

**HOLMES COUNTY
DISTRICT SCHOOL BOARD**

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

For the Fiscal Year Ended
June 30, 2009



BOARD MEMBERS AND SUPERINTENDENTS

Holmes County District School Board members and the Superintendents who served during the 2008-09 fiscal year are listed below:

	<u>District No.</u>
Rickey D. Callahan, Chair from 11-18-08	1
Gary Scott, Vice Chair from 11-18-08	2
Jason Motley, Vice Chair to 11-17-08	3
Anthony Register	4
Vernon Lewis, Jr., Chair to 11-17-08	5

Steve Griffin, Superintendent to 11-17-08
Gary Galloway, Superintendent from 11-18-08

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 or by telephone at (850) 487-9039.

This report and other reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 487-9024; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

HOLMES COUNTY DISTRICT SCHOOL BOARD
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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

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

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

SIGNIFICANT DEFICIENCY

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

ADDITIONAL MATTER

Finding No. 2: The District did not obtain an actuarial valuation supporting the amount of the reported liability for other postemployment benefits provided by the District.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Child Nutrition Cluster, Special Education Cluster, 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. However, we did note internal control and compliance findings as summarized below.

Federal Awards Finding No. 1: The District needed to enhance controls to ensure salary and benefit costs are appropriately charged to Federal programs.

Federal Awards Finding No. 2: Improvements are needed in the District's methodology for free and reduced price meal verifications.

Federal Awards Finding No. 3: Improvements were needed in the District's procedures for forecasting Federal cash needs.

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:

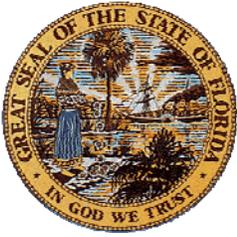
- Presented the District's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements or on a 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. 2009-143.

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, 2009. 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
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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, 2009, 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 18 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, 2009, 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 **OTHER REQUIRED SUPPLEMENTARY INFORMATION** (pages 44 through 46) are not required parts 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
March 3, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Holmes County District School Board has prepared the following discussion and analysis to provide an overview of the District's financial activities for the fiscal year ended June 30, 2009. The information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events, and conditions and should be considered in conjunction with the District's financial statements and notes to financial statements found on pages 13 through 43.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2008-09 fiscal year are as follows.

- The District's net assets decreased by \$1,671,943.04 (or 3.8 percent).
- During the current year, the General Fund's fund balance decreased by \$255,867.44, primarily as a result of a decrease in State revenues. This may be compared to last year's results when the General Fund's fund balance decreased by \$711,576.67. The June 30, 2009, General Fund fund balance is \$1,196,475.04.

OVERVIEW OF 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, this report presents certain required supplementary information which includes management's discussion and analysis, the budgetary comparison schedule, and the schedule of funding progress for other postemployment benefits.

Government-wide Financial Statements

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

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

Fund Financial Statements

Fund financial statements are one of the components of the basic financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements and prudent fiscal management. Certain funds are established by law while others are created by legal agreements, such as bond covenants. Fund financial statements provide more detailed information about the District's financial activities, focusing on its most significant or "major" funds rather than fund types. This is in contrast to the entitywide perspective contained in the government-wide statements. All of the District's funds may be classified within one of 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 – Other Fund, Special Revenue – ARRA Economic Stimulus Fund, Debt Service – Other Fund, Capital Projects – Public Education Capital Outlay Fund, Capital Projects – Local Capital Improvement Fund, and Capital Projects – Other Fund. Data from the other governmental funds are combined into a single, aggregated presentation.

A budgetary comparison schedule has been provided for the General Fund and Special Revenue – Other Fund to demonstrate compliance with the budget. Since the District had no anticipated or actual activities during the 2008-09 fiscal year from American Recovery and Reinvestment Act (ARRA) funding, the District prepared no budgetary comparison schedule for the Special Revenue – ARRA Economic Stimulus Fund.

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

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

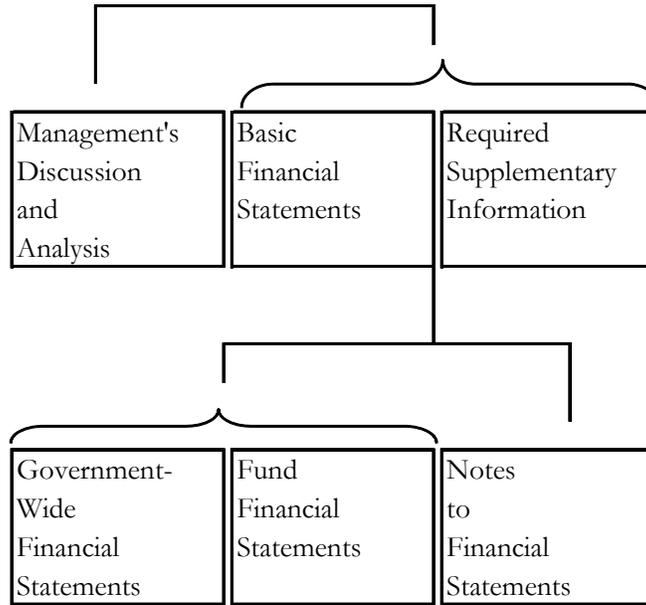
The District uses agency funds to account for resources held for student activities and groups.

Notes to Financial Statements

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

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

Components of the Annual Financial Report



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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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, 2009, compared to net assets as of June 30, 2008:

	Net Assets, End of Year	
	Governmental Activities	
	6-30-09	6-30-08
Current and Other Assets	\$ 5,920,003.86	\$ 6,587,156.26
Capital Assets	41,628,261.77	43,311,749.14
Total Assets	47,548,265.63	49,898,905.40
Long-Term Liabilities	4,638,182.89	4,907,420.77
Other Liabilities	659,811.12	1,069,269.97
Total Liabilities	5,297,994.01	5,976,690.74
Net Assets:		
Invested in Capital Assets -		
Net of Related Debt	39,942,395.46	41,491,048.26
Restricted	1,810,359.69	2,235,758.09
Unrestricted	497,516.47	195,408.31
Total Net Assets	\$ 42,250,271.62	\$ 43,922,214.66

The largest portion of the District’s net assets (94.5 percent) reflects its investment in capital assets (e.g., land, buildings and fixed equipment, furniture, fixtures, 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 (4.3 percent) represents resources that are subject to external restrictions on how they may be used. The unrestricted net assets (1.2 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, 2009, and June 30, 2008, are as follows:

	Operating Results for the Year	
	Governmental	
	Activities	
	6-30-09	6-30-08
Program Revenues:		
Charges for Services	\$ 503,783.37	\$ 539,628.04
Operating Grants and Contributions	2,038,648.23	2,075,871.33
Capital Grants and Contributions	212,618.04	1,754,777.02
General Revenues:		
Property Taxes, Levied for Operational Purposes	2,603,984.62	2,304,632.78
Property Taxes, Levied for Capital Projects		1,321.56
Grants and Contributions Not Restricted to Specific Programs	22,684,366.00	23,670,939.07
Unrestricted Investment Earnings	88,986.83	197,129.90
Miscellaneous	361,266.66	416,276.56
Total Revenues	28,493,653.75	30,960,576.26
Functions/Program Expenses:		
Instruction	15,438,824.28	16,327,219.90
Pupil Personnel Services	635,031.63	685,591.84
Instructional Media Services	592,076.86	612,323.59
Instruction and Curriculum Development Services	479,959.66	561,299.84
Instructional Staff Training Services	663,545.90	643,165.30
Instruction Related Technology	251,223.63	306,173.27
Board of Education	175,279.17	185,663.06
General Administration	264,898.32	260,052.74
School Administration	1,980,498.96	1,947,614.23
Facilities Acquisition and Construction	12.00	188.07
Fiscal Services	291,527.34	318,027.57
Food Services	1,714,202.41	1,683,066.24
Central Services	682,708.17	1,100,286.83
Pupil Transportation Services	1,355,288.34	1,368,322.60
Operation of Plant	2,700,623.23	2,816,802.91
Maintenance of Plant	1,076,761.36	1,142,733.38
Community Services	39,790.33	33,385.38
Interest on Long-Term Debt	79,871.20	85,048.11
Unallocated Depreciation Expense	1,743,474.00	1,815,728.00
Total Functions/Program Expenses	30,165,596.79	31,892,692.86
Decrease in Net Assets	\$ (1,671,943.04)	\$ (932,116.60)

State revenues decreased by \$2,964,190.10, or 12.6 percent, primarily due to decreases in State of Florida Education Finance Program (FEFP), Class Size Reduction Construction, and Classrooms for Kids funding.

