REPORT NO. 2012-157
MARCH 2012

BAY COUNTY
DISTRICT SCHOOL BOARD

Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended
June 30, 2011

STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD MEMBERS AND SUPERINTENDENT

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

	District No.
Pat Sabistan to 11-15-10	1
Joe Wayne Walker from 11-16-10	1
Ryan Neves, Chair from 11-16-10	2
Ginger Littleton, Chair to 11-15-10	3
Jerry L. Register, Vice Chair from 11-16-10	4
Donna Allen to 11-15-10, Vice Chair	5
Steve Moss from 11-16-10	5

William V. Husfelt, III, Superintendent

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

The audit team leader was Pamela L. Thompson, CPA, and the audit was supervised by Patricia S. Crutchfield, CPA. For the information technology portion of this audit, the audit team leader was Rebecca Ferrell, CISA, and the supervisor was Heidi Burns, 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) 487-9175; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

BAY COUNTY DISTRICT SCHOOL BOARD
TABLE OF CONTENTS

PAGE NO.

EXECUTIVE SUMMARY i

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS 1

MANAGEMENT'S DISCUSSION AND ANALYSIS 3

BASIC FINANCIAL STATEMENTS

- Statement of Net Assets 10
- Statement of Activities 12
- Balance Sheet – Governmental Funds 14
- Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets 16
- Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds 18
- Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities 20
- Statement of Net Assets – Proprietary Funds 21
- Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds 22
- Statement of Cash Flows – Proprietary Funds 23
- Statement of Fiduciary Assets and Liabilities – Fiduciary Funds 24
- Notes to Financial Statements 25

OTHER REQUIRED SUPPLEMENTARY INFORMATION

- Budgetary Comparison Schedule – General and Major Special Revenue Funds 52
- Schedule of Funding Progress – Other Postemployment Benefits Plan 54
- Notes to Required Supplementary Information 55

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS 56

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* 58

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 60

SCHEDULE OF FINDINGS AND QUESTIONED COSTS 63

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS 85

EXHIBIT A MANAGEMENT'S RESPONSE 86

EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

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

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

SIGNIFICANT DEFICIENCY

Finding No. 1: Financial reporting procedures could be improved to ensure that information is properly reported on the financial statements.

ADDITIONAL MATTERS

Finding No. 2: Controls over electronic funds transfers could be enhanced.

Finding No. 3: Performance assessments of instructional personnel and school administrators were not based primarily on student performance, contrary to Section 1012.34(3), Florida Statutes (2010).

Finding No. 4: The Board had not adopted formal policies and procedures for documenting the differentiated pay process of instructional personnel and school-based administrators using the factors prescribed in Section 1012.22(1)(c)4., Florida Statutes (2010).

Finding No. 5: Controls over facilities construction and maintenance activities could be enhanced.

Finding No. 6: Improvements were needed in controls over monitoring construction management and subcontractor services.

Finding No. 7: Controls over food service a la carte and adult meal sales could be improved.

Finding No. 8: The District's procedures for reviewing information technology (IT) access privileges needed enhancement as some inappropriate or unnecessary access privileges existed within the District.

Finding No. 9: The District did not timely deactivate IT network and application access privileges of some former employees.

Finding No. 10: The District had not developed a written, comprehensive IT risk assessment.

Finding No. 11: The District had not developed a written IT security incident response plan.

Finding No. 12: The District's IT security controls related to user authentication and data loss prevention needed improvement.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Child Nutrition Cluster; Title I, Part A Cluster; Special Education Cluster; Student Financial Assistance Cluster; Charter Schools; State Fiscal Stabilization Fund Cluster; Race-to-the-Top Incentive Grants; and Education Jobs Fund programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that could have a direct and material effect on each of its major Federal programs, except for the Student Financial Assistance Cluster and Charter Schools programs. Noncompliance and control deficiency findings are summarized below.

Federal Awards Finding No. 1: Controls were not adequate over the Federal Pell and Direct Student Loans programs, resulting in $45,109 of questioned costs.

Federal Awards Finding No. 2: Controls were not adequate over Federal funds passed through to the District's charter schools, resulting in $229,114 of questioned costs.

