITIES  
For the Fiscal Year Ended June 30, 2008**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental Activities:</b>					
Instruction	\$ 16,327,219.90	\$ 59,133.52	\$	\$	\$ (16,268,086.38)
Pupil Personnel Services	685,591.84				(685,591.84)
Instructional Media Services	612,323.59				(612,323.59)
Instruction and Curriculum Development Services	561,299.84				(561,299.84)
Instructional Staff Training Services	643,165.30				(643,165.30)
Instruction Related Technology	306,173.27				(306,173.27)
Board of Education	185,663.06				(185,663.06)
General Administration	260,052.74				(260,052.74)
School Administration	1,947,614.23				(1,947,614.23)
Facilities Acquisition and Construction	188.07			1,672,850.26	1,672,662.19
Fiscal Services	318,027.57				(318,027.57)
Food Services	1,683,066.24	444,243.62	954,629.33		(284,193.29)
Central Services	1,100,286.83				(1,100,286.83)
Pupil Transportation Services	1,368,322.60	36,250.90	796,924.00		(535,147.70)
Operation of Plant	2,816,802.91				(2,816,802.91)
Maintenance of Plant	1,142,733.38		324,318.00		(818,415.38)
Community Services	33,385.38				(33,385.38)
Interest on Long-Term Debt	85,048.11			81,926.76	(3,121.35)
Unallocated Depreciation Expense	1,815,728.00				(1,815,728.00)
<b>Total Governmental Activities</b>	<b>\$ 31,892,692.86</b>	<b>\$ 539,628.04</b>	<b>\$ 2,075,871.33</b>	<b>\$ 1,754,777.02</b>	<b>(27,522,416.47)</b>
<b>General Revenues:</b>					
Taxes:					
Property Taxes, Levied for Operational Purposes					2,304,632.78
Property Taxes, Levied for Capital Projects					1,321.56
Grants and Contributions Not Restricted to Specific Programs					23,670,939.07
Unrestricted Investment Earnings					197,129.90
Miscellaneous					416,276.56
<b>Total General Revenues</b>					<b>26,590,299.87</b>
<b>Change in Net Assets</b>					<b>(932,116.60)</b>
Net Assets - July 1, 2007					<u>44,854,331.26</u>
<b>Net Assets - June 30, 2008</b>					<b><u>\$ 43,922,214.66</u></b>

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

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**EXHIBIT - C  
HOLMES COUNTY  
DISTRICT SCHOOL BOARD  
BALANCE SHEET - GOVERNMENTAL FUNDS  
June 30, 2008**

	<u>General Fund</u>	<u>Special Revenue - Food Service Fund</u>	<u>Special Revenue - Other Fund</u>
<b>ASSETS</b>			
Cash	\$ 654,312.26	\$ 7,678.24	\$ 18,456.65
Investments - Other	29,152.57		
Accounts Receivable	154,015.44		
Due from Other Funds	1,319,405.43		
Due from Other Agencies	70,166.62	19,798.63	511,492.67
Inventories	80,116.26	23,456.78	
Investments in SBA Fund B Surplus Funds Trust Fund			
<b>TOTAL ASSETS</b>	<u>\$ 2,307,168.58</u>	<u>\$ 50,933.65</u>	<u>\$ 529,949.32</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Payroll Deductions and Withholdings	\$ 360,765.30	\$	\$
Accounts Payable	494,060.80	16,995.79	18,316.37
Due to Other Funds		33,855.78	332,501.24
Due to Other Agencies			179,131.71
<b>Total Liabilities</b>	<u>854,826.10</u>	<u>50,851.57</u>	<u>529,949.32</u>
Fund Balances:			
Reserved for State Categorical Programs	777.20		
Reserved for Encumbrances	8,457.52		
Reserved for Debt Service			
Unreserved, Reported in:			
General Fund	1,443,107.76		
Debt Service Funds			
Special Revenue Funds		82.08	
Capital Projects Funds			
<b>Total Fund Balances</b>	<u>1,452,342.48</u>	<u>82.08</u>	
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 2,307,168.58</u>	<u>\$ 50,933.65</u>	<u>\$ 529,949.32</u>

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

EXHIBIT - C

Debt Service - Other Fund	Capital Projects - Public Education Capital Outlay Fund	Other Governmental Funds	Total Governmental Funds
\$ 918,668.11	\$ 1,507,584.73 69,531.65	\$ 734,342.50 21,577.54	\$ 3,841,042.49 120,261.76 154,015.44 1,355,427.43 1,357,462.75 103,573.04 98,988.05
<u>\$ 918,668.11</u>	<u>\$ 2,357,535.43</u>	<u>\$ 866,515.87</u>	<u>\$ 7,030,770.96</u>
\$	\$	\$	\$ 360,765.30 529,372.96 1,355,427.43 179,131.71
<u>918,668.11</u>	<u>953,048.41</u>	<u>36,022.00</u>	<u>2,424,697.40</u>
<u>\$ 918,668.11</u>	<u>\$ 2,357,535.43</u>	<u>\$ 866,515.87</u>	<u>\$ 7,030,770.96</u>
918,668.11	1,404,487.02	808,916.33	777.20 8,457.52 21,577.54 1,443,107.76 918,668.11 82.08 2,213,403.35
<u>918,668.11</u>	<u>1,404,487.02</u>	<u>830,493.87</u>	<u>4,606,073.56</u>
<u>\$ 918,668.11</u>	<u>\$ 2,357,535.43</u>	<u>\$ 866,515.87</u>	<u>\$ 7,030,770.96</u>

**EXHIBIT - D  
HOLMES COUNTY  
DISTRICT SCHOOL BOARD  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2008**

**Total Fund Balances - Governmental Funds** \$ 4,606,073.56

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

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. 43,311,749.14

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

Note Payable	\$ 950,700.88	
Bonds Payable	870,000.00	
Compensated Absences Payable (net of \$911,812.73 set aside in the Internal Service Fund to fund a portion of the liability)	<u>2,174,907.16</u>	<u>(3,995,608.04)</u>

**Total Net Assets - Governmental Activities** \$ 43,922,214.66

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



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**EXHIBIT - E**  
**HOLMES COUNTY**  
**DISTRICT SCHOOL BOARD**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES -**  
**GOVERNMENTAL FUNDS**  
**For the Fiscal Year Ended June 30, 2008**

	General Fund	Special Revenue - Food Service Fund	Special Revenue - Other Fund
<b>Revenues</b>			
Intergovernmental:			
Federal Direct	\$ 55,009.73	\$	\$
Federal Through State	115,463.44	927,017.33	2,136,458.93
Federal Through Local State	21,279,155.99	28,205.00	565,641.38
Local:			
Taxes	2,304,632.78		
Miscellaneous	580,004.49	448,666.29	
<b>Total Revenues</b>	<u>24,334,266.43</u>	<u>1,403,888.62</u>	<u>2,702,100.31</u>
<b>Expenditures</b>			
Current - Education:			
Instruction	14,193,814.53		1,875,899.96
Pupil Personnel Services	591,783.83		79,853.89
Instructional Media Services	592,875.69		6,551.48
Instruction and Curriculum Development Services	293,239.77		257,789.53
Instructional Staff Training Services	382,449.80		248,858.59
Instruction Related Technology	299,117.05		250.00
Board of Education	185,663.06		
General Administration	198,113.13		60,974.73
School Administration	1,958,290.24		
Facilities Acquisition and Construction			
Fiscal Services	339,506.65		
Food Services		1,668,698.48	
Central Services	1,140,106.67		2,180.38
Pupil Transportation Services	1,286,320.68		62,757.12
Operation of Plant	2,803,871.35		
Maintenance of Plant	435,558.94		
Community Services	3,166.48		30,218.90
Fixed Capital Outlay:			
Other Capital Outlay	526,515.23		76,765.73
Debt Service:			
Principal			
Interest and Fiscal Charges			
<b>Total Expenditures</b>	<u>25,230,393.10</u>	<u>1,668,698.48</u>	<u>2,702,100.31</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>(896,126.67)</u>	<u>(264,809.86)</u>	
<b>Other Financing Sources (Uses)</b>			
Transfers In	446,000.00	262,000.00	
Insurance Loss Recoveries	550.00		
Transfers Out	(262,000.00)		
<b>Total Other Financing Sources (Uses)</b>	<u>184,550.00</u>	<u>262,000.00</u>	
<b>Net Change in Fund Balances</b>	<u>(711,576.67)</u>	<u>(2,809.86)</u>	
Fund Balances, July 1, 2007	2,163,919.15	2,891.94	
<b>Fund Balances, June 30, 2008</b>	<u>\$ 1,452,342.48</u>	<u>\$ 82.08</u>	<u>\$ 0.00</u>