The largest revenue source is the State of Florida (72.4 percent). Revenues from State sources for current operations are primarily received through the 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. State FEFP revenues are accounted for as grants and contributions not restricted to specific programs.

Other State revenues are primarily for State Categorical programs and for the acquisition, construction, and maintenance of educational facilities. Revenues in the form of capital grants and contributions decreased by

\$1,542,158.98, or 87.9 percent, from the previous year due mainly to a reduction in Class Size Reduction Construction funds.

Instruction expenses represent 51 percent of total governmental expenses in the 2008-09 fiscal year. Instruction expenses decreased by \$888,395.62, or 5.4 percent, from the previous year due mainly to a reduction in personnel.

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 \$1,189,119.54, while the total fund balance is \$1,196,475.04. The unreserved fund balance decreased by \$253,988.22, while the total fund balance decreased by \$255,867.44 during the fiscal year. The decrease resulted primarily from a transfer of unrestricted funds to subsidize the food service program totaling \$563,000.

The Special Revenue – Other Fund and Special Revenue – ARRA Economic Stimulus Fund each have a zero fund balance at the end of the current fiscal year. The District used these funds to account for certain Federal program resources. Since Federal revenue is recognized to the extent that eligible expenditures have been incurred, these funds do not generally accumulate a fund balance.

The Debt Service – Other Fund has a total fund balance of \$1,038,472.05, which is available to fund the loan repayment related to the energy savings contract. Racing commission funds recognized in the current year exceeded the annual debt service payments resulting in a \$119,803.94 increase in fund balance.

The Capital Projects – Public Education Capital Outlay Fund has a total fund balance of \$904,748.12, which is legislatively restricted to be used for educational capital outlay needs, including new construction and renovation and remodeling projects. A fund balance decrease of \$499,738.90 was due primarily to a reduction in Class Size Reduction Construction and Classrooms for Kids funding.

The Capital Projects – Local Capital Improvement Fund has a fund balance of \$711,590.73, which is restricted to the acquisition, construction, and maintenance of capital assets. This represents an increase of \$35,086.08, resulting primarily from current year interest earnings.

The Capital Projects – Other Fund has a fund balance of \$73,853.98, which represents Federal Emergency Management Agency reimbursements and interest earnings, which is for an approved renovation project at Ponce De Leon High School. This represents an increase of \$1,875.98 compared to the previous year, generated by current year interest earnings.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

During the course of the 2008-09 fiscal year, the District amended its General Fund budget several times as needed to comply with Florida law and local District policies. These amendments resulted in a decrease in appropriations of \$969,243.00, or 4 percent. This was due primarily to a decrease in budgeted instruction expenditures of \$1,041,456.82 resulting from personnel reductions during the year. No other significant variances were noted between the original budget, final budget, and actual revenues and expenditures.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

There were no major capital asset events during the current 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, 2009, and June 30, 2008:

	Capital Assets	
	Governmental Activities	
	6-30-09	6-30-08
Land	\$ 450,583.66	\$ 450,583.66
Improvements Other Than Buildings	367,193.27	423,102.27
Buildings and Fixed Equipment	39,040,482.63	40,185,425.63
Furniture, Fixtures, and Equipment	871,549.43	1,155,549.80
Motor Vehicles	898,452.78	1,097,087.78
Total Capital Assets	\$ 41,628,261.77	\$ 43,311,749.14

Long-Term Debt

The following table discloses the 2008-09 fiscal year debt principal payments and outstanding debt at June 30, 2009:

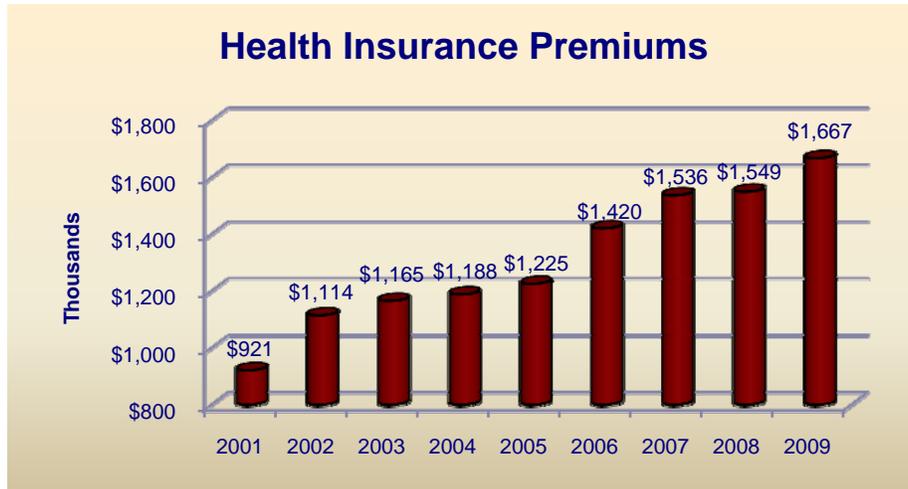
	Long-Term Debt	
	2008-09 Debt Payments	6-30-09 Debt Outstanding
State School Bonds	\$ 45,000.00	\$ 825,000.00
Note Payable	89,834.57	860,866.31
Total	\$ 134,834.57	\$ 1,685,866.31

Additional information on the District’s long-term debt can be found in Notes 5 through 7 to the financial statements.

OTHER MATTERS OF SIGNIFICANCE

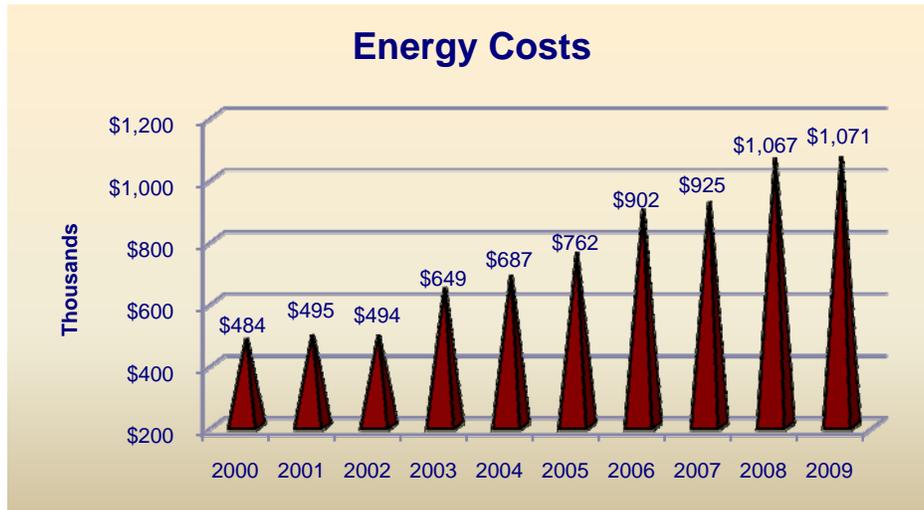
Insurance Premiums

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



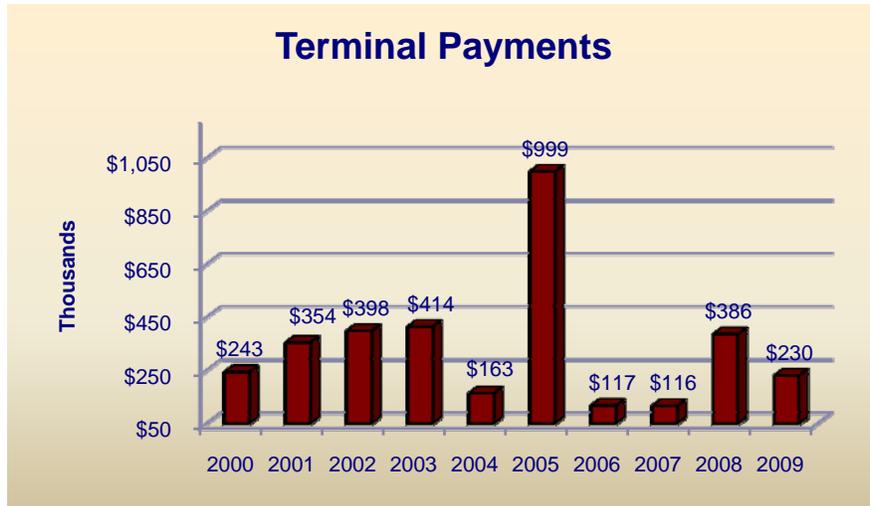
Energy Costs

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



Terminal Pay Benefits

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



REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

**HOLMES COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET ASSETS
June 30, 2009**

	Governmental Activities
ASSETS	
Cash and Cash Equivalents	\$ 4,526,600.91
Investments	189,759.17
Accounts Receivable	1,106.43
Due from Other Agencies	1,099,000.05
Inventories	103,537.30
Capital Assets:	
Nondepreciable Capital Assets	450,583.66
Depreciable Capital Assets, Net	41,177,678.11
	\$ 47,548,265.63
LIABILITIES	
Payroll Deductions and Withholdings	\$ 339,409.04
Accounts Payable	61,079.00
Due to Other Agencies	125,000.00
Deferred Revenue	134,323.08
Long-Term Liabilities:	
Portion Due Within One Year	416,504.96
Portion Due After One Year	4,221,677.93
	5,297,994.01
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	39,942,395.46
Restricted for:	
State Categorical Programs	7,355.50
Debt Service	19,921.52
Capital Projects	1,783,082.67
Unrestricted	497,516.47
	42,250,271.62
TOTAL LIABILITIES AND NET ASSETS	\$ 47,548,265.63