Federal Awards Finding No. 3: Required documentation to support personnel charges totaling $39,390 and $52,675 for the Child Nutrition Cluster and Race-to-the-Top programs, respectively, were not maintained, contrary to Federal regulations.

Audit Objectives and Scope

Our audit objectives were to determine whether the Bay County District School Board and its officers with administrative and stewardship responsibilities for District operations had:

- **Presented the District's basic financial statements in accordance with generally accepted accounting principles;**
- **Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements or on a major Federal program;**
- **Established internal controls that promote and encourage: 1) compliance with applicable laws, rules, regulations, contracts, and grant agreements; 2) the economic and efficient operation of the District; 3) the reliability of records and reports; and 4) the safeguarding of District assets;**
- **Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements, and those applicable to the District's major Federal programs; and**
- **Taken corrective actions for findings included in our report No. 2011-138.**

The scope of this audit included an examination of the District's basic financial statements and the Schedule of Expenditures of Federal Awards as of and for the fiscal year ended June 30, 2011. We obtained an understanding of the District's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements and Federal awards. We also examined various transactions to determine whether they were executed, both in manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

Audit Methodology

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

AUDITOR GENERAL
STATE OF FLORIDA

G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450

DAVID W. MARTIN, CPA
AUDITOR GENERAL

PHONE: 850-488-5534
FAX: 850-488-6975

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, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Bay County District School Board, as of and for the fiscal year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the District's charter schools, Tom P. Haney Education Foundation, Inc., and Bay Education Foundation, Inc., which represent 99 percent of the assets, 100 percent of the liabilities, 99 percent of the net assets, 99 percent of the revenues, and 100 percent of the expenses of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the charter schools, Tom P. Haney Education Foundation, Inc., and Bay Education Foundation, Inc., is based on the reports 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. The financial statements of Tom P. Haney Education Foundation, Inc., were not audited in accordance with *Government Auditing Standards*. 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 reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information for the Bay County District School Board as of June 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of the Bay County District School Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

Respectfully submitted,

David W. Martin, CPA
March 22, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Bay County District School Board has prepared the following discussion and analysis to (a) assist the reader in focusing on significant financial issues; (b) provide an overview and analysis of the District's financial activities; (c) identify changes in the District's financial position; (d) identify material deviations from the approved budget; and (e) highlight significant issues in individual funds.

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.

FINANCIAL HIGHLIGHTS

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

- The District's total net assets decreased $1,289,211.54, which represents a 0.50 percent decrease from the 2009-10 fiscal year.
- During the current fiscal year, General Fund revenues and other financing sources exceeded expenditures by $5,687,537.62. This may be compared to last fiscal year's results in which General Fund revenues and other financing sources exceeded expenditures by $13,367,885.04.
- At the end of the fiscal year, the fund balance of the General Fund was $28,963,915.43 or 16.69 percent of the General Fund expenditures compared to the previous fiscal year's fund balance of $23,276,377.81 or 13.89 percent of the General Fund expenditures. This increase is mainly due to the District building reserves to help overcome an anticipated revenue shortfall for the 2011-12 fiscal year.
- The District passed a half-cent sales tax to be levied for the next ten calendar years. These funds will be used to renovate schools and purchase technology.

NON-FINANCIAL EVENTS

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

- During the 2010-11 school year, four new charter schools opened in the District. These schools are being operated by two other charter school companies that currently have charters with the District.
- Deerpoint Elementary School opened as a K-5 elementary school for the 2010-11 school year.

OVERVIEW OF FINANCIAL STATEMENTS

The basic financial statements consist of three components:

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

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

Government-wide Financial Statements

The government-wide financial statements provide both short-term and long-term information about the District's overall financial condition in a manner similar to those of a private-sector business. The statements include a statement of net assets and a statement of activities that are designed to provide consolidated financial information about the governmental and business-type activities of the District presented on the accrual basis of accounting. The

statement of net assets provides information about the District's financial position, its assets and liabilities, using an economic resources measurement focus. The difference between the assets and liabilities, the net assets, is a measure of the District's financial health. The statement of activities presents information about the change in the District's net assets, the results of operations, during the fiscal year. An increase or decrease in net assets is an indication of whether the District's financial health is improving or deteriorating.