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

EXHIBIT - E

Debt Service - Other Fund	Capital Projects - Public Education Capital Outlay Fund	Other Governmental Funds	Total Governmental Funds
\$	\$	\$	\$
		108,000.00	55,009.73
209,250.00	1,962,917.00	114,468.62	3,286,939.70
			565,641.38
		1,321.56	23,593,996.61
<u>42,920.96</u>	<u>20,287.94</u>	<u>60,604.82</u>	<u>2,305,954.34</u>
<u>252,170.96</u>	<u>1,983,204.94</u>	<u>284,395.00</u>	<u>1,152,484.50</u>
			16,069,714.49
			671,637.72
			599,427.17
			551,029.30
			631,308.39
			299,367.05
			185,663.06
			259,087.86
			1,958,290.24
	188.07		188.07
			339,506.65
			1,668,698.48
			1,142,287.05
			1,349,077.80
			2,803,871.35
	635,460.15	73,000.00	1,144,019.09
			33,385.38
			603,280.96
86,379.40		40,000.00	126,379.40
<u>41,560.31</u>		<u>43,487.80</u>	<u>85,048.11</u>
<u>127,939.71</u>	<u>635,648.22</u>	<u>156,487.80</u>	<u>30,521,267.62</u>
<u>124,231.25</u>	<u>1,347,556.72</u>	<u>127,907.20</u>	<u>438,758.64</u>
			708,000.00
			550.00
	(446,000.00)		(708,000.00)
	(446,000.00)		550.00
124,231.25	901,556.72	127,907.20	439,308.64
<u>794,436.86</u>	<u>502,930.30</u>	<u>702,586.67</u>	<u>4,166,764.92</u>
<u>\$ 918,668.11</u>	<u>\$ 1,404,487.02</u>	<u>\$ 830,493.87</u>	<u>\$ 4,606,073.56</u>

**EXHIBIT - F**  
**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, 2008*

<b>Net Change in Fund Balances - Governmental Funds</b>	\$	439,308.64
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of depreciation expense in excess of capital outlays in the current period.		(1,212,447.04)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces the long-term liabilities in the statement of net assets. This is the amount of long-term debt that was repaid in the current period.		126,379.40
The undepreciated cost of capital assets which are sold or otherwise disposed of is expensed in the statement of activities. In the governmental funds, the cost of these assets was recognized as an expenditure in the year purchased. Thus, the change in net assets differs from the change in fund balance by the undepreciated cost of the disposed assets.		(18,243.18)
In the statement of activities, the cost of compensated absences is measured by the amounts earned during the year, while in the governmental funds expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences earned in excess of the amount paid in the current period.		<u>(267,114.42)</u>
<b>Change in Net Assets - Governmental Activities</b>	<b>\$</b>	<b><u>(932,116.60)</u></b>

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

**EXHIBIT - G  
HOLMES COUNTY  
DISTRICT SCHOOL BOARD  
STATEMENT OF NET ASSETS -  
PROPRIETARY FUND  
June 30, 2008**

Governmental Activities -  
Internal  
Service  
Fund  

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**ASSETS**

Current Assets:

Cash	\$	749,758.93
Investments in SBA Fund B Surplus Funds Trust Fund		<u>162,053.80</u>

<b>Total Current Assets</b>	<b>\$</b>	<b><u>911,812.73</u></b>
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**LIABILITIES**

Noncurrent Liabilities:

Compensated Absences Payable	\$	<u>911,812.73</u>
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The accompanying notes to financial statements are an integral part of this statement.

**EXHIBIT - H  
HOLMES COUNTY  
DISTRICT SCHOOL BOARD  
STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN FUND NET ASSETS -  
PROPRIETARY FUND  
For the Fiscal Year Ended June 30, 2008**

		Governmental Activities - Internal Service Fund
	\$	0.00
<b>Change in Net Assets</b>	\$	0.00
Total Net Assets, July 1, 2007		_____
<b>Total Net Assets, June 30, 2008</b>	<b>\$</b>	<b>0.00</b>

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

**EXHIBIT - I  
HOLMES COUNTY  
DISTRICT SCHOOL BOARD  
STATEMENT OF CASH FLOWS -  
PROPRIETARY FUND  
For the Fiscal Year Ended June 30, 2008**

	<u>Governmental Activities - Internal Service Fund</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Sale of Investments	\$ 749,758.93
<b>Net Cash Provided by Investing Activities</b>	<u>749,758.93</u>
<b>Net Increase in Cash</b>	749,758.93
Cash, Beginning	<u>0.00</u>
<b>Cash, Ending</b>	<u><u>\$ 749,758.93</u></u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>	
Operating Income	\$ 0.00
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	<u>0.00</u>
<b>Net Cash Provided by Operating Activities</b>	<u><u>\$ 0.00</u></u>

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

**EXHIBIT - J**  
**HOLMES COUNTY**  
**DISTRICT SCHOOL BOARD**  
**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES -**  
**FIDUCIARY FUNDS**  
**June 30, 2008**

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash	\$ <u>299,471.00</u>
<b>LIABILITIES</b>	
Internal Accounts Payable	\$ <u>299,471.00</u>

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



**EXHIBIT – K**  
**HOLMES COUNTY**  
**DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

➤ **Reporting Entity**

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

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

➤ **Basis of Presentation**

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

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

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

The effects of interfund activity have been eliminated from the government-wide financial statements.

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

**EXHIBIT - K (Continued)**  
**HOLMES COUNTY**  
**DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**

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 – Food Service Fund - to account for the District’s food service program.
- Special Revenue – Other Fund – to account for certain Federal grant program resources.
- Debt Service – Other Fund – to account for the accumulation of resources for, and the payment of, debt principal, interest, and other costs related to the note payable for the energy savings contract.
- Capital Projects – 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.

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

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

➤ **Basis of Accounting**

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

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

Governmental fund financial statements are prepared using the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers revenues to be available if they are collected within 45 days of the end of the current fiscal year. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made.

**EXHIBIT - K (Continued)**  
**HOLMES COUNTY**  
**DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**

Under the modified accrual basis of accounting, expenditures are generally recognized when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, and compensated absences, which are recognized when due. Allocations of cost, such as depreciation, are not recognized in governmental funds.

The Proprietary Funds are accounted for as proprietary activities under standards issued by the Financial Accounting Standards Board through November 1989 and applicable standards issued by the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

➤ **Deposits and Investments**

Cash deposits are held by banks qualified as public depositories under Florida law. All deposits are insured by Federal depository insurance and collateralized with securities held in Florida's multiple financial institution collateral pool as required by Chapter 280, Florida Statutes. The statement of cash flows considers cash as those accounts used as demand deposit accounts.

Investments consist of amounts placed in State Board of Administration Debt Service accounts for investment of debt service moneys and amounts placed with the State Board of Administration for participation in the Local Government Surplus Funds Trust Fund Investment Pools created by Sections 218.405 and 218.417, Florida Statutes. On December 4, 2007, the State Board of Administration restructured the Local Government Surplus Funds Trust Fund to also establish the Fund B Surplus Funds Trust Fund.

The District's investments in the Local Government Surplus Funds Trust Fund, which the State Board of Administration indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, as of June 30, 2008, 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 the Fund B Surplus Funds Trust Fund are accounted for as a fluctuating net asset value pool, with a fair value factor of 0.923331 at June 30, 2008. Fund B is not subject to participant withdrawal requests. Distributions from Fund B, as determined by the State Board of Administration, are effected by transferring eligible cash or securities to the Local Government Surplus Funds Trust Fund, consistent with the pro rata allocation of pool shareholders of record at the creation of Fund B. One hundred percent of such distributions from Fund B are available as a liquid balance within the Local Government Surplus Funds Trust Fund.