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

**HOLMES COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2009**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
Instruction	\$ 15,438,824.28	\$ 55,430.76	\$	\$ (15,383,393.52)
Pupil Personnel Services	635,031.63			(635,031.63)
Instructional Media Services	592,076.86			(592,076.86)
Instruction and Curriculum Development Services	479,959.66			(479,959.66)
Instructional Staff Training Services	663,545.90			(663,545.90)
Instruction Related Technology	251,223.63			(251,223.63)
Board of Education	175,279.17			(175,279.17)
General Administration	264,898.32			(264,898.32)
School Administration	1,980,498.96			(1,980,498.96)
Facilities Acquisition and Construction	12.00			127,418.90
Fiscal Services	291,527.34			(291,527.34)
Food Services	1,714,202.41	410,681.56	1,054,730.23	(248,790.62)
Central Services	682,708.17			(682,708.17)
Pupil Transportation Services	1,355,288.34	37,671.05	792,565.00	(525,052.29)
Operation of Plant	2,700,623.23			(2,700,623.23)
Maintenance of Plant	1,076,761.36		191,353.00	(885,408.36)
Community Services	39,790.33			(39,790.33)
Interest on Long-Term Debt	79,871.20			85,187.14
Unallocated Depreciation Expense	1,743,474.00			(1,743,474.00)
Total Governmental Activities	\$ 30,165,596.79	\$ 503,783.37	\$ 2,038,648.23	\$ 212,618.04
General Revenues:				
Taxes:				
Property Taxes, Levied for Operational Purposes				
Grants and Contributions Not Restricted to Specific Programs				
Unrestricted Investment Earnings				
Miscellaneous				
Total General Revenues				
Change in Net Assets				
Net Assets - Beginning				
Net Assets - Ending				

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

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**HOLMES COUNTY
DISTRICT SCHOOL BOARD
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2009**

	General Fund	Special Revenue - Other Fund	Special Revenue - ARRA Economic Stimulus Fund	Debt Service - Other Fund
ASSETS				
Cash and Cash Equivalents	\$ 1,303,334.29	\$	\$	\$ 1,038,472.05
Investments				
Accounts Receivable	1,064.43			
Due from Other Funds	91,617.10		125,000.00	
Due from Other Agencies	102,364.99	220,241.04		
Inventories	78,513.61			
TOTAL ASSETS	\$ 1,576,894.42	\$ 220,241.04	\$ 125,000.00	\$ 1,038,472.05
LIABILITIES AND FUND BALANCES				
Liabilities:				
Payroll Deductions and Withholdings	\$ 331,330.52	\$ 502.94	\$	\$
Accounts Payable	49,088.86	3,121.00		
Due to Other Funds		216,617.10		
Due to Other Agencies			125,000.00	
Deferred Revenue				
Total Liabilities	380,419.38	220,241.04	125,000.00	
Fund Balances:				
Reserved for State Categorical Programs	7,355.50			
Reserved for Debt Service				
Unreserved, Reported in:				
General Fund	1,189,119.54			
Debt Service Funds				1,038,472.05
Special Revenue Funds				
Capital Projects Funds				
Total Fund Balances	1,196,475.04			1,038,472.05
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,576,894.42	\$ 220,241.04	\$ 125,000.00	\$ 1,038,472.05

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

Capital Projects - Public Education Capital Outlay Fund	Capital Projects - Local Capital Improvement Fund	Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
\$ 311,598.02 40,567.08	\$ 711,590.73	\$	\$ 379,063.66 19,921.52 42.00	\$ 3,744,058.75 60,488.60 1,106.43
34,146.02 518,437.00		242,323.08	15,633.94 25,023.69	250,763.12 1,099,000.05 103,537.30
<u>\$ 904,748.12</u>	<u>\$ 711,590.73</u>	<u>\$ 242,323.08</u>	<u>\$ 439,684.81</u>	<u>\$ 5,258,954.25</u>
\$	\$	\$	\$ 7,575.58 8,869.14	\$ 339,409.04 61,079.00
		34,146.02		250,763.12
		134,323.08		125,000.00
		168,469.10	16,444.72	134,323.08
				7,355.50
			19,921.52	19,921.52
				1,189,119.54
				1,038,472.05
			310,428.73	310,428.73
904,748.12	711,590.73	73,853.98	92,889.84	1,783,082.67
<u>904,748.12</u>	<u>711,590.73</u>	<u>73,853.98</u>	<u>423,240.09</u>	<u>4,348,380.01</u>
<u>\$ 904,748.12</u>	<u>\$ 711,590.73</u>	<u>\$ 242,323.08</u>	<u>\$ 439,684.81</u>	<u>\$ 5,258,954.25</u>

**HOLMES COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2009**

Total Fund Balances - Governmental Funds \$ 4,348,380.01

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. 41,628,261.77

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	\$ 860,866.31	
Bonds Payable	825,000.00	
Compensated Absences Payable (net of \$911,812.73 set aside in the Internal Service Fund to fund a portion of the liability)	1,855,711.85	
Other Postemployment Benefits Payable	184,792.00	(3,726,370.16)

Total Net Assets - Governmental Activities \$ 42,250,271.62

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

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**HOLMES COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2009**

	General Fund	Special Revenue - Other Fund	Special Revenue - ARRA Economic Stimulus Fund	Debt Service - Other Fund
Revenues				
Intergovernmental:				
Federal Direct	\$ 54,088.76	\$	\$	\$
Federal Through State and Local	83,834.16	3,160,054.66		
State	19,993,323.47			209,250.00
Local:				
Property Taxes	2,603,984.62			
Charges for Services - Food Service				
Miscellaneous	438,828.93			38,416.55
Total Revenues	<u>23,174,059.94</u>	<u>3,160,054.66</u>		<u>247,666.55</u>
Expenditures				
Current - Education:				
Instruction	13,173,529.47	2,222,495.15		
Pupil Personnel Services	539,604.10	91,905.31		
Instructional Media Services	604,945.25			
Instruction and Curriculum Development Services	262,862.23	213,685.75		
Instructional Staff Training Services	360,646.93	299,267.91		
Instruction Related Technology	231,366.51	18,564.55		
Board of Education	173,279.17			
General Administration	174,501.02	89,552.69		
School Administration	2,056,552.12			
Facilities Acquisition and Construction				
Fiscal Services	290,369.02			
Food Services				
Central Services	690,426.82	3,713.37		
Pupil Transportation Services	1,273,338.24	52,149.93		
Operation of Plant	2,709,620.90			
Maintenance of Plant	651,401.13			
Community Services	3,817.75	35,972.58		
Fixed Capital Outlay:				
Other Capital Outlay	30,640.45	132,747.42		
Debt Service:				
Principal				89,834.57
Interest and Fiscal Charges				38,028.04
Total Expenditures	<u>23,226,901.11</u>	<u>3,160,054.66</u>		<u>127,862.61</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(52,841.17)</u>			<u>119,803.94</u>
Other Financing Sources (Uses)				
Transfers In	348,677.00			
Insurance Loss Recoveries	11,296.73			
Transfers Out	(563,000.00)			
Total Other Financing Sources (Uses)	<u>(203,026.27)</u>			
Net Change in Fund Balances	<u>(255,867.44)</u>			<u>119,803.94</u>
Fund Balances, Beginning	1,452,342.48			918,668.11
Fund Balances, Ending	<u>\$ 1,196,475.04</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 1,038,472.05</u>