The government-wide statements present the District's activities in the following categories:

- Governmental activities – This represents most of the District's services, including its educational programs: basic, vocational, adult, and exceptional education. Support functions such as transportation and administration are also included. Local property taxes and the State's education finance program provide most of the resources that support these activities.
- Business-type activities – These activities account for the financial resources of the Beacon Learning Center which provides services predominantly for other districts.
- Component units – The District's foundations (the Bay Education Foundation, Inc., the Tom P. Haney Education Foundation, Inc., and Bay Communications Foundation, Inc.) and charter schools (the Bay Haven Charter Academy, Inc., d/b/a Bay Haven Charter Academy Elementary School, Bay Haven Charter Academy Middle School, North Bay Haven Charter Elementary School, North Bay Haven Charter Middle School, and North Bay Haven Charter Career Academy; the Chautauqua Charter School, Inc., d/b/a Chautauqua Learn and Serve Charter School; and NewPoint Bay, Inc. d/b/a NewPoint Bay Academy and NewPoint Bay Charter High School) are reported as discretely presented component units. Although legally separate organizations, the component units are included in this report because they meet the criteria for inclusion provided by generally accepted accounting principles.

  The Bay County Educational Facilities Finance Corporation (Corporation), although also a legally separate entity, was formed to facilitate financing for the acquisition of facilities and equipment for the District. Due to the substantive economic relationship between the District and the Corporation, the financial activities of the Corporation are included in the District's financial statements as an integral part of the primary government.

Fund Financial Statements

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

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

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

governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation of governmental funds to governmental activities.

The governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances provide detailed information about the District's most significant funds. The District's major funds are the General Fund, Special Revenue – Federal Economic Stimulus Fund, Debt Service – Other 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.

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

Proprietary Funds: Proprietary funds may be established to account for activities in which a fee is charged for services. Two types of proprietary funds are maintained:

- Enterprise funds are used to report the same functions as business-type activities in the government-wide financial statements. Enterprise Funds are appropriate for activities in which a fee is charged to external users of the District's goods and services. The District uses an enterprise fund to account for the financial activities of the Beacon Learning Center which provides educational services for a fee to individuals, public and private entities, and district school boards.
- Internal service funds are used to report activities that provide goods and services to support the District's other programs and functions through user charges. The District uses an internal service fund to account for its self-insurance fund. Since these services predominantly benefit governmental rather than business-type functions, the internal service funds have been included within governmental activities in the government-wide financial statements.

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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. The following is a summary of the District's net assets as of June 30, 2011, compared to net assets as of June 30, 2010:

Net Assets, End of Year

	Governmental Activities		Business-Type Activities		Total	
	6-30-11	6-30-10	6-30-11	6-30-10	6-30-11	6-30-10
Current and Other Assets	$ 92,227,053.68	$ 57,117,324.23	$ 2,358,932.39	$ 1,875,784.18	$ 94,585,986.07	$ 58,993,108.41
Capital Assets	322,747,912.14	337,727,293.14	55,677.53	70,416.83	322,803,589.67	337,797,709.97
Total Assets	414,974,965.82	394,844,617.37	2,414,609.92	1,946,201.01	417,389,575.74	396,790,818.38
Long-Term Liabilities	152,934,346.09	128,140,009.56	118,866.34	160,702.86	153,053,212.43	128,300,712.42
Other Liabilities	7,116,864.28	10,110,171.90	468,418.95	339,642.44	7,585,283.23	10,449,814.34
Total Liabilities	160,051,210.37	138,250,181.46	587,285.29	500,345.30	160,638,495.66	138,750,526.76
Net Assets:						
Invested in Capital Assets - Net of Related Debt	222,648,205.35	235,227,042.53	55,677.53	70,416.83	222,703,882.88	235,297,459.36
Restricted	8,133,085.23	6,717,925.75			8,133,085.23	6,717,925.75
Unrestricted	24,142,464.87	14,649,467.63	1,771,647.10	1,375,438.88	25,914,111.97	16,024,906.51
Total Net Assets	$ 254,923,755.45	$ 256,594,435.91	$ 1,827,324.63	$ 1,445,855.71	$ 256,751,080.08	$ 258,040,291.62

The largest portion of the District's net assets 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 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the government's ongoing obligations to students, employees, and creditors.