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

➤ **Inventories**

Inventories consist of expendable supplies held for consumption in the course of District operations. Inventories are stated at cost on the first-in, first-out basis, except that United States Department of Agriculture surplus commodities 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

**EXHIBIT - K (Continued)**  
**HOLMES COUNTY**  
**DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**

Services, Bureau of Food Distribution. Purchases are recorded as expenditures during the year and are adjusted to reflect year-end physical inventories.

➤ **Capital Assets**

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

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

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

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

➤ **Long-Term Liabilities**

Long-term obligations that will be financed from resources to be received in the future by governmental funds, and to the extent funded in accordance with Board Policy in the Internal Revenue Fund, are reported as liabilities in the government-wide statement of net assets.

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

In the government-wide financial statements, compensated absences (i.e., paid absences for employee vacation leave and sick leave) are accrued as liabilities to the extent that it is probable that the benefits will result in termination payments. A liability is reported in the governmental fund financial statements only for the current portion of compensated absences expected to be paid using expendable available resources.

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

➤ **State Revenue Sources**

Revenues from State sources for current operations are primarily from 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

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calculates the allocation of funds to the District. The District is permitted to amend its original reporting for a period of nine months following the date of the original reporting. Such amendments may impact funding allocations for subsequent years. The Department may also adjust subsequent fiscal period allocations based upon an audit of the District's compliance in determining and reporting FTE and related data. Normally, such adjustments are treated as reductions or additions of revenue in the year when the adjustments are made.

The State provides financial assistance to administer certain categorical educational programs. State Board of Education rules require that revenue earmarked for certain programs be expended only for the program for which the money is provided, and require that the money not expended as of the close of the fiscal year be carried forward into the following year to be expended for the same categorical educational programs. The Department generally requires that categorical educational program revenues be accounted for in the General Fund. A portion of the fund balance of the General Fund is reserved in the governmental fund financial statements for the unencumbered balance of categorical educational program resources.

The State allocates gross receipts taxes, generally known as Public Education Capital Outlay money, to the District on an annual basis. The District also received allocations under the Classrooms for Kids and Class Size Reduction programs. The District is authorized to expend these funds only upon applying for and receiving an encumbrance authorization from the Department.

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

➤ **District Property Taxes**

The School 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 School Board adopted the 2007 tax levy on September 18, 2007. Tax bills are mailed in October and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to 4 percent for early payment.

Taxes become a lien on the property on January 1, and are delinquent on April 1, of the year following the year of assessment. State law provides for enforcement of collection of personal property taxes by seizure of the property to satisfy unpaid taxes, and for enforcement of collection of real property taxes by the sale of interest-bearing tax certificates to satisfy unpaid taxes. The procedures result in the collection of essentially all taxes prior to June 30 of the year following the year of assessment.

Property tax revenues are recognized in the government-wide financial statements when the Board adopts the tax levy. Property tax revenues are recognized in the governmental fund financial statements when taxes are received by the District, except that revenue is accrued for taxes collected by the Holmes County Tax Collector at fiscal year-end but not yet remitted to the District.

Millages and taxes levied for the current year are presented in a subsequent note.

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➤ **Federal Revenue Sources**

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

**2. BUDGETARY COMPLIANCE AND ACCOUNTABILITY**

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

- Budgets are prepared, public hearings are held, and original budgets are adopted annually for all governmental fund types in accordance with procedures and time intervals prescribed by law and State Board of Education rules.
- Appropriations are controlled at the object level (e.g., salaries, purchased services, and capital outlay) within each activity (e.g., instruction, pupil personnel services, and school administration) and may be amended by resolution at any School Board meeting prior to the due date for the annual financial report.
- 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.

**3. INVESTMENTS**

Section 218.415(17), Florida Statutes, authorizes the District to invest in the Local Government Surplus Funds Trust Fund, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Section 163.01, Florida Statutes; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits or savings accounts in qualified public depositories, as defined in Section 280.02, Florida Statutes; and direct obligations of the United States Treasury.

Investments with a fair value of \$98,684.22 at June 30, 2008, are in the State Board of Administration Local Government Surplus Funds Trust Fund Investment Pool with a weighted average days to maturity (WAM) of 20.22 days. 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

**EXHIBIT - K (Continued)**  
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changes. The District's investment in the State Board of Administration Local Government Surplus Funds Trust Fund Investment Pool is rated AAAM by Standard & Poor's. Investments with a fair value of \$261,041.85 at June 30, 2008, are in the State Board of Administration Fund B Surplus Funds Trust Fund with a weighted average life (WAL) of 9.22 years. A portfolio's WAL is the dollar weighted average length of time until securities held reach maturity. WAL is based on legal final maturity dates as of June 30, 2008. The District's investment in the State Board of Administration Fund B Surplus Funds Trust Fund is unrated.

In addition, the District reports investments totaling \$21,577.54 at June 30, 2008, in the State Board of Administration Debt Service accounts to provide for debt service payments on bond debt issued by the State Board of Education for the benefit of the District. These investments consist of United States Treasury securities, with maturity dates of six months or less, and are reported at fair value. The District relies on policies developed by the State Board of Administration for managing credit risk for this account.

**EXHIBIT - K (Continued)**  
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**4. CHANGES IN CAPITAL ASSETS**

Changes in capital assets are presented in the table below.

	Balance 7-1-07	Additions	Deletions	Balance 6-30-08
<b>GOVERNMENTAL ACTIVITIES</b>				
Capital Assets Not Being Depreciated:				
Land	\$ 450,583.66	\$	\$	\$ 450,583.66
Total Capital Assets Not Being Depreciated	450,583.66			450,583.66
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	1,723,157.27			1,723,157.27
Buildings and Fixed Equipment	54,031,062.63			54,031,062.63
Furniture, Fixtures, and Equipment	5,213,483.12	221,756.86	464,934.18	4,970,305.80
Motor Vehicles	2,613,901.68	381,524.10		2,995,425.78
Total Capital Assets Being Depreciated	63,581,604.70	603,280.96	464,934.18	63,719,951.48
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	1,243,616.00	56,439.00		1,300,055.00
Buildings and Fixed Equipment	12,699,906.00	1,145,731.00		13,845,637.00
Furniture, Fixtures, and Equipment	3,903,472.00	357,975.00	446,691.00	3,814,756.00
Motor Vehicles	1,642,755.00	255,583.00		1,898,338.00
Total Accumulated Depreciation	19,489,749.00	1,815,728.00	446,691.00	20,858,786.00
Total Capital Assets Being Depreciated, Net	44,091,855.70	(1,212,447.04)	18,243.18	42,861,165.48
Governmental Activities Capital Assets, Net	<u>\$ 44,542,439.36</u>	<u>\$ (1,212,447.04)</u>	<u>\$ 18,243.18</u>	<u>\$ 43,311,749.14</u>

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



**EXHIBIT - K (Continued)**  
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**5. CHANGES IN SHORT-TERM DEBT**

The following is a schedule of changes in short-term debt:

	Balance 7-1-07	Additions	Deletions	Balance 6-30-08
GOVERNMENTAL ACTIVITIES				
Short-Term Loan	\$	\$ 800,000.00	\$ 800,000.00	\$
Total Governmental Activities	<u>\$ 0.00</u>	<u>\$ 800,000.00</u>	<u>\$ 800,000.00</u>	<u>\$ 0.00</u>

The District acquired \$800,000 by entering into a short-term loan with a local bank to meet current operating needs. Draws were made in November and December 2007, and the loan principal was repaid, along with loan origination fees of \$1,500 and interest of \$814.32, in December 2007.