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

Capital Projects - Public Education Capital Outlay Fund	Capital Projects - Local Capital Improvement Fund	Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
\$	\$	\$	\$	\$
289,455.00			1,031,842.23	54,088.76
			137,778.04	4,275,731.05
				20,629,806.51
				2,603,984.62
(29,639.30)	35,086.08	1,875.98	410,681.56	410,681.56
			9,819.28	494,387.52
<u>259,815.70</u>	<u>35,086.08</u>	<u>1,875.98</u>	<u>1,590,121.11</u>	<u>28,468,680.02</u>
				15,396,024.62
				631,509.41
				604,945.25
				476,547.98
				659,914.84
				249,931.06
				173,279.17
				264,053.71
12.00				2,056,552.12
				12.00
				290,369.02
			1,703,531.41	1,703,531.41
				694,140.19
				1,325,488.17
				2,709,620.90
424,483.62				1,075,884.75
				39,790.33
			21,599.75	184,987.62
			45,000.00	134,834.57
58.98			41,843.16	79,930.18
<u>424,554.60</u>			<u>1,811,974.32</u>	<u>28,751,347.30</u>
<u>(164,738.90)</u>	<u>35,086.08</u>	<u>1,875.98</u>	<u>(221,853.21)</u>	<u>(282,667.28)</u>
			563,000.00	911,677.00
(335,000.00)				11,296.73
				(898,000.00)
<u>(335,000.00)</u>			<u>563,000.00</u>	<u>24,973.73</u>
(499,738.90)	35,086.08	1,875.98	341,146.79	(257,693.55)
1,404,487.02	676,504.65	71,978.00	82,093.30	4,606,073.56
<u>\$ 904,748.12</u>	<u>\$ 711,590.73</u>	<u>\$ 73,853.98</u>	<u>\$ 423,240.09</u>	<u>\$ 4,348,380.01</u>

**HOLMES COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2009**

Net Change in Fund Balances - Governmental Funds \$ (257,693.55)

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. (1,518,361.33)

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. (165,126.04)

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.

Note Payable	\$	89,834.57	
Bonds Payable		45,000.00	
			134,834.57

In the statement of activities, the cost of compensated absences is measured by the amounts earned during the year, while in the governmental funds expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences used in excess of the amount earned in the current period. 319,195.31

Other postemployment benefit costs are recorded in the statement of activities under the full accrual basis of accounting, but are not reported in the governmental funds until paid. This is the net increase in the other postemployment benefits liability for the current fiscal year. (184,792.00)

Change in Net Assets - Governmental Activities **\$ (1,671,943.04)**

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

**HOLMES COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET ASSETS -
PROPRIETARY FUND
June 30, 2009**

		Governmental Activities - Internal Service Fund
<hr/>		
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$	782,542.16
Noncurrent Assets:		
Investments in SBA Fund B Surplus Funds Trust Fund		129,270.57
		<hr/>
TOTAL ASSETS	\$	911,812.73
		<hr/> <hr/>
LIABILITIES		
Noncurrent Liabilities:		
Compensated Absences Payable	\$	911,812.73
		<hr/>
NET ASSETS		
Unrestricted		<hr/>
TOTAL LIABILITIES AND NET ASSETS	\$	911,812.73
		<hr/> <hr/>

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

**HOLMES COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF CASH FLOWS -
PROPRIETARY FUND
For the Fiscal Year Ended June 30, 2009**

	Governmental Activities - Internal Service Fund
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers Out	\$ (13,677.00)
CASH FLOWS FROM INVESTING ACTIVITIES	
Sale of Investments	32,783.23
Interest Income	13,677.00
Net Cash Provided by Investing Activities	<u>46,460.23</u>
Net Increase in Cash and Cash Equivalents	32,783.23
Cash and Cash Equivalents, Beginning	<u>749,758.93</u>
Cash and Cash Equivalents, Ending	<u><u>\$ 782,542.16</u></u>

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

Operating Income	\$ 0.00
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	<u>0.00</u>
Net Cash Provided by Operating Activities	<u><u>\$ 0.00</u></u>

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

**HOLMES COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES -
FIDUCIARY FUNDS
June 30, 2009**

	<u>Agency Funds</u>
ASSETS	
Cash	\$ 294,395.00
LIABILITIES	
Internal Accounts Payable	\$ 294,395.00

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

**HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

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 that should be reported within the District's basic financial statements are identified and described in the Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600. The application of these criteria provides for identification of any entities for which the 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, except for interfund services provided and used.

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

**HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

The District reports the following major governmental funds:

- General Fund – to account for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.
- Special Revenue – Other Fund – to account for certain Federal grant program resources.
- Special Revenue – ARRA Economic Stimulus Fund – to account for certain Federal grant program resources related to the American Recovery and Reinvestment Act (ARRA).
- Debt Service – Other Fund – to account for the accumulation of resources for, and the payment of, debt principal, interest, and other costs related to the note payable for the energy savings contract.
- Capital Projects – Public Education Capital Outlay Fund – to account for the financial resources generated by the State Public Education Capital Outlay and Debt Service Trust Fund to be used for educational capital outlay needs, including new construction and renovation and remodeling projects.
- Capital Projects – Local Capital Improvement Fund – to account for the financial resources generated by the local capital improvement tax levy to be used for educational capital outlay needs, including new construction and renovation and remodeling projects.
- Capital Projects – Other Fund – to account for financial resources generated by various local, State, and Federal sources, such as Federal Emergency Management Agency reimbursements, 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

**HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

or soon enough thereafter to pay liabilities of the current period. The District considers revenues to be available if they are collected within 45 days of the end of the current fiscal year. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made. Under the modified accrual basis of accounting, expenditures are generally recognized when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, other postemployment benefits, and compensated absences, which are recognized when due. Allocations of cost, such as depreciation, are not recognized in governmental funds.

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

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

➤ **Deposits and Investments**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term, highly liquid investments with original maturities of three months or less. Investments classified as cash equivalents include amounts placed with the State Board of Administration (SBA) Local Government Surplus Funds Trust Fund Investment Pool (LGIP), which, effective July 1, 2009, is known as Florida PRIME.

Cash deposits are held by banks qualified as public depositories under Florida law. All deposits are insured by Federal depository insurance, up to specified limits, or collateralized with securities held in Florida's multiple financial institution collateral pool as required by Chapter 280, Florida Statutes.

Investments consist of amounts placed in SBA Debt Service accounts for investment of debt service moneys and amounts placed with SBA for participation in LGIP and the Fund B Surplus Funds Trust Fund (Fund B) investment pools created by Sections 218.405 and 218.417, Florida Statutes. The investment pools operate under investment guidelines established by Section 215.47, Florida Statutes.

The District's investments in LGIP, which SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, as of June 30, 2009, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. The investments are reported at fair value, which is amortized cost.

The District's investments in Fund B are accounted for as a fluctuating net asset value pool, with a fair value factor of 0.51370946 at June 30, 2009. Fund B is not subject to participant withdrawal requests. Distributions from Fund B, as determined by SBA, are effected by transferring eligible cash or securities to LGIP, consistent with the pro rata allocation of pool shareholders of record at the creation date of Fund B. One hundred percent of such distributions from Fund B are available as liquid balance within LGIP.

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

**HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

the District's food service program by the Florida Department of Agriculture and Consumer Services, Bureau of Food Distribution. Purchases are recorded as expenditures during the year and are adjusted to reflect year-end physical inventories.

➤ **Capital Assets**

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

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

<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 Service Fund, are reported as liabilities in the government-wide statement of net assets.

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

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

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

➤ **State Revenue Sources**

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 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

**HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

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 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 2008 tax levy on September 16, 2008. Tax bills are mailed in October and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to 4 percent for early payment.

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

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

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

➤ **Federal Revenue Sources**

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

**HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

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 State Board of Administration (SBA) Local Government Surplus Funds Trust Fund Investment Pool (LGIP); 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. The District's investment policy does not further limit its investment choices, and the policy does not limit investment maturities as a means of managing its exposure to fair value losses from increasing interest rates.

Investments, reported as cash equivalents, with a fair value of \$12,355.67 at June 30, 2009, are in SBA LGIP with a weighted average days to maturity (WAM) of 46 days. A portfolio's WAM reflects the average maturity based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the portfolio to interest rate changes. The District's investment in LGIP is rated AAAM by Standard & Poor's.