The key elements of the changes in the District's net assets for the fiscal years ended June 30, 2011, and June 30, 2010, are as follows:

Operating Results for the Fiscal Year Ended

	Governmental Activities		Business-Type Activities		Total	
	6-30-11	6-30-10	6-30-11	6-30-10	6-30-11	6-30-10
Program Revenues:						
Charges for Services	$ 7,415,183.28	$ 7,151,570.84	$ 1,711,414.84	$ 1,647,972.71	$ 9,126,598.12	$ 8,799,543.55
Operating Grants and Contributions	7,223,765.56	6,994,388.61			7,223,765.56	6,994,388.61
Capital Grants and Contributions	2,276,452.94	1,444,915.41			2,276,452.94	1,444,915.41
General Revenues:						
Property Taxes, Levied for Operational Purposes	102,483,644.66	108,308,086.98			102,483,644.66	108,308,086.98
Property Taxes, Levied for Capital Projects	14,676,467.50	20,001,425.31			14,676,467.50	20,001,425.31
Local Sales Taxes	4,681,959.11				4,681,959.11	
Grants and Contributions Not Restricted to Specific Programs	106,536,079.17	95,179,174.62			106,536,079.17	95,179,174.62
Unrestricted Investment Earnings	406,701.28	1,368,678.63		3,363.39	406,701.28	1,372,042.02
Miscellaneous	2,285,704.33	6,065,461.38			2,285,704.33	6,065,461.38
Total Revenues	247,985,957.83	246,513,701.78	1,711,414.84	1,651,336.10	249,697,372.67	248,165,037.88
Functions/Program Expenses:						
Instruction	132,460,680.05	126,819,014.92			132,460,680.05	126,819,014.92
Pupil Personnel Services	8,290,339.51	7,542,916.49			8,290,339.51	7,542,916.49
Instructional Media Services	3,025,781.23	3,101,866.78			3,025,781.23	3,101,866.78
Instruction and Curriculum Development Services	5,749,390.98	5,771,718.62			5,749,390.98	5,771,718.62
Instructional Staff Training Services	2,002,638.77	2,325,743.84			2,002,638.77	2,325,743.84
Instruction Related Technology	2,030.36	5,296.85			2,030.36	5,296.85
School Board	2,294,436.34	1,499,883.88			2,294,436.34	1,499,883.88
General Administration	1,192,941.17	1,188,518.41			1,192,941.17	1,188,518.41
School Administration	13,438,859.38	12,700,982.71			13,438,859.38	12,700,982.71
Facilities Acquisition and Construction	3,585,803.92	3,543,351.96			3,585,803.92	3,543,351.96
Fiscal Services	1,720,130.93	1,668,144.67			1,720,130.93	1,668,144.67
Food Services	10,296,737.08	10,151,399.75			10,296,737.08	10,151,399.75
Central Services	2,234,864.55	1,750,431.89			2,234,864.55	1,750,431.89
Pupil Transportation Services	9,157,557.96	8,538,360.81			9,157,557.96	8,538,360.81
Operation of Plant	15,547,974.41	15,380,043.18			15,547,974.41	15,380,043.18
Maintenance of Plant	4,661,576.40	4,566,254.82			4,661,576.40	4,566,254.82
Administrative Technology Services	3,017,432.10	2,857,075.11			3,017,432.10	2,857,075.11
Community Services	3,300,959.45	2,875,504.66			3,300,959.45	2,875,504.66
Unallocated Interest on Long-Term Debt	5,300,080.87	4,964,311.59			5,300,080.87	4,964,311.59
Unallocated Depreciation Expense	22,376,422.83	21,380,213.26			22,376,422.83	21,380,213.26
Beacon Learning Center			1,329,945.92	1,335,928.98	1,329,945.92	1,335,928.98
Total Functions/Program Expenses	249,656,638.29	238,631,034.20	1,329,945.92	1,335,928.98	250,986,584.21	239,966,963.18
Increase (Decrease) in Net Assets	$ (1,670,680.46)	$ 7,882,667.58	$ 381,468.92	$ 315,407.12	$ (1,289,211.54)	$ 8,198,074.70

Grants and contributions not restricted to specific programs in the governmental activities increased $11,356,904.55, or 11.93 percent, due mainly to an increase in Federal Economic Stimulus Funds of approximately $4,200,000 and an increase in Florida Education Finance Program funding of approximately $4,700,000.