**6. NOTE PAYABLE**

Note payable is comprised of the following:

	Balance at 6-30-08
<u>Wachovia Bank</u>	
\$1,200,000, Borrowed 6-30-05, Under Provisions of Section 1013.23, Florida Statutes. Repayment to be Made Over a 12-Year Period. Interest Rate of 4 Percent.	
	<u>\$ 950,700.88</u>

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

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Fiscal Year Ending June 30	Total	Principal	Interest
2009	\$ 127,862.61	\$ 89,834.57	\$ 38,028.04
2010	127,862.61	93,427.96	34,434.65
2011	127,862.61	97,165.08	30,697.53
2012	127,862.61	101,051.68	26,810.93
2013	127,862.61	105,093.75	22,768.86
2014-2017	<u>511,450.39</u>	<u>464,127.84</u>	<u>47,322.55</u>
Total	<u>\$1,150,763.44</u>	<u>\$ 950,700.88</u>	<u>\$ 200,062.56</u>

**7. BONDS PAYABLE**

Bonds payable at June 30, 2008, are as follows:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds: Series 2001A	<u>\$ 870,000</u>	4.2 - 5.0	2021

The bonds were issued to finance capital outlay projects of the District. The following is a description of the bonded debt issues:

**State School Bonds**

These bonds are issued by the State Board of Education 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 State Board of Education and the State Board of Administration.

**EXHIBIT - K (Continued)**  
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Annual requirements to amortize all bonded debt outstanding as of June 30, 2008, are as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
2009	\$ 86,777.50	\$ 45,000.00	\$ 41,777.50
2010	84,887.50	45,000.00	39,887.50
2011	87,975.00	50,000.00	37,975.00
2012	90,787.50	55,000.00	35,787.50
2013	88,312.50	55,000.00	33,312.50
2014-2018	472,187.50	350,000.00	122,187.50
2019-2021	297,500.00	270,000.00	27,500.00
<b>Total State School Bonds</b>	<b>\$ 1,208,427.50</b>	<b>\$ 870,000.00</b>	<b>\$ 338,427.50</b>

**8. CHANGES IN LONG-TERM LIABILITIES**

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

Description	Balance 7-1-07	Additions	Deductions	Balance 6-30-08	Due in One Year
<b>GOVERNMENTAL ACTIVITIES</b>					
Note Payable	\$ 1,037,080.28	\$	\$ 86,379.40	\$ 950,700.88	\$ 89,834.57
Bonds Payable	910,000.00		40,000.00	870,000.00	45,000.00
Compensated Absences Payable	2,819,605.47	653,142.66	386,028.24	3,086,719.89	228,282.00
<b>Total Governmental Activities</b>	<b>\$ 4,766,685.75</b>	<b>\$653,142.66</b>	<b>\$512,407.64</b>	<b>\$ 4,907,420.77</b>	<b>\$ 363,116.57</b>

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

**EXHIBIT - K (Continued)**  
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**9. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

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

Funds	Interfund	
	Receivables	Payables
Major:		
General	\$ 1,319,405.43	\$
Special Revenue:		
Food Service		33,855.78
Other		332,501.24
Capital Projects:		
Public Education Capital Outlay	36,022.00	953,048.41
Nonmajor Governmental		36,022.00
Total	\$ 1,355,427.43	\$ 1,355,427.43

The above interfund receivables and payables represent loans to finance expenditures paid by the General Fund on behalf of other funds for capital outlay, a temporary loan from the Capital Projects – Public Education Capital Outlay (PECO) Fund to finance other capital outlay expenditures, and a temporary loan from the General Fund to finance food service and Federal expenditures. These amounts are expected to be repaid within one year.

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	\$ 446,000.00	\$ 262,000.00
Special Revenue:		
Food Service	262,000.00	
Capital Projects:		
Public Education Capital Outlay		446,000.00
Total	\$ 708,000.00	\$ 708,000.00

The interfund transfers were to reimburse capital outlay and maintenance expenditures in the General Fund and to subsidize the food service program.

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**10. RESERVE FOR ENCUMBRANCES**

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

The Florida Department of Education requires that fund balances be reserved at fiscal year-end to report an amount likely to be expended from the 2008-09 fiscal year budget as a result of purchase orders outstanding at June 30, 2008.

Because revenues of grants accounted for in the Special Revenue – Other Fund are not recognized until expenditures are incurred, these grant funds generally do not accumulate fund balances. Accordingly, no reserve for encumbrances is reported for grant funds. However, purchase orders outstanding for grants accounted for in the Special Revenue – Other Fund total \$36,630.63 at June 30, 2008.

**11. SCHEDULE OF STATE REVENUE SOURCES**

The following is a schedule of the District’s State revenue for the 2007-08 fiscal year:

<u>Source</u>	<u>Amount</u>
Florida Education Finance Program	\$16,448,420.00
Categorical Educational Programs:	
Class Size Reduction	2,920,529.00
Transportation	796,924.00
Instructional Materials	359,130.00
Other	343,719.18
Class Size Reduction Construction	1,165,564.00
Gross Receipts Tax (Public Education Capital Outlay)	476,262.00
Classrooms for Kids	321,091.00
Discretionary Lottery Funds	142,886.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	84,395.25
Food Service Supplement	28,205.00
Mobile Home License Tax	12,622.00
Miscellaneous	<u>494,249.18</u>
 Total	 <u><u>\$23,593,996.61</u></u>

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

**EXHIBIT - K (Continued)**  
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**12. PROPERTY TAXES**

The following is a summary of millages and taxes levied on the 2007 tax roll for the 2007-08 fiscal year:

	<u>Millages</u>	<u>Taxes Levied</u>
<b><u>GENERAL FUND</u></b>		
Nonvoted School Tax:		
Required Local Effort	4.485	\$2,003,707.23
Basic Discretionary Local Effort	0.510	227,846.31
Supplemental Discretionary Local Effort	0.250	111,689.37
Total	5.245	\$2,343,242.91

**13. FLORIDA RETIREMENT SYSTEM**

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

Benefits in the Plan vest at six years of service. All vested members are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, which may include up to 4 years of credit for military service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, and death benefits and annual cost-of-living adjustments.

DROP, subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with an FRS employer. An employee may participate in DROP for a period not to exceed 60 months after

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electing to participate, except that certain instructional personnel may participate for up to 96 months. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest.

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in PEORP in lieu of the Plan. District employees participating in DROP are not eligible to participate in PEORP. Employer contributions are defined by law; however, the ultimate benefit depends in part on the performance of investment funds. PEORP is funded by employer contributions that are based on salary and membership class (Regular, Elected County Officers, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Benefits in PEORP vest after one year of service. There were 28 District participants during the 2007-08 fiscal year. Required contributions made to PEORP totaled \$100,734.95.

**FRS Retirement Contribution Rates**

The Florida Legislature establishes, and may amend, contribution rates for each membership class of FRS. During the 2007-08 fiscal year, contribution rates were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	9.85
Florida Retirement System, Elected County Officers	0.00	16.53
Florida Retirement System, Senior Management Service	0.00	13.12
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	10.91
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.11 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.05 percent for administrative costs of the Public Employee Optional Retirement Program.

(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 for the fiscal years ended June 30, 2006, June 30, 2007, and June 30, 2008, totaled \$1,177,164.16, \$1,531,543.97, and \$1,643,147.05, respectively, which were equal to the required contributions for each fiscal year.

The financial statements and other supplementary information of FRS are included in the comprehensive annual financial report of the State of Florida, which may be obtained from the Florida Department of Financial Services. Also, an annual report on FRS, which includes its financial statements, required supplementary information, actuarial report, and other relevant information, is available from the Florida Department of Management Services, Division of Retirement.

**14. SPECIAL TERMINATION BENEFITS**

School Board policy provides for the payment of special termination benefits to all employees who qualify under one of two plans. Under Plan I, qualifying employees receive up to \$16,000 if the employee retires with an effective date at the end of the school year in which they first reach 30 or 33 years of experience. Under Plan II, qualifying employees receive 10 percent of their annual salary if the employee is retiring with 33 years or less experience and is not eligible under Plan I. In order to receive either of these benefits, the employee must be eligible to retire under the Florida Retirement System. In addition to payments for accrued leave and regular termination benefits, the District reported expenditures totaling \$55,557.90 during the 2007-08 fiscal year for special termination benefits.

**15. RISK MANAGEMENT PROGRAMS**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Holmes County District School Board is a member of the Panhandle Area Educational Consortium - Risk Management Consortium under which several district school boards have established a combined limited self-insurance program for property protection, general liability, automobile liability, workers' compensation, money and securities, employee fidelity and faithful performance, boiler and machinery, and other coverage deemed necessary by the members of the Consortium. Section 1001.42(10)(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



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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 the risks described above have not exceeded commercial coverage in any of the past three fiscal years.