Investments with a fair value of \$169,837.65 at June 30, 2009, are in the SBA Fund B Surplus Funds Trust Fund (Fund B) with a weighted average life (WAL) of 6.87 years. A portfolio's WAL is the dollar weighted average length of time until securities held reach maturity. WAL, which also measures the sensitivity of the portfolio to interest rate changes, is based on legal final maturity dates for Fund B as of June 30, 2009. However, because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the WAL. The District's investment in Fund B is unrated.

**HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

In addition, the District reports investments totaling \$19,921.52 at June 30, 2009, in the SBA 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 SBA for managing credit risk for this account.

4. CHANGES IN CAPITAL ASSETS

Changes in capital assets are presented in the table below.

	Balance 7-1-08	Additions	Deletions	Balance 6-30-09
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	\$ 450,583.66	\$	\$	\$ 450,583.66
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	1,723,157.27			1,723,157.27
Buildings and Fixed Equipment	54,031,062.63			54,031,062.63
Furniture, Fixtures, and Equipment	4,970,305.80	184,756.67	415,443.04	4,739,619.43
Motor Vehicles	2,995,425.78	40,356.00	3,075.00	3,032,706.78
Total Capital Assets Being Depreciated	63,719,951.48	225,112.67	418,518.04	63,526,546.11
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	1,300,055.00	55,909.00		1,355,964.00
Buildings and Fixed Equipment	13,845,637.00	1,144,943.00		14,990,580.00
Furniture, Fixtures, and Equipment	3,814,756.00	306,706.00	253,392.00	3,868,070.00
Motor Vehicles	1,898,338.00	235,916.00		2,134,254.00
Total Accumulated Depreciation	20,858,786.00	1,743,474.00	253,392.00	22,348,868.00
Total Capital Assets Being Depreciated, Net	42,861,165.48	(1,518,361.33)	165,126.04	41,177,678.11
Governmental Activities Capital Assets, Net	\$ 43,311,749.14	\$ (1,518,361.33)	\$ 165,126.04	\$ 41,628,261.77

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

5. NOTE PAYABLE

Note payable is comprised of the following:

	Balance at 6-30-09
Wachovia Bank	
\$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.	\$ 860,866.31

**HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

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

Fiscal Year Ending June 30	Total	Principal	Interest
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	127,862.61	109,297.50	18,565.11
2015-2017	383,587.78	354,830.34	28,757.44
Total	\$ 1,022,900.83	\$ 860,866.31	\$ 162,034.52

6. BONDS PAYABLE

Bonds payable at June 30, 2009, are as follows:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds: Series 2001A	<u>\$ 825,000</u>	4.25 - 5.00	2021

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

➤ **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.

**HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

Annual requirements to amortize all bonded debt outstanding as of June 30, 2009, are as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
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	90,768.75	60,000.00	30,768.75
2015-2019	479,918.75	375,000.00	104,918.75
2020-2021	199,000.00	185,000.00	14,000.00
Total State School Bonds	\$ 1,121,650.00	\$ 825,000.00	\$ 296,650.00

7. CHANGES IN LONG-TERM LIABILITIES

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

Description	Balance 7-1-08	Additions	Deductions	Balance 6-30-09	Due in One Year
GOVERNMENTAL ACTIVITIES					
Note Payable	\$ 950,700.88	\$	\$ 89,834.57	\$ 860,866.31	\$ 93,427.96
Bonds Payable	870,000.00		45,000.00	825,000.00	45,000.00
Compensated Absences Payable	3,086,719.89	10,894.13	330,089.44	2,767,524.58	278,077.00
Other Postemployment Benefits Payable		462,447.00	277,655.00	184,792.00	
Total Governmental Activities	\$ 4,907,420.77	\$ 473,341.13	\$ 742,579.01	\$ 4,638,182.89	\$ 416,504.96

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

8. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

Funds	Interfund	
	Receivables	Payables
Major:		
General	\$ 91,617.10	\$
Special Revenue:		
Other		216,617.10
ARRA Economic Stimulus	125,000.00	
Capital Projects:		
Public Education Capital Outlay	34,146.02	
Nonmajor Governmental		34,146.02
Total	\$ 250,763.12	\$ 250,763.12

**HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

The above interfund receivables and payables represent a loan to finance expenditures paid by the General Fund on behalf of the Special Revenue – Other Fund, a temporary loan from the Capital Projects – Public Education Capital Outlay Fund to finance other capital outlay expenditures, and a temporary loan of ARRA Economic Stimulus moneys that were held at fiscal year-end in the Special Revenue – Other Fund.

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	\$ 348,677.00	\$ 563,000.00
Capital Projects:		
Public Education Capital Outlay		335,000.00
Nonmajor Governmental	563,000.00	
Internal Service		13,677.00
	<u>\$ 911,677.00</u>	<u>\$ 911,677.00</u>
Total	<u>\$ 911,677.00</u>	<u>\$ 911,677.00</u>

The interfund transfers were to reimburse capital outlay and maintenance expenditures in the General Fund, transfer internal service fund interest earnings to the General Fund, and subsidize the food service program.

9. RESERVE FOR ENCUMBRANCES

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

The Florida Department of Education requires that fund balances be reserved at fiscal year-end to report an amount likely to be expended from the 2009-10 fiscal year budget as a result of purchase orders outstanding at June 30, 2009.

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 \$3,074.15 at June 30, 2009.

**HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

10. SCHEDULE OF STATE REVENUE SOURCES

The following is a schedule of the District’s State revenue for the 2008-09 fiscal year:

<u>Source</u>	<u>Amount</u>
Florida Education Finance Program	\$ 15,295,508.00
Categorical Educational Programs:	
Class Size Reduction	3,044,840.00
Transportation	792,565.00
Instructional Materials	329,819.00
School Recognition	180,543.00
Florida Teachers Lead	46,752.00
Other	216,099.34
Gross Receipts Tax (Public Education Capital Outlay)	289,455.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	86,893.63
Discretionary Lottery Funds	73,132.00
Food Service Supplement	23,262.00
Mobile Home License Tax	12,358.64
Miscellaneous	<u>238,578.90</u>
 Total	 <u><u>\$ 20,629,806.51</u></u>

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

11. PROPERTY TAXES

The following is a summary of millages and taxes levied on the 2008 tax roll for the 2008-09 fiscal year:

<u>GENERAL FUND</u>	<u>Millages</u>	<u>Taxes Levied</u>
Nonvoted School Tax:		
Required Local Effort	5.136	\$ 2,324,006.88
Basic Discretionary Local Effort	0.498	225,341.79
Supplemental Discretionary Local Effort	<u>0.250</u>	<u>113,123.39</u>
 Total	 <u><u>5.884</u></u>	 <u><u>\$ 2,662,472.06</u></u>

12. FLORIDA RETIREMENT SYSTEM

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

**HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

programs. These include a defined benefit pension plan (Plan), a Deferred Retirement Option Program (DROP), and a defined contribution plan, referred to as the Public Employee Optional Retirement Program (PEORP).

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

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

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in PEORP in lieu of the Plan. District employees participating in DROP are not eligible to participate in PEORP. Employer contributions are defined by law; however, the ultimate benefit depends in part on the performance of investment funds. PEORP is funded by employer contributions that are based on salary and membership class (Regular, Elected County Officers, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Employees in PEORP vest after one year of service. There were 31 District participants during the 2008-09 fiscal year. Required contributions made to PEORP totaled \$109,498.52.

FRS Retirement Contribution Rates

The Florida Legislature establishes, and may amend, contribution rates for each membership class of FRS. During the 2008-09 fiscal year, contribution rates were as follows:

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

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

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

**HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

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, 2007, June 30, 2008, and June 30, 2009, totaled \$1,531,543.97, \$1,643,147.05, and \$1,605,689.46, 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.

13. 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 \$114,488.24, during the 2008-09 fiscal year for 12 employees that received special termination benefits.

14. OTHER POSTEMPLOYMENT BENEFITS

Effective for the 2008-09 fiscal year, the District implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45), for certain postemployment benefits provided by the District. The requirements of this statement are being implemented prospectively, with the liability of \$4,408,903 at the July 1, 2008, date of transition amortized over 30 years. Accordingly, for financial reporting purposes, no liability is reported for the other postemployment benefits liability at the date of transition. The liability was calculated using the alternative measurement method.

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

**HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

a stand-alone report, and is not included in the report of a Public Employee Retirement System or another entity.

Funding Policy. Contribution requirements of the District and plan members are established and may be amended through recommendations of the Insurance Committee and action from the Board. The District has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2008-09 fiscal year, 94 retirees received other postemployment benefits. The District provided required contributions of \$277,655 toward the annual OPEB cost, comprised of payments made on behalf of retirees and net of retiree contributions totaling \$421,125, which represents 3.8 percent of covered payroll.