Property taxes in total declined $11,149,400.13, or 8.69 percent, due to a decrease in property values coupled with a decrease in the overall millage rate.

The increase in the local sales taxes is due to a half-cent discretionary sales surtax sales tax which was approved by voters in the 2010-11 fiscal year. The District started collecting the sales tax revenue in January 2011.

Instruction expenses represent 53.06 percent of total governmental expenses in the 2010-11 fiscal year. Instruction expenses increased by $5,641,665.13, or 4.45 percent, over the previous fiscal year due mainly to an increase in the District's charter schools State and Federal Funding and staffing increases for class size requirements.

Business-type activities charges for services remained consistent with the prior fiscal year due to continued sales of in-house created products. With revenues consistent and minimal expense changes, net assets increased similar to the prior fiscal year.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Major Governmental Funds

The General Fund is the District's chief operating fund. At the end of the current fiscal year, unassigned fund balance is $26,275,852.24, while the total fund balance is $28,963,915.43. The total fund balance increased by $5,687,537.62 during the fiscal year, primarily due to the receipt of Education Jobs Funds of approximately $5,100,000, which was used to pay for some salaries and benefits normally paid from the General Fund.

The Special Revenue – Federal Economic Stimulus Fund has a zero fund balance. 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 accounts for the payment of principal and interest of the District's Certificates of Participation (COPs) and Notes Payable and has a total fund balance of $25.88.

The Capital Projects – Local Capital Improvement Fund has a total fund balance of $2,249,726.11 of which $1,344,909 has been encumbered for specific projects. The fund balance decreased $2,069,646.22 primarily because the fund paid property and casualty insurance premiums by a $2,004,572.82 transfer to the internal service fund.

The Capital Projects – Other Fund has a total fund balance of $32,940,187.43, which is an increase of $32,500,025.24 over the prior fiscal year. The fund balance increase is primarily because proceeds of $30,105,500 were received from a loan note.

Proprietary Funds

Unrestricted net assets of the internal service fund total $6,112,571.34 at June 30, 2011. These net assets increased by $1,276,411.92 primarily due to a decrease in insurance premiums and purchased services expenses.

Unrestricted net assets of the Enterprise Fund – Beacon Learning Center total $1,771,647.10 at June 30, 2011, an increase of $396,208.22. This increase occurred primarily because of an increase in charges for services and a decline in expenses.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the 2010-11 fiscal year, the District amended its General Fund budget several times, which resulted in an increase in total budgeted appropriations amounting to $2,827,807.15, or 1.47 percent. At the same time, final budgeted revenues and other financing sources were more than the original amounts by $2,885,680.91, or 1.65 percent. Budget revisions were due primarily to changes in estimated State funding levels and corresponding adjustments to planned expenditures to ensure maintenance of an adequate fund balance.

Actual revenues were $2,191,784.61 more than the final budgeted amounts, while actual expenditures were $21,715,751.88 less than final budget amounts. Positive budget variances occurred in all functions. The actual ending fund balance exceeded the estimated fund balance contained in the final amended budget by $23,094.291.67 due to continued cost savings and reserves designed to help the District offset expected revenue shortfalls in the 2011-12 fiscal year.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets for its governmental and business-type activities as of June 30, 2011, amounts to $322,747,912.14 and $55,677.53, respectively (net of accumulated depreciation). This investment in capital assets includes land; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; construction in progress; and audio visual materials and computer software.

Additional information on the District's capital assets can be found in Notes 4 and 18, respectively, to the financial statements.

Long-Term Debt

At June 30, 2011, the District has total long-term debt outstanding of $130,726,871.09. This amount is comprised of $102,371.09 of installment-purchases payable; $4,835,000.00 of bonds payable; $30,105,500.00 of note payable; and $95,684,000.00 of certificates of participation (COPs) payable.