**OTHER REQUIRED SUPPLEMENTARY INFORMATION**

**EXHIBIT - L  
HOLMES COUNTY  
DISTRICT SCHOOL BOARD  
REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE -  
GENERAL AND MAJOR SPECIAL REVENUE FUNDS  
For the Fiscal Year Ended June 30, 2008**

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
<b>Revenues</b>				
Intergovernmental:				
Federal Direct	\$ 116,894.00	\$ 116,894.00	\$ 55,009.73	\$ (61,884.27)
Federal Through State			115,463.44	115,463.44
Federal Through Local State	21,340,168.00	21,340,168.00	21,279,155.99	(61,012.01)
Local:				
Taxes	2,228,262.00	2,304,632.78	2,304,632.78	
Miscellaneous	458,862.00	597,491.22	580,004.49	(17,486.73)
<b>Total Revenues</b>	<b>24,144,186.00</b>	<b>24,359,186.00</b>	<b>24,334,266.43</b>	<b>(24,919.57)</b>
<b>Expenditures</b>				
Current - Education:				
Instruction	14,033,283.00	14,196,272.30	14,193,814.53	2,457.77
Pupil Personnel Services	552,134.00	592,984.00	591,783.83	1,200.17
Instructional Media Services	570,788.00	594,076.15	592,875.69	1,200.46
Instruction and Curriculum Development Services	526,408.00	294,440.00	293,239.77	1,200.23
Instructional Staff Training Services	17,720.00	383,650.00	382,449.80	1,200.20
Instruction Related Technology	235,956.00	300,317.00	299,117.05	1,199.95
Board of Education	168,453.00	186,863.00	185,663.06	1,199.94
General Administration	176,679.00	199,313.00	198,113.13	1,199.87
School Administration	1,750,120.00	1,959,490.00	1,958,290.24	1,199.76
Fiscal Services	298,941.00	340,706.25	339,506.65	1,199.60
Food Services				
Central Services	881,458.00	1,140,704.45	1,140,106.67	597.78
Pupil Transportation Services	1,512,853.00	1,287,521.00	1,286,320.68	1,200.32
Operation of Plant	2,686,897.00	2,805,071.40	2,803,871.35	1,200.05
Maintenance of Plant	745,156.00	436,759.22	435,558.94	1,200.28
Community Services		3,500.00	3,166.48	333.52
Fixed Capital Outlay:				
Other Capital Outlay		526,515.23	526,515.23	
<b>Total Expenditures</b>	<b>24,156,846.00</b>	<b>25,248,183.00</b>	<b>25,230,393.10</b>	<b>17,789.90</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(12,660.00)</b>	<b>(888,997.00)</b>	<b>(896,126.67)</b>	<b>(7,129.67)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers In	210,000.00	450,000.00	446,000.00	(4,000.00)
Insurance Loss Recoveries			550.00	550.00
Transfers Out	(260,000.00)	(263,000.00)	(262,000.00)	1,000.00
<b>Total Other Financing Sources (Uses)</b>	<b>(50,000.00)</b>	<b>187,000.00</b>	<b>184,550.00</b>	<b>(2,450.00)</b>
<b>Net Change in Fund Balances</b>	<b>(62,660.00)</b>	<b>(701,997.00)</b>	<b>(711,576.67)</b>	<b>(9,579.67)</b>
Fund Balances, July 1, 2007	2,163,919.00	2,163,919.00	2,163,919.15	0.15
<b>Fund Balances, June 30, 2008</b>	<b>\$ 2,101,259.00</b>	<b>\$ 1,461,922.00</b>	<b>\$ 1,452,342.48</b>	<b>\$ (9,579.52)</b>

EXHIBIT - L

Special Revenue - Food Service Fund				Special Revenue - Other Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
\$ 872,000.00	\$ 928,000.00	\$ 927,017.33	\$ (982.67)	\$ 2,272,325.00	\$ 2,772,325.00	\$ 2,136,458.93	\$ (635,866.07)
28,000.00	28,000.00	28,205.00	205.00			565,641.38	565,641.38
<u>466,000.00</u>	<u>466,000.00</u>	<u>448,666.29</u>	<u>(17,333.71)</u>				
<u>1,366,000.00</u>	<u>1,422,000.00</u>	<u>1,403,888.62</u>	<u>(18,111.38)</u>	<u>2,272,325.00</u>	<u>2,772,325.00</u>	<u>2,702,100.31</u>	<u>(70,224.69)</u>
				1,580,776.00	1,926,443.10	1,875,899.96	50,543.14
				85,750.00	81,501.00	79,853.89	1,647.11
					7,751.00	6,551.48	1,199.52
				246,150.00	258,990.00	257,789.53	1,200.47
				139,410.00	250,058.79	248,858.59	1,200.20
					1,450.38	250.00	1,200.38
				81,686.00	62,051.00	60,974.73	1,076.27
1,627,314.00	1,675,314.00	1,668,698.48	6,615.52	1,500.00	3,746.00	2,180.38	1,565.62
				137,053.00	67,803.00	62,757.12	5,045.88
					35,000.00	30,218.90	4,781.10
					<u>76,765.73</u>	<u>76,765.73</u>	
<u>1,627,314.00</u>	<u>1,675,314.00</u>	<u>1,668,698.48</u>	<u>6,615.52</u>	<u>2,272,325.00</u>	<u>2,771,560.00</u>	<u>2,702,100.31</u>	<u>69,459.69</u>
<u>(261,314.00)</u>	<u>(253,314.00)</u>	<u>(264,809.86)</u>	<u>(11,495.86)</u>		<u>765.00</u>		<u>(765.00)</u>
260,000.00	260,000.00	262,000.00	2,000.00				
<u>260,000.00</u>	<u>260,000.00</u>	<u>262,000.00</u>	<u>2,000.00</u>				
(1,314.00)	6,686.00	(2,809.86)	(9,495.86)		765.00		(765.00)
2,892.00	2,892.00	2,891.94	(0.06)				
<u>\$ 1,578.00</u>	<u>\$ 9,578.00</u>	<u>\$ 82.08</u>	<u>\$ (9,495.92)</u>	<u>\$ 0.00</u>	<u>\$ 765.00</u>	<u>\$ 0.00</u>	<u>\$ (765.00)</u>

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**HOLMES COUNTY  
DISTRICT SCHOOL BOARD  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Fiscal Year Ended June 30, 2008**

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)	Amount Provided to Subrecipients
<b>United States Department of Agriculture:</b>				
Indirect:				
Child Nutrition Cluster:				
Florida Department of Education:				
School Breakfast Program	10.553	321	\$ 184,138.51	\$
National School Lunch Program	10.555	300	711,810.99	
Florida Department of Agriculture and Consumer Services:				
National School Lunch Program	10.555 (2)	None	35,249.51	
<b>Total United States Department of Agriculture</b>			<b>931,199.01</b>	
<b>United States Department of Labor:</b>				
Indirect:				
Chipola Regional Workforce Development Board, Inc.:				
WIA Youth Activities	17.259	None	86,962.29	
<b>United States Department of Education:</b>				
Indirect:				
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027	263	748,051.58	
Special Education - Preschool Grants	84.173	267	30,488.88	
Putnam County District School Board:				
Special Education - Grants to States	84.027	None	16,391.07	
<b>Total Special Education Cluster</b>			<b>794,931.53</b>	
Florida Department of Education:				
Title I Grants to Local Educational Agencies	84.010	212, 222, 223, 228	869,151.30	33,616.20
Career and Technical Education - Basic Grants to States	84.048	151	91,970.68	
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	07-143-VH437	30,218.90	
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	16,501.00	
State Grants for Innovative Programs	84.298	113	7,989.96	
Education Technology State Grants	84.318	121	8,205.84	
Rural Education	84.358	110	105,151.79	
Improving Teacher Quality State Grants	84.367	224	228,729.00	
Washington County District School Board:				
Twenty-First Century Community Learning Centers	84.287	None	461,451.43	
Reading First State Grants	84.357	None	104,189.95	
Chipola College:				
Tech-Prep Education	84.243	None	14,049.83	
<b>Total United States Department of Education</b>			<b>2,732,541.21</b>	<b>33,616.20</b>
<b>United States Department of Homeland Security:</b>				
Indirect:				
Florida Department of Community Affairs:				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	None	108,000.00	
<b>United States Department of Defense:</b>				
Direct:				
Army Junior Reserve Officers Training Corps	None	N/A	55,009.73	
<b>Total Expenditures of Federal Awards</b>			<b>\$ 3,913,712.24</b>	<b>\$ 33,616.20</b>

Notes: (1) Basis of Presentation. The Schedule of Expenditures of Federal Awards represents amounts expended from Federal programs during the 2007-08 fiscal year as determined based on the modified accrual basis of accounting. The amounts reported on the Schedule have been reconciled to and are in material agreement with amounts recorded in the District's accounting records from which the basic financial statements have been reported.