Annual OPEB Cost and Net OPEB Obligation. The District’s annual OPEB cost (expense) is calculated based on the annual required contribution (ARC). The District has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB 45 for employers in plans with fewer than 100 total plan members, even though the District has 336 plan members. The District has elected to use this method in lieu of obtaining the required actuarial valuation. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation for other postemployment benefits:

Description	Amount
Normal Cost (service cost for one year)	\$ 207,385
Amortization of Unfunded Actuarial Accrued Liability	238,347
Interest on Normal Cost and Amortization	16,715
Annual Required Contribution	462,447
Interest on Net OPEB Obligation	
Adjustment to Annual Required Contribution	_____
Annual OPEB Cost (Expense)	462,447
Contribution Toward the OPEB Cost	(277,655)
Increase in Net OPEB Obligation	184,792
Net OPEB Obligation, Beginning of Year	_____
Net OPEB Obligation, End of Year	\$ 184,792

**HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2009 (year of implementation), were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Beginning Balance, 7-1-08 2008-09	\$ 462,447	60.0%	\$ 184,792

Funded Status and Funding Progress. As of June 30, 2008, the most recent valuation date, the actuarial accrued liability for benefits was \$4,408,903, all of which was unfunded. The covered payroll (annual payroll of active participating employees) was \$11,028,315 for the 2008-09 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 40 percent.

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

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

The following simplifying assumptions were made:

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

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

**HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

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

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

Healthcare cost trend rate – Future healthcare cost trends were based on projected national healthcare expenditure increases for state and local public entities as published by the Centers for Medicare & Medicaid Services, Office of the Actuary, in its report titled *National Health Expenditure Projections 2008-2018*. An annual rate of 6.6 percent initially beginning June 30, 2009, increasing to an ultimate rate of 7.6 percent beginning June 30, 2017, was used.

Health insurance premiums – The 2009 health insurance premiums were used as the basis for calculation of the present value of total benefits to be paid.

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

The District's initial OPEB valuation as of June 30, 2008, used a simplified version of the unit credit actuarial method to estimate the unfunded actuarial liability as of June 30, 2009, and the District's 2008-09 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the assumptions included a 3.75 percent rate of return on invested assets, which is the District's long-term expectation of investment returns under its investment policy. The unfunded actuarial accrued liability is being amortized using a level dollar amount on a closed basis. The remaining amortization period at June 30, 2009, was 29 years.

15. RISK MANAGEMENT PROGRAMS

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

**HOLMES COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

superintendents of all participating districts. The Washington County District School Board serves as fiscal agent for the Consortium. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past three fiscal years.

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

OTHER REQUIRED SUPPLEMENTARY INFORMATION

**HOLMES COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE -
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 2009**

	General Fund			Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues				
Intergovernmental:				
Federal Direct	\$ 139,511.00	\$ 55,511.00	\$ 54,088.76	\$ (1,422.24)
Federal Through State and Local State	20,343,290.00	19,975,290.00	19,993,323.47	18,033.47
Local:				
Property Taxes	2,561,451.00	2,561,451.00	2,603,984.62	42,533.62
Miscellaneous	334,745.00	302,745.00	438,828.93	136,083.93
Total Revenues	23,378,997.00	22,978,997.00	23,174,059.94	195,062.94
Expenditures				
Current - Education:				
Instruction	14,217,788.00	13,176,331.18	13,173,529.47	2,801.71
Pupil Personnel Services	406,869.00	540,804.00	539,604.10	1,199.90
Instructional Media Services	493,655.00	606,145.00	604,945.25	1,199.75
Instruction and Curriculum Development Services	446,158.00	264,062.00	262,862.23	1,199.77
Instructional Staff Training Services	191,432.00	361,555.00	360,646.93	908.07
Instruction Related Technology	248,397.00	232,567.00	231,366.51	1,200.49
Board of Education	162,514.00	174,479.00	173,279.17	1,199.83
General Administration	172,747.00	175,701.00	174,501.02	1,199.98
School Administration	1,551,150.00	2,057,752.00	2,056,552.12	1,199.88
Fiscal Services	326,480.00	291,568.68	290,369.02	1,199.66
Central Services	901,000.00	698,627.00	690,426.82	8,200.18
Pupil Transportation Services	1,481,687.00	1,274,538.69	1,273,338.24	1,200.45
Operation of Plant	2,753,352.00	2,710,821.00	2,709,620.90	1,200.10
Maintenance of Plant	869,057.00	652,601.00	651,401.13	1,199.87
Community Services		4,850.00	3,817.75	1,032.25
Fixed Capital Outlay:				
Other Capital Outlay		30,640.45	30,640.45	
Total Expenditures	24,222,286.00	23,253,043.00	23,226,901.11	26,141.89
Excess (Deficiency) of Revenues Over Expenditures	(843,289.00)	(274,046.00)	(52,841.17)	221,204.83
Other Financing Sources (Uses)				
Transfers In	510,000.00	510,000.00	348,677.00	(161,323.00)
Insurance Loss Recoveries			11,296.73	11,296.73
Transfers Out	(258,000.00)	(564,000.00)	(563,000.00)	1,000.00
Total Other Financing Sources (Uses)	252,000.00	(54,000.00)	(203,026.27)	(149,026.27)
Net Change in Fund Balances	(591,289.00)	(328,046.00)	(255,867.44)	72,178.56
Fund Balances, Beginning	1,452,342.00	1,452,342.48	1,452,342.48	
Fund Balances, Ending	\$ 861,053.00	\$ 1,124,296.48	\$ 1,196,475.04	\$ 72,178.56

Special Revenue - Other Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
\$ 1,380,000.00	\$ 3,172,911.00	\$ 3,160,054.66	\$ (12,856.34)
<u>1,380,000.00</u>	<u>3,172,911.00</u>	<u>3,160,054.66</u>	<u>(12,856.34)</u>
914,100.00	2,225,593.33	2,222,495.15	3,098.18
75,600.00	93,105.00	91,905.31	1,199.69
276,300.00	214,885.98	213,685.75	1,200.23
52,500.00	300,759.00	299,267.91	1,491.09
	19,764.27	18,564.55	1,199.72
61,500.00	90,403.00	89,552.69	850.31
	4,913.00	3,713.37	1,199.63
	53,350.00	52,149.93	1,200.07
	37,340.00	35,972.58	1,367.42
	<u>132,747.42</u>	<u>132,747.42</u>	
<u>1,380,000.00</u>	<u>3,172,861.00</u>	<u>3,160,054.66</u>	<u>12,806.34</u>
	<u>50.00</u>		<u>(50.00)</u>
	50.00		(50.00)
<u>\$ 0.00</u>	<u>\$ 50.00</u>	<u>\$ 0.00</u>	<u>\$ (50.00)</u>

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Projected Unit Credit	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(A)	(B)	(B-A)	(A/B)	(C)	[(B-A)/C]
June 30, 2008	\$ 0	\$ 4,408,903	\$ 4,408,903	0.0%	\$ 11,028,315	40.0%

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**HOLMES COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2009**

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)	Amount Provided to Subrecipients
United States Department of Agriculture:				
Indirect:				
Child Nutrition Cluster:				
Florida Department of Education:				
School Breakfast Program	10.553	321	\$ 209,348.74	\$
National School Lunch Program	10.555	300, 350	768,066.85	
Florida Department of Agriculture and Consumer Services:				
National School Lunch Program	10.555 (2)	None	55,783.14	
Total United States Department of Agriculture			1,033,198.73	
United States Department of Labor:				
Indirect:				
Chipola Regional Workforce Development Board, Inc.:				
WIA Youth Activities	17.259	None	72,649.29	
United States Department of Education:				
Indirect:				
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027	263	748,882.16	
Special Education - Preschool Grants	84.173	267	31,006.09	
Putnam County District School Board:				
Special Education - Grants to States	84.027	None	11,184.87	
Total Special Education Cluster			791,073.12	
Florida Department of Education:				
Title I Grants to Local Educational Agencies	84.010	212, 222, 223, 226, 228	1,380,537.56	38,185.00
Career and Technical Education - Basic Grants to States	84.048	161	87,995.39	
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	07-143-VH437	35,972.58	
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	12,651.47	
Twenty-First Century Community Learning Centers	84.287	244	391,440.00	
Education Technology State Grants	84.318	121	8,237.83	
Rural Education	84.358	110	82,639.84	
Improving Teacher Quality State Grants	84.367	224	242,426.00	
School Improvement Grants	84.377	126	47,619.69	
Washington County District School Board:				
Reading First State Grants	84.357	None	90,646.05	
Total United States Department of Education			3,171,239.53	38,185.00
United States Department of Defense:				
Direct:				
Army Junior Reserve Officers Training Corps	None	N/A	54,088.76	
Total Expenditures of Federal Awards			\$ 4,331,176.31	\$ 38,185.00

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

(2) Noncash Assistance - National School Lunch Program. Represents the amount of donated food used during the fiscal year. 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, 2009, which collectively comprise the District's basic financial statements, and have issued our report thereon under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the basic financial statements was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the school internal funds, as described in our report on the Holmes County District School Board's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

A *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 No. 1, which is described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report, to be a significant deficiency 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 do not consider the significant deficiency described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report to be 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 a certain additional matter that is discussed in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report.