During the 2010-11 fiscal year, the District issued Refunding COPs, Series 2010, in the amount of $37,090,000 to refund the outstanding Refunding COPs, Series 1999. Also, the District borrowed $30,105,500 to be used for renovations and technology upgrades at various schools within the District.

Additional information on the District's long-term debt can be found in Notes 6 through 11 to the financial statements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Bay County District School Board's finances. Questions concerning information provided in the report or requests for additional financial information should be addressed to the Manager of Financial Services, Bay County District School Board, 1311 Balboa Avenue, Panama City, FL 32401.

BASIC FINANCIAL STATEMENTS

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

	Primary Government			Component
	Governmental Activities	Business-Type Activities	Total	Units
ASSETS				
Cash and Cash Equivalents	$ 86,768,112.00	$ 2,278,977.73	$ 89,047,089.73	$ 4,034,262.00
Investments - Other	139,941.89		139,941.89	2,481,363.05
Accounts Receivable	1,062.15	87,144.61	88,206.76	34,739.00
Internal Balances	7,189.95	(7,189.95)		
Due from Other Agencies	551,960.00		551,960.00	1,779,337.00
Prepaid Items	1,752,157.79		1,752,157.79	87,466.00
Inventories	1,226,157.38		1,226,157.38	
Investments in Fund B Surplus Funds Trust Fund	1,780,472.52		1,780,472.52	
Property Held for Sale				1,607,751.00
Loan Issuance Costs				157,566.00
Other Assets				118,664.00
Capital Assets:				
Nondepreciable Capital Assets	17,509,801.58		17,509,801.58	860,898.00
Depreciable Capital Assets, Net	305,238,110.56	55,677.53	305,293,788.09	15,179,005.00
TOTAL ASSETS	$ 414,974,965.82	$ 2,414,609.92	$ 417,389,575.74	$ 26,341,051.05
LIABILITIES				
Salaries and Benefits Payable	$	$	$	$ 83,246.00
Payroll Deductions and Withholdings	342,305.89		342,305.89	
Accounts Payable	837,007.63	2,718.62	839,726.25	161,440.00
Construction Contracts Payable - Retainage	24,475.08		24,475.08	
Due to Other Agencies	40,673.04		40,673.04	1,607,259.00
Matured Bonds Payable	6,657.12		6,657.12	
Matured Certificates of Participation Payable	3,702,000.00		3,702,000.00	
Matured Interest Payable	2,100,105.13		2,100,105.13	
Deferred Revenue	63,640.39	465,700.33	529,340.72	
Long-Term Liabilities:				
Portion Due Within One Year	15,142,083.51		15,142,083.51	277,728.00
Portion Due After One Year	137,792,262.58	118,866.34	137,911,128.92	14,426,933.00
Total Liabilities	160,051,210.37	587,285.29	160,638,495.66	16,556,606.00
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	222,648,205.35	55,677.53	222,703,882.88	3,042,092.00
Restricted for:				
State Required Carryover Programs	641,453.90		641,453.90	
Debt Service	139,967.77		139,967.77	
Capital Projects	4,880,812.64		4,880,812.64	
Food Service	2,470,850.92		2,470,850.92	
Other Purposes				835,562.00
Unrestricted	24,142,464.87	1,771,647.10	25,914,111.97	5,906,791.05
Total Net Assets	254,923,755.45	1,827,324.63	256,751,080.08	9,784,445.05
TOTAL LIABILITIES AND NET ASSETS	$ 414,974,965.82	$ 2,414,609.92	$ 417,389,575.74	$ 26,341,051.05

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

THIS PAGE INTENTIONALLY LEFT BLANK.