(2) Noncash Assistance - National School Lunch Program. Represents the amount of donated food used during the 2007-08 fiscal year. Commodities are valued at fair value as determined at the time of donation.



David W. Martin, CPA  
AUDITOR GENERAL

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Holmes County District School Board as of and for the fiscal year ended June 30, 2008, which collectively comprise the District's basic financial statements, and have issued our report thereon included under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the basic financial statements was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the school internal funds, as described in our report on the Holmes County District School Board's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider Financial Statement Finding Nos. 1 and 2, which are described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report, to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report is a material weakness.

#### **Compliance and Other Matters**

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

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

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

Pursuant to Section 11.45(4), Florida Statutes, this report is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this report is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, Federal and other granting agencies, and applicable management and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



David W. Martin, CPA  
February 20, 2009



David W. Martin, CPA  
AUDITOR GENERAL

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The President of the Senate, the Speaker of the  
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## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB *CIRCULAR A-133*

### Compliance

We have audited the Holmes County District School Board's compliance with the types of compliance requirements described in the United States Office of Management and Budget's (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the fiscal year ended June 30, 2008. The District's major Federal programs are identified in the **SUMMARY OF AUDITOR'S RESULTS** section of the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of the District's major Federal programs is the responsibility of District management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

As described in Federal Awards Finding No. 1 in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report, the District did not comply with the requirement regarding matching that is applicable to the Twenty-First Century Community Learning Centers program. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2008. However, the results of our auditing procedures disclosed some instances of noncompliance with those requirements, which are required to be reported in accordance with OMB *Circular A-133*, and which are described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding Nos. 2 and 3.

### **Internal Control Over Compliance**

District management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the District's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a certain deficiency in internal control over compliance that we considered to be a material weakness.

A *control deficiency* in the District's internal control over compliance 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 noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency in internal control over compliance described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding No. 1 to be a significant deficiency.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the District's internal control. We consider the significant deficiency in internal control over compliance described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding No. 1 to be a material weakness.

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



Pursuant to Section 11.45(4), Florida Statutes, this report is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this report is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, Federal and other granting agencies, and applicable management and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



David W. Martin, CPA  
February 20, 2009

**HOLMES COUNTY  
DISTRICT SCHOOL BOARD  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

**SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness identified? No

Significant deficiencies identified that are not considered to be material weaknesses? Yes

Noncompliance material to financial statements noted? No

**Federal Awards**

Internal control over major programs:

Material weakness identified? Yes

Significant deficiency identified that is not considered to be a material weakness? None reported

Type of report the auditor issued on compliance for major programs: Unqualified for all major programs, except for the Twenty-First Century Community Learning Centers (CFDA 84.287), which was qualified.

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB *Circular A-133*? Yes

Identification of major programs: Special Education Cluster (CFDA No. 84.027 and 84.173), Title I Grants to Local Educational Agencies (CFDA No. 84.010), and Twenty-First Century Community Learning Centers (CFDA No. 84.287)

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? No

**HOLMES COUNTY  
DISTRICT SCHOOL BOARD  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

**FINANCIAL STATEMENT FINDINGS**

**Significant Deficiencies**

**Finding No. 1: Financial Reporting**

Our review of the District’s 2007-08 fiscal year annual financial report as presented for audit disclosed that enhancements in procedures could be made for reporting certain transactions. For example, on the government-wide statements, the District overstated operating grants and contributions by approximately \$755,000; overstated grants and contributions not restricted to specific programs by approximately \$1,510,000; understated capital grants and contributions by approximately \$1,755,000; and misstated other transaction classes by a net amount of approximately \$510,000. We extended our audit procedures to determine the necessary adjustments, and adjustments were accepted by the District to properly report the transaction classes. A similar finding was noted in our report No. 2008-116.

**Recommendation:** To facilitate necessary financial reporting, the District should enhance procedures to ensure that transactions are properly reported on the financial statements.

**Finding No. 2: Information Technology – Access Controls**

Improvements were needed in District access controls to protect information technology (IT) resources. We are not disclosing specific details of these improvements in this report to avoid the possibility of compromising District resources. Without effective access controls, the confidentiality, integrity, and availability of data and IT resources may be compromised, increasing the risk that District data and IT resources may be subject to improper disclosure, modification, or destruction. We notified appropriate District personnel of the needed improvements and, on January 14, 2009, in response to audit inquiry, District management implemented changes to strengthen access controls.

**Recommendation:** The District should review its access controls over IT resources on an ongoing basis to ensure the continued confidentiality, integrity, and availability of District data and IT resources.

**ADDITIONAL MATTERS**

**Finding No. 3: Fingerprinting and Background Checks**

Section 1012.32(2), Florida Statutes, provides that instructional and noninstructional personnel who are hired to fill positions requiring direct contact with students in the District shall be fingerprinted and undergo background screenings upon employment. Our review of District records for 20 employees who had positions requiring direct

student contact disclosed that five began full-time employment with the District prior to being fingerprinted. Based on our review of background screening reports, these employees were fingerprinted from 134 days to 275 days, or an average of 179 days, after the hire date. The District indicated that these background screenings were not timely obtained mainly because of miscommunication between District staff. While our review of District records disclosed no criminal violations by these new hires to preclude employment by the District, absent timely fingerprinting and background screenings, there is an increased risk that staff may have backgrounds that are not suitable for direct contact with students. Similar findings were noted in our previous audit reports, most recently in report No. 2008-116.

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**Recommendation: The District should enhance its personnel procedures to ensure that the required fingerprinting and background checks are performed in a timely manner for all prospective employees that will have direct contact with students.**

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**Finding No. 4: Relocatable Facilities Inspection**

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Section 4.4(2) and Section 5(14) of the Florida Department of Education publication, *State Requirements for Educational Facilities – 2007*, requires annual inspections for all relocatables designed as classrooms or spaces intended for student occupancy. The inspection standards for relocatable buildings require a review of the structural integrity, accessibility, firesafety, and other measures to protect the welfare of occupants. The District obtained the required annual inspections of its 19 relocatable buildings used for classroom purposes by a licensed inspector in June 2008. Although each of the inspections obtained in June 2008 indicated an overall pass grade, our review of the reports indicated a significant number of uncorrected deficiencies that were also cited in the June 2007 inspection reports. Examples of deficiencies cited in the June 2007 and 2008 reports included three locations with no fire alarm pull stations, five with inoperable heat or smoke detectors, and five with no handicap accessibility. District personnel indicated that, as of November 2008, these deficiencies remained uncorrected. Failure to correct reported deficiencies in a timely manner may jeopardize the health and safety of students, employees, and others that use the relocatables. Similar findings regarding relocatable inspections were noted in several of our previous reports, most recently in our report No. 2008-116.

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**Recommendation: The District should provide for the timely correction of deficiencies noted in the relocatable inspection reports when such buildings are to be occupied by students.**

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**Finding No. 5: Collection of Social Security Numbers**

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The Legislature has acknowledged in Section 119.071(5)(a), Florida Statutes, the necessity of collecting social security numbers (SSNs) for certain purposes because of their acceptance over time as a unique numeric identifier for identity verification and other legitimate purposes. The Legislature has also recognized that SSNs can be used to acquire sensitive personal information, the release of which could result in fraud against individuals or cause other financial or personal harm. Therefore, public entities are required to provide extra care in maintaining such information to ensure its confidential status.