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

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

Respectfully submitted,



David W. Martin, CPA
March 3, 2010



DAVID W. MARTIN, CPA
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AUDITOR GENERAL STATE OF FLORIDA

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The President of the Senate, the Speaker of the
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE 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, 2009. 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.

In our opinion, 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, 2009. 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. 1, 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 certain deficiencies in internal control over compliance that we considered to be significant deficiencies.

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 deficiencies in internal control over compliance described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding Nos. 1, 2, and 3 to be significant deficiencies.

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 did not consider any of the Federal Awards control deficiencies described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report to be material weaknesses.

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

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

Respectfully submitted,



David W. Martin, CPA
March 3, 2010

**HOLMES COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? No

Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? No

Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes

Type of report the auditor issued on compliance for major programs: Unqualified for all major programs

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

Identification of major programs: Child Nutrition Cluster (CFDA Nos. 10.553 and 10.555); Special Education Cluster (CFDA Nos. 84.027 and 84.173); 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, 2009**

FINANCIAL STATEMENT FINDING

SIGNIFICANT DEFICIENCY

Finding No. 1: Financial Reporting

Our review of the District's 2008-09 fiscal year annual financial report as presented for audit disclosed that enhancements in procedures could be made for reporting certain account balances. For example, preparation of fund financial statements pursuant to generally accepted accounting principles requires an analysis to determine the major funds that require separate columnar presentation. The District is required to report a fund as major when the fund's assets or liabilities represent at least 10 percent of the respective total governmental fund's assets or liabilities. In addition, the Florida Department of Education (FDOE) issued a fiscal technical assistance paper requiring major fund reporting for American Reinvestment and Recovery Act (ARRA) Economic Stimulus funds to allow for greater transparency and accountability of these funds. However, District personnel did not identify and report the Capital Projects – Other Fund and Special Revenue – ARRA Economic Stimulus Fund as major funds because certain accounting entries were not properly recorded, as discussed below:

- The District previously incurred hurricane damage to Ponce De Leon High School. Since property insurance did not fully cover the losses, the District applied for and received a Federal Emergency Management Agency (FEMA) award to make the needed repairs and improvements. District personnel submitted reimbursement requests using the FEMA online reporting system, and the final request was made in July 2009. In August 2009, after the District's revenue recognition period, the District received the final proceeds, totaling \$134,323.08. Although the District previously met the eligibility requirements for these proceeds, District personnel did not properly identify and record due from other agencies and deferred revenue of this amount at June 30, 2009, in the Capital Projects – Other Fund, due to an oversight, resulting in understatements of these accounts. Once properly recorded, the District was required to separately report this fund as a major fund.
- In June 2009, the District requested and received ARRA funding, totaling \$125,000, but mistakenly reported the balances in the Special Revenue – Other Fund instead of the Special Revenue – ARRA Economic Stimulus Fund, contrary to FDOE guidance. As a result, the District understated due to other agencies and due from other funds in the Special Revenue – ARRA Economic Stimulus Fund and overstated these accounts in the Special Revenue – Other Fund by the same amount.

It is important to exercise proper care in recording journal entries, as required, to enable the proper reporting of major funds on the financial statements. We extended our audit procedures to determine the necessary adjustments, and adjustments were accepted by the District to properly report the account balances and major funds. Similar findings were noted in our report Nos. 2008-116 and 2009-143.

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

ADDITIONAL MATTER

Finding No. 2: Actuarial Valuation

The District is required, effective for the 2008-09 fiscal year, to implement Governmental Accounting Standards Board Statement No. 45 (Statement), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for certain other postemployment benefits (OPEB) provided by the District. This Statement requires the District to report a liability for its coverage of retired employees who continue to receive health benefits offered by the District, and note disclosures to describe the OPEB plan, funding status and progress, and actuarial methods and assumptions. The Statement further requires that the District obtain an actuarial valuation of its OPEB plan at least biennially since, at June 30, 2009, its plan had 336 plan members, exceeding the minimum 100-member plan requirement for the actuarial study. Certain Actuarial Standards of Practice (ASOPs) must guide preparation of the actuarial study, according to the Statement. For example, Section 3.1.5 of the *Introduction to the Actuarial Standards of Practice, October 2008*, provides, in part, that actuarial standards should be used by actuaries who have the necessary education and experience to understand and apply them, and other individuals should consider obtaining the advice of a qualified actuary before making use of or otherwise relying upon the ASOPs. However, contrary to these requirements, District personnel did not obtain an actuarial valuation, but elected to calculate the liability and related information using the alternative measurement method permitted by the Statement for employers in plans with fewer than 100 plan members.

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

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

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Federal Awards Finding No. 1:
Federal Agency: United States Department of Agriculture and United States Department of Education
Pass-Through Entity: Florida Department of Education
Programs: Child Nutrition Cluster (CFDA Nos. 10.553 and 10.555); Special Education – Preschool Grants (CFDA No. 84.173); and Twenty-First Century Community Learning Centers (CFDA No. 84.287)
Finding Type: Noncompliance and Significant Deficiency
Questioned Costs: \$19,008.53 (CFDA 84.173)

Allowable Costs/Cost Principles – Documentation of Time and Effort. Enhancements were needed in District procedures for documenting salaries and benefits charged to the Special Education, Twenty-First Century Community

Learning Centers, and Child Nutrition Cluster programs. The United States Office of Management and Budget *Circular A-87* provides that charges to Federal awards for salaries and wages be based on payrolls documented in accordance with generally accepted practices of the governmental unit and approved by a responsible official of the governmental unit. Where employees are expected to work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by monthly personnel activity reports or equivalent documentation. These reports must reflect an after-the-fact distribution of the actual activity of each employee and must be signed by the employee. Where employees are expected to work solely on a single Federal award or cost objective, charges for salaries and wages are to be supported by periodic certifications, prepared at least semiannually, that the employees worked solely on that program for the period of the certification.

Our tests of salaries and benefits charged to the Special Education program for ten employees, totaling \$170,155.85, disclosed that enhancements were needed for maintaining documentation for two employees, as follows:

- In June 2009, the District reallocated one employee's salary and benefit expenditures to the Special Education preschool program. However, per inquiry with District staff, this employee did not begin work in the Special Education program until January 2009, when the employee became a Special Education preschool aide. Additionally, personnel activity reports completed monthly from January through June 2009 documented that the employee only provided 50 percent of her time and effort for the Special Education Preschool program, resulting in salary and benefit costs, totaling \$19,008.53, which represent questioned costs subject to disallowance by the grantor.

Additionally, our testing of 4 employees who had salary and benefit costs totaling \$143,685.85 from the Twenty-First Century Community Learning Centers program, and 11 employees who had salary and benefit costs totaling \$121,089.38 from the Child Nutrition Cluster program, disclosed that enhancements were needed for maintaining documentation for 7 employees, as follows:

- The District paid \$143,685.85 in salaries and benefits to four site coordinators for the Twenty-First Century Community Learning Centers program, representing approximately 72 percent of each employee's salaries and benefits. Because the employees misunderstood how to properly document time and effort, their personnel activity reports indicated that 60 percent of time and effort was expended on program activities and 12 percent was related to the General Fund. Audit review of other records provided by the grant coordinator, such as staffing schedules, disclosed that the effort of the employees was consistent with the costs charged to the program, contrary to the information provided on the personnel activity reports.
- Two employees were each funded approximately 50 percent and one employee was funded approximately 35 percent for salaries and benefits from the District's School Food Service program, which receives funding from the Child Nutrition Cluster program. Salaries and benefits charged to the School Food Service program for these three employees during the 2008-09 fiscal year totaled \$75,997.61. Our review disclosed that, due to an oversight, the District did not obtain required personnel activity reports for these employees documenting the actual time spent working on program and nonprogram activities. However, we were able to satisfy ourselves by interviewing and observing District employees, and by reviewing other records, such as staff assignments, that the effort of the employees was consistent with the costs charged to the program.