BAY COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary Government				
Governmental Activities:				
Instruction	$ 132,460,680.05	$ 1,582,149.40	$	$
Pupil Personnel Services	8,290,339.51			
Instructional Media Services	3,025,781.23			
Instruction and Curriculum Development Services	5,749,390.98			
Instructional Staff Training Services	2,002,638.77			
Instruction Related Technology	2,030.36			
School Board	2,294,436.34			
General Administration	1,192,941.17			
School Administration	13,438,859.38			
Facilities Acquisition and Construction	3,585,803.92			1,461,833.01
Fiscal Services	1,720,130.93			
Food Services	10,296,737.08	3,599,033.04	7,223,765.56	
Central Services	2,234,864.55			
Pupil Transportation Services	9,157,557.96	546,725.69		
Operation of Plant	15,547,974.41			
Maintenance of Plant	4,661,576.40			
Administrative Technology Services	3,017,432.10			
Community Services	3,300,959.45	1,687,275.15		
Unallocated Interest on Long-Term Debt	5,300,080.87			814,619.93
Unallocated Depreciation Expense*	22,376,422.83			
Total Governmental Activities	249,656,638.29	7,415,183.28	7,223,765.56	2,276,452.94
Business-Type Activities:				
Beacon Learning Center	1,329,945.92	1,711,414.84		
Total Primary Government	$ 250,986,584.21	$ 9,126,598.12	$ 7,223,765.56	$ 2,276,452.94
Component Units				
Charter Schools/Foundations	$ 16,616,161.00	$ 831,990.00	$ 622,326.00	$ 126,098.00

General Revenues:
Taxes:
Property Taxes, Levied for Operational Purposes
Property Taxes, Levied for Capital Projects
Local Sales Taxes
Grants and Contributions Not Restricted to Specific Programs
Unrestricted Investment Earnings
Miscellaneous
Special Item:
Sale of Equipment

Total General Revenues and Special Item

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

* This amount excludes the depreciation that is included in the direct expenses of the various functions.

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

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-Type Activities	Total	
$ (130,878,530.65)	$	$ (130,878,530.65)	$
(8,290,339.51)		(8,290,339.51)	
(3,025,781.23)		(3,025,781.23)	
(5,749,390.98)		(5,749,390.98)	
(2,002,638.77)		(2,002,638.77)	
(2,030.36)		(2,030.36)	
(2,294,436.34)		(2,294,436.34)	
(1,192,941.17)		(1,192,941.17)	
(13,438,859.38)		(13,438,859.38)	
(2,123,970.91)		(2,123,970.91)	
(1,720,130.93)		(1,720,130.93)	
526,061.52		526,061.52	
(2,234,864.55)		(2,234,864.55)	
(8,610,832.27)		(8,610,832.27)	
(15,547,974.41)		(15,547,974.41)	
(4,661,576.40)		(4,661,576.40)	
(3,017,432.10)		(3,017,432.10)	
(1,613,684.30)		(1,613,684.30)	
(4,485,460.94)		(4,485,460.94)	
(22,376,422.83)		(22,376,422.83)	
(232,741,236.51)		(232,741,236.51)	
	381,468.92	381,468.92	
(232,741,236.51)	381,468.92	(232,359,767.59)	
			(15,035,747.00)
102,483,644.66		102,483,644.66	
14,676,467.50		14,676,467.50	
4,681,959.11		4,681,959.11	
106,536,079.17		106,536,079.17	15,764,501.00
406,701.28		406,701.28	17,790.72
2,285,704.33		2,285,704.33	154,148.00
			66,675.00
231,070,556.05		231,070,556.05	16,003,114.72
(1,670,680.46)	381,468.92	(1,289,211.54)	967,367.72
256,594,435.91	1,445,855.71	258,040,291.62	8,817,077.33
$ 254,923,755.45	$ 1,827,324.63	$ 256,751,080.08	$ 9,784,445.05

BAY COUNTY
DISTRICT SCHOOL BOARD
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2011