Effective October 1, 2007, Section 119.071(5)(a), Florida Statutes, as amended by Chapter 2007-251, Laws of Florida, provides that an agency may not collect an individual's SSN unless the agency has stated in writing the purpose for its collection and unless it is specifically authorized by law to do so, or it is imperative for the performance of that agency's duties and responsibilities as prescribed by law. Additionally, this section requires that

an agency collecting an individual's SSN provide the individual with a copy of the written statement indicating the purpose for collecting the number and that SSNs collected by the agency not be used by the District for any purpose other than the purpose provided in the written statement. This section also requires that each agency review whether its collection of SSNs is in compliance with the above requirements; immediately discontinue the collection of SSNs for purposes that are not in compliance; and certify to the President of the Senate and the Speaker of the House of Representatives its compliance with these requirements no later than January 31, 2008. Further, by that date, the District was required to file a report with the Executive Office of the Governor, the President of the Senate, and the Speaker of the House of Representatives listing the identity of all commercial entities that have requested SSNs during the preceding calendar year and the specific purposes stated by each commercial entity regarding its need for SSNs. If no disclosure requests were made, the District was required to so indicate.

The District requires applicants for employment to provide their SSN on employment applications and for other purposes, including background screenings. In March 2008, the Board adopted a policy that addresses the collection of SSNs for applicants and employees, defines several reasons for which SSNs may be collected from these individuals, and indicates that the District shall notify each applicant and employee of the reasons for which SSNs may be collected. This policy also indicates that the District shall annually report the identity of all commercial entities that have requested SSNs during the preceding year and the reasons for the requests, and if no such requests have been made, then the District is required to report this. However, the policy does not address District procedures for collecting SSNs from students or individuals other than applicants and employees. Also, District records did not evidence a review and evaluation of the reasons the District collects SSNs from individuals, and written statements explaining the reasons for the collection of SSNs were not provided to employees, parents, or students. Additionally, the District had not filed, as of December 2008, the required certification of compliance with the Legislature or the required report to the Governor and Legislature related to commercial entities that had requested SSNs during the preceding year. Effective controls to properly monitor the need for and use of SSNs and ensure compliance with statutory requirements and reduce the risk that SSNs may be used for unauthorized purposes.

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**Recommendation: The District should take appropriate action to ensure compliance with Section 119.071(5)(a), Florida Statutes. Such action should include an evaluation of the reasons the District collects SSNs from individuals. In those instances in which the District determines that collection of the SSNs is not imperative for performance of its duties and responsibilities, the District should discontinue obtaining such numbers.**

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#### **Finding No. 6: Food Service Financial Condition**

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The District operates a food service program at each District school that provides meals to participating students and staff. The program, accounted for in the Special Revenue – Food Service Fund, generates revenue from the sale of food and from Federal reimbursements and State supplements. The Fund's operating expenditures include salaries and benefits, purchased food, and operating supplies, and the financial condition of the program is significantly impacted by these costs and the prices charged for meals.

The program has experienced increasing operating losses over the past four years, resulting in a steady increase of assistance provided to the program from unrestricted General Fund transfers. The program's financial activities, including transfers from the General Fund, and ending fund balances for the 2004-05 through 2007-08 fiscal years, are summarized in the table below:

Summary of Food Service Program Activities - 2004-05 through 2007-08 Fiscal Years

Fiscal Year Ended June 30	Revenues	Expenditures	Operating Losses	Transfers from General Fund	Ending Fund Balance
2005	\$ 1,303,263.39	\$ 1,386,993.06	\$ (83,729.67)	\$ 80,000.00	\$ 1,650.42
2006	1,365,928.17	1,473,500.06	(107,571.89)	108,000.00	2,078.53
2007	1,358,989.42	1,595,176.01	(236,186.59)	237,000.00	2,891.94
2008	1,403,888.62	1,668,698.48	(264,809.86)	262,000.00	82.08

Contributing factors to the operating losses in recent years are increasing food costs and a reduction of meals served. District personnel are aware of the program’s financial condition and have provided the Board with analyses of activities such as meals served, average daily meals served, free and reduced-price meals served, and average daily costs. Further, the District increased breakfast and lunch prices during the 2006-07 and 2007-08 fiscal years; however, as noted above, District action has not been sufficient to stabilize the financial condition of the program. While the Board considered the assistance from the General Fund as part of its 2007-08 fiscal year budgeting process, continued use of unrestricted General Fund resources to subsidize the school food service program reduces funds available for the District’s other educational programs.

**Recommendation:** The District should continue to monitor school food service operations with a view toward improving its financial condition so as to limit or prevent the need for the District to assign unrestricted funds to subsidize the food service program.

**Finding No. 7: Cellular Telephones**

The District provided cellular telephones (cell phones) to certain employees for use in performing their duties. According to the District’s records, 83 cell phones were used during the 2007-08 fiscal year at a cost of \$23,252.93.

Pursuant to United States Treasury Regulations, Section 1.274-5T(e), an employee may not exclude from gross income any amount of the value of property listed in Section 280F(d)(4) of the Internal Revenue Code (IRC), unless the employee substantiates the amount of the exclusion in accordance with the requirements of Section 274(d) IRC, and the United States Treasury Regulations, Section 1.274-5T. Because cell phones are listed property, their use is subject to the substantiation requirements of the United States Treasury Regulations, Section 1.274-5T(b)(6), which requires employees to submit records to the District to establish the amount, date, place, and business purpose for each business use. A notated copy of the employee’s cell phone bill is an example of such a record. In addition, employers must review the employee’s cell phone bills to confirm the cell phone was only used for business.

The District’s policy provides that the employee use of cell phones shall be, to the extent possible, limited to business use only. Monthly cell phone bills were reviewed only to ascertain whether there were any charges in addition to the base monthly fees for each cell phone. As such, the District should have reported to the Internal Revenue Service (IRS) the value of cell phone services provided to each employee assigned a cell phone. Our review disclosed that the District had not included the value of these services in the income reported to the IRS for these employees.

The District began developing a new policy to address the provisions of Section 274(d) IRC, but as of December 2008, it remained in draft status and had not been implemented by District employees. A similar finding was noted in our report No. 2008-116.

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**Recommendation:** The District should confer with the IRS regarding development and implementation of a policy and procedure, as appropriate, and any corrective actions regarding previously unreported income.

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**Finding No. 8: Information Technology - Security Awareness Training Program**

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A comprehensive security awareness training program apprises new employees of, and reemphasizes to current employees, the importance of preserving the confidentiality, integrity, and availability of data and IT resources entrusted to them. Significant nonpublic records (e.g., student record information and other records that contain sensitive information) are included in the data maintained by the District's IT systems. Although District security staff annually conducted security training, which included review of the Internet Acceptable Use Policy (AUP) and employee acknowledgement of receipt and agreement to abide by the AUP, the security training was not comprehensive in that it did not address such security concerns and responsibilities as acceptable or prohibited methods for storage and transmission of data, password protection and usage, malicious software and virus threats, remote access issues, workstation controls, and handling of confidential information. The District's failure to address certain issues in its security awareness training program increases the risk that the District's IT resources could be intentionally or unintentionally compromised by employees while performing their assigned duties. Subsequent to June 30, 2008, the District has created an additional security-related policy to go before the School Board for approval.

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**Recommendation:** To minimize misuse of IT resources, the District should improve its security awareness training program to address, in a more comprehensive manner, employee responsibilities for maintaining the confidentiality, integrity, and availability of data and IT resources entrusted to them.

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**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

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**Federal Awards Finding No. 1:**

**Federal Agency:** United States Department of Education

**Pass-Through Entity:** Washington County District School Board

**Program:** Twenty-First Century Community Learning Centers (CFDA No. 84.287)

**Finding Type:** Material Noncompliance and Material Weakness

**Questioned Costs:** \$95,200

**Matching.** District procedures could be enhanced to comply with the matching requirements for the Twenty-First Century grant. Title 34, Section 80.24, Code of Federal Regulations, states, in part, that costs and contributions counting toward satisfying a cost sharing or matching requirement must be verifiable from the records of the grantees and subgrantees. Further, the United States Office of Management and Budget *Circular A-87* provides that where employees are expected to work on multiple activities, personnel activity reports should be maintained to support salary and wage charges to Federal Awards.