When personnel activity reports or other evidence to delineate the job responsibilities and work activities are not properly maintained to support all payroll expenditures charged to Federal programs, there is an increased risk that salary and benefits costs could be inappropriately charged to a Federal program.

Recommendation: The District should enhance procedures to provide for periodic personnel activity reports for employees who work on multiple activities or cost objectives. Also, the District should document the allowability of the questioned costs, totaling \$19,008.53, to the grantor (Florida Department of Education) or restore these costs to the Special Education Program.

District Contact Persons: Donnita Butorac, Exceptional Student Services Administrator; Jean West, Personnel Services Administrator; and Gil Anderson, Transportation, Food, and Vocational Services Administrator

Federal Awards Finding No. 2:

Federal Agency: United States Department of Agriculture

Pass-Through Entity: Florida Department of Education

Program: Child Nutrition Cluster (CFDA Nos. 10.553 and 10.555)

Finding Type: Noncompliance and Significant Deficiency

Questioned Costs: Not Applicable

Eligibility and Special Tests and Provisions – Verifications. Title 7, Section 245.6, Code of Federal Regulations, provides application and other documentation requirements for a child to qualify for meals served free or at a reduced price under the School Breakfast and National School Lunch programs. Further, Public Law 108-265 provides, in part, that the District must verify the household income of the lesser of 3,000 or 3 percent of the free and reduced price applications approved as of October 1 of the school year. Before performing the verification process, someone other than the individual making the initial eligibility determination must review the application for accuracy. In addition, effective July 2008, Public Law 108-265 requires the District to directly certify students who are members of households receiving food stamp assistance as eligible for free lunches without further application. A United States Department of Agriculture memorandum dated November 19, 2004, provides that the basic sample must generally be drawn from error-prone applications defined as within \$1,200 of the annual or \$100 of the monthly income limit for free or reduced price meal eligibility, and the District selected this sampling method.

We reviewed District records for Bonifay Elementary School (BES) and Holmes County High School (HCHS), and made inquiries to determine whether the District designed and implemented procedures to effectively monitor and verify the eligibility of students receiving free and reduced price meals, and noted the following control deficiencies:

- Although procedures were in place to perform a verification of free and reduced price meal applications, no one other than the individual making the initial eligibility determination reviewed the applications for accuracy, contrary to Federal law. An independent review of the applications may help the District in determining the meal status of students and ensuring that schools provide free and reduced price meals only to those eligible.
- District personnel did not directly certify students as eligible for free meals who were members of households receiving food stamp assistance during the 2008-09 fiscal year, contrary to the above law. Subsequent to our inquiries, the District's food service administrator contacted the Florida Department of Education and obtained a list, dated March 11, 2009, of school-age children residing in the District who received food stamp assistance. Our comparison of this list to the student meal rosters, dated March 12, 2009, for BES and HCHS, disclosed 18 students who were eligible for free meals because they received food stamp assistance, but did not receive such meals (3 students classified as reduced price status and 15 students classified as full price status). Without directly certifying such students, the risk increases that those students may not receive the benefit of free meals.

- Because the District did not directly certify, as eligible for free meals, students who received food stamp assistance, the free and reduced price meal applications of those students were mistakenly included in the sample population of those verified. BES and HCHS personnel selected 3 percent of all approved applications at their schools based on reported income and 0.5 percent of all applications on file that were approved based on a food stamp assistance case number, although the above regulations require the sample selection from only error-prone applications. The flaws in the verification process occurred because District staff were unaware of the current laws and regulations relating to the verification procedures and were relying on outdated guidance. Consequently, by following the District's approach, the sample selection was incorrect, potentially decreasing the chances of selecting applications containing errors.
- While BES personnel maintained records of the free and reduced price meal verification process, personnel at HCHS indicated that records were misplaced and could not be provided to support the applications verified at that school. While HCHS personnel were able to provide a summary document, indicating that they verified supporting documentation for a sample of six free and reduced price meal applications, we could not verify that the HCHS review was properly performed without the detailed supporting records.

Recommendation: The District should enhance its procedures to independently review the accuracy of meal applications, ensure that students receiving food stamp assistance are directly certified to receive free meals, perform meal application verifications pursuant to Federal requirements, and maintain records of the verification process.

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

Federal Awards Finding No. 3:

Federal Agency: United States Department of Education

Pass-Through Entity: Florida Department of Education

Program: ARRA: Title I Grants to Local Educational Agencies, Recovery Act (CFDA No. 84.389)

Finding Type: Noncompliance and Significant Deficiency

Questioned Costs: Not Applicable

Cash Management. Improvements were needed in the District's procedures for forecasting Federal cash needs. The District received advances of Federal cash to fund expenditures of the Federal grants received through the Florida Department of Education (FDOE). Title 34, Section 80.20(b)(7), Code of Federal Regulations (CFR), establishes prerequisites for cash advances that include a requirement that the District adopt procedures which minimize the time elapsing between the drawdown of cash from the State and its disbursement by the District. Additionally, fiscal and program accountability guidance published by FDOE indicates that Federal project recipients, in accordance with the Cash Management Improvement Act (CMIA), should not request cash more than three business days from the anticipated date of disbursement.

We noted that the District requested and received \$125,000 in Federal funds from an ARRA Title I award on June 26, 2009, however, no expenditures or encumbrances were reported for this project as of June 30, 2009. We extended our review of the Federal cash advances received through FDOE to fund this program subsequent to June 30, 2009, by comparing available cash (the monthly beginning cash balance plus draws) to subsequent disbursements. This comparison indicated that no expenditures were reported for this project until September 17, 2009. District staff indicated that the excessive Federal cash balance was because management deferred expenditures that they originally planned to make earlier. Failure by the District to properly monitor and manage Federal cash needs increases the risk

for noncompliance with Federal regulations and, as specified by Title 34, Section 80.21, CFR, could result in the termination of the advance cash payments to the District.

Recommendation: The District should strengthen its cash management procedures, as necessary, to ensure that Federal cash balances are kept at appropriate levels.

District Contact Person: Larry Hawkins, Director of Financial Services

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. 2009-143.

MANAGEMENT’S RESPONSE

Management’s response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

*HOLMES COUNTY
DISTRICT SCHOOL BOARD
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2009*

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 (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.	Corrected	
2008-116 (3) and 2009-143 (3)	Special Education - Grants to States (CFDA No. 84.027) / Suspension and Debarment	The District had not developed procedures to timely determine whether vendors were suspended or debarred from receiving Federal funds.	Corrected	
2008-116 (4) and 2009-143 (2)	Child Nutrition Cluster (CFDA Nos. 10.553 and 10.555) / Procurement - Contract Administration	Certain contracts lacked required contractual provisions, contrary to Federal regulations.	Corrected	
2009-143 (1)	Twenty-First Century Community Learning Centers (CFDA No. 84.287) / Matching	The District had not developed procedures to properly document matching requirements for the Twenty-First Century program resulting in questioned costs of \$95,200, which could be subject to disallowance by the grantor.	Partially corrected	District personnel have requested that the grantor make a determination concerning the allowability of the questioned costs.

EXHIBIT A
MANAGEMENT'S RESPONSE



Holmes District School Board
701 Pennsylvania Avenue
Bonifay, FL 32425

SUPERINTENDENT
Gary Galloway
TEL (850) 547-9341

BOARD MEMBERS
Rickey Callahan, Chairman
Gary Scott, Vice Chairman
Vernon Lewis
Anthony Register
Jason Motley

March 2, 2010

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, 2009.

- The district expects to improve financial reporting by adherence to presentation
- The district has not in retrospect nor expects any prospective adverse experience for failure to procure external professional services for determining the district's other post employment benefits liability. However, the district will evaluate the cost benefit ratio for retaining an actuary.
- The district has in practice utilized time and effort personnel activity report documentation; however, our procedures will be enhanced to ensure that documents are properly maintained to support all payroll expenditures charged to Federal programs.
- Additional guidance has been provided to district personnel resulting in an enhancement in the reliability of food service meal verification process and insuring the inclusiveness of those eligible for participation in the food service program pursuant to federal requirements.
- The district will improve procedures for requesting federal cash advance in the future.

If you have questions or concerns, please advise.

Sincerely,

Gary Galloway
Superintendent of Schools

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