The District received Twenty-First Century program academic year and summer program awards from the Washington County District School Board as fiscal agent for the Panhandle Area Educational Consortium (PAEC).

Expenditures totaled \$314,542.40 and \$146,909.03, and matching requirements totaled \$270,000 and \$180,900, respectively, for the academic year and summer program awards. According to the approved grant applications, the in-kind matching contributions would include space, staff, and utilities.

Upon audit inquiry, the District provided documentation to support the matching costs, totaling \$270,000, of the academic year award for donated staff and volunteer work, space and utilities, and supplies. The documentation included correspondence such as time and effort certifications for staff salaries; time records signed by volunteers and the site coordinator; facility use rates along with schedules showing facility usage; and supply invoices signed by donors. Additionally, the District provided similar documentation to support matching costs, totaling \$63,668.15, for matching costs related to the summer program award; however, District records were not available to support the remaining matching costs, totaling \$117,231.85. Since this amount represents approximately 65 percent of the summer program's matching requirement, this percentage of the summer program 2007-08 fiscal year expenditures, or approximately \$95,200, represents questioned costs of the program subject to disallowance by the grantor. District personnel indicated that their original intent was to reduce the matching costs specified in the summer program award, but staff at PAEC inadvertently inflated these costs while drafting and submitting the 2007-08 grant application. As a result, the District was unable to meet the specified requirement. A similar finding was noted in our report No. 2008-116.

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**Recommendation: The District should enhance procedures to ensure compliance with matching requirements as specified in approved grant agreements. Also, the District should document to the grantor (Washington County District School Board) that the matching requirements were met, or restore the questioned costs, totaling \$95,200, to the Twenty-First Century Program.**

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District Contact Person: Jean West, Twenty-First Century Coordinator

**Federal Awards Finding No. 2:**  
**Federal Agency: United States Department of Education**  
**Pass-Through Entity: Florida Department of Education**  
**Program: Child Nutrition Cluster (CFDA Nos. 10.553 and 10.555)**  
**Finding Type: Noncompliance**  
**Questioned Costs: Not Applicable**

**Procurement – Contract Administration.** Improvements were needed in District procedures to provide written contracts and the required contractual provisions for expenditures funded with Federal moneys. Title 7, Section 3016.36(i), Code of Federal Regulations, requires District contracts involving Federal funds to contain certain provisions, including the following:

- For contracts in excess of \$10,000, a provision for termination for cause and convenience by the grantee or subgrantee, including the manner by which it will be effected and the basis of settlement.
- Access to records of the contractor which are directly pertinent to the contract.
- Retention of all required records for three years after the grantee or subgrantee makes the final payment and all other pending matters are closed.

We selected four contracts with food service vendors to determine whether the contracts contained Federally-required contract provisions. This review disclosed three contracts, totaling \$422,834.24, each in excess of \$10,000, and involving the Child Nutrition Cluster program, that excluded the above required language. Failure to enter into a written contract which includes the required Federal contract provisions could limit the District's



actions if disputes with the vendor arose and could result in disallowance of grant expenditures by the grantor. A similar finding was noted in our report No. 2008-116.

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**Recommendation:** The District should ensure that future contracts involving Federal funds contain the required provisions.

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District Contact Person: Gil Anderson, Transportation and Food Service Director

**Federal Awards Finding No. 3:**  
**Federal Agency:** United States Department of Education  
**Pass-Through Entity:** Florida Department of Education  
**Program:** Special Education – Grants to States (CFDA No. 84.027)  
**Finding Type:** Noncompliance  
**Questioned Costs:** Not Applicable

**Suspension and Debarment.** The United States Office of Management and Budget (OMB) *Circular A-102* requires the District to determine that entities receiving procurement contracts equal to or exceeding \$25,000 are not suspended or debarred. The District may comply with this requirement by checking the *Excluded Parties Listing System* (EPLS) issued by the General Services Administration, obtaining a written certification from the vendor, or by inserting a clause in the agreement with the entity. However, before our inquiry, the District did not verify the suspension and debarment status of the only two vendors individually paid in excess of \$25,000 from the Special Education program for the 2007-08 fiscal year. These vendors were paid a combined total of approximately \$185,000 by the District for therapy services.

Failure to demonstrate compliance with Federal administrative requirements could limit the District’s actions if disputes arose with the contractors and could result in disallowance of grant expenditures by the grantor. Subsequent to our inquiry, the District verified that the vendors were not in the EPLS.

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**Recommendation:** The District should establish procedures, as required, to determine whether vendors are suspended or debarred before entering into contracts with the vendors, and maintain documentation of these procedures.

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District Contact Person: Donnita Butorac, Exceptional Student Education Administrator

**PRIOR AUDIT FOLLOW-UP**

Except as discussed in the preceding paragraphs, and the **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS**, the District had taken corrective actions for findings included in our report No. 2008-116.

**MANAGEMENT’S RESPONSE**

Management’s response is included as Exhibit – M.

**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, 2008*

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
2008-116 (1)	Title I Grants to Local Educational Agencies (CFDA No. 84.010) - Eligibility	Initial allocations of Title I budgeted funds were properly calculated for each qualifying school; however, Title I schools were not apprised of the Title I allocations.	Corrected	
2008-116 (2)	Twenty-First Century Community Learning Centers (CFDA No. 84.287) - Matching, Level of Effort, Earmarking	The District had not developed procedures to properly document matching requirements for the Twenty-First Century program.	Not Corrected	The District established procedures to document matching requirements and is in consultation with the grantor, the Florida Department of Education, regarding any potential questioned costs.
2008-116 (3)	Child Nutrition Cluster (CFDA Nos. 10.553 and 10.555), Title I Grants to Local Educational Agencies (CFDA No. 84.010), Special Education - Grants to States (CFDA No. 84.027), and Twenty-First Century Community Learning Centers (CFDA No. 84.287) - Suspension and Debarment	The District had not developed procedures to timely determine whether vendors were suspended or debarred from receiving Federal funds.	Corrected for Title I and Twenty-First Century programs  Not corrected for Special Education	Additional procedures have been implemented to determine the possible suspension or debarment of vendors.
2008-116 (4)	Child Nutrition Cluster (CFDA Nos. 10.553 and 10.555) - Procurement - Contract Administration	Certain contracts lacked required contractual provisions, contrary to Federal regulations.	Not Corrected	The Federal contract language has been reviewed for the District's contractual arrangements.

**EXHIBIT – M  
MANAGEMENT’S RESPONSE**



Holmes District School Board  
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Rickey Callahan, Chairman  
Gary Scott, Vice Chairman  
Vernon Lewis  
Anthony Register  
Jason Motley

February 20, 2009

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

Dear Mr. Martin,

The district offers the following responses to Florida’s Auditor General audit findings for the Holmes District School Board for the fiscal year ended June 30, 2008.

The district expects to improve financial reporting by adherence to presentation recommendations.

The district has altered its IT access controls to satisfy the finding of the Auditor General.

Personnel procedures ensuring that required fingerprinting and background checks are performed in a timely manner have been improved.

It is our intent to timely resolve deficiencies noted in the relocatable facility inspection report.

The district has included additional information to individuals when requesting their social security number as required by Florida Statute 119.071(5)(a).

The district is continuously evaluating its food service operation for greater functional efficiency within imposed federal and state guidelines while increasing revenue considering local economic constraints.

Mr. Martin  
Page 2  
February 20, 2009

The district expects to adopt a policy regarding cellular telephone usage by employees.

There is an expectation to enhance the security awareness training program in a more comprehensive manner.

District officials are currently communicating with the Florida Department of Education to resolve the matching requirements issue for the Twenty-First Century Program.

Language satisfactory to Federal provision Title 7 Section 3016.36(i) relating to the district's contractual arrangements has been corrected.

Additional procedures are implemented by the district to determine the possible suspension or debarment of vendors in compliance with OMB Circular A-102.

Sincerely,

  
Gary Galloway