	General Fund	Special Revenue - Federal Economic Stimulus Fund	Debt Service - Other Fund
ASSETS			
Cash and Cash Equivalents	$ 28,217,374.57	$ 47,886.97	$ 5,802,131.01
Investments - Other			
Accounts Receivable	1,062.15		
Due from Other Funds	110,238.62	36,813.53	
Due from Other Agencies	217,808.86	51,934.69	
Inventories	969,511.74		
Investments in SBA Fund B Surplus Funds Trust Fund	426,396.66		
TOTAL ASSETS	$ 29,942,392.60	$ 136,635.19	$ 5,802,131.01
LIABILITIES AND FUND BALANCES			
Liabilities:			
Payroll Deductions and Withholdings	$ 293,691.79	$ 38,402.02	$
Accounts Payable	594,188.64	35,818.48	
Construction Contracts Payable - Retainage			
Due to Other Funds	26,956.35	25,350.59	
Due to Other Agencies		37,064.10	
Matured Bonds Payable			
Matured Certificates of Participation Payable			3,702,000.00
Matured Interest Payable			2,100,105.13
Deferred Revenue	63,640.39		
Total Liabilities	978,477.17	136,635.19	5,802,105.13
Fund Balances:			
Nonspendable:			
Inventories	969,511.74		
Investments in SBA Fund B Surplus Funds Trust Fund	426,396.66		
Total Nonspendable Fund Balance	1,395,908.40		
Restricted for:			
State Required Carryover Programs	641,453.90		
Food Service			
Debt Service			
Capital Projects			
Total Restricted Fund Balance	641,453.90		
Assigned to:			
Debt Service			25.88
Future Purchases	650,700.89		
Total Assigned Fund Balance	650,700.89		25.88
Unassigned Fund Balance	26,275,852.24		
Total Fund Balances	28,963,915.43		25.88
TOTAL LIABILITIES AND FUND BALANCES	$ 29,942,392.60	$ 136,635.19	$ 5,802,131.01

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

Capital Projects - Local Capital Improvement Fund	Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
$ 2,073,294.54	$ 31,912,048.13	$ 2,544,570.64	$ 70,597,305.86
		139,941.89	139,941.89
			1,062.15
26,370.00	299,444.87	586.35	473,453.37
10,945.01		271,271.44	551,960.00
		256,645.64	1,226,157.38
458,066.61	786,857.98		1,671,321.25
$ 2,568,676.16	$ 32,998,350.98	$ 3,213,015.96	$ 74,661,201.90
$	$	$ 10,212.08	$ 342,305.89
	53,193.65	153,663.67	836,864.44
19,505.18	4,969.90		24,475.08
299,444.87		110,017.94	461,769.75
		3,608.94	40,673.04
		6,657.12	6,657.12
			3,702,000.00
			2,100,105.13
			63,640.39
318,950.05	58,163.55	284,159.75	7,578,490.84
		256,645.64	1,226,157.38
458,066.61	786,857.98		1,671,321.25
458,066.61	786,857.98	256,645.64	2,897,478.63
			641,453.90
		2,214,205.28	2,214,205.28
		139,941.89	139,941.89
1,791,659.50	32,153,329.45	318,063.40	34,263,052.35
1,791,659.50	32,153,329.45	2,672,210.57	37,258,653.42
			25.88
			650,700.89
			650,726.77
			26,275,852.24
2,249,726.11	32,940,187.43	2,928,856.21	67,082,711.06
$ 2,568,676.16	$ 32,998,350.98	$ 3,213,015.96	$ 74,661,201.90

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

Total Fund Balances - Governmental Funds		$ 67,082,711.06
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.		322,747,912.14
Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		6,112,571.34
Long-term liabilities are not due and payable in the fiscal year and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consist of:		
Installment-Purchase Payable	$ 102,371.09	
Note Payable	30,105,500.00	
Bonds Payable	4,835,000.00	
Certificates of Participation Payable	95,684,000.00	
Compensated Absences Payable	10,252,090.00	
Other Postemployment Benefits Payable	40,478.00	(141,019,439.09)
Total Net Assets - Governmental Activities		$ 254,923,755.45

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

THIS PAGE INTENTIONALLY LEFT BLANK.

BAY COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2011

	General Fund	Special Revenue - Federal Economic Stimulus Fund	Debt Service - Other Fund
Revenues			
Intergovernmental:			
Federal Direct	$ 691,281.98	$	$
Federal Through State and Local	1,079,733.10	18,518,717.73	
State	66,921,304.19		
Local:			
Property Taxes	102,483,644.66		
Local Sales Taxes			
Charges for Services - Food Service			
Miscellaneous	6,131,315.59		50.84
Total Revenues	177,307,279.52	18,518,717.73	50.84
Expenditures			
Current - Education:			
Instruction	108,671,418.71	16,645,829.50	
Pupil Personnel Services	7,119,824.41	207,724.02	
Instructional Media Services	2,882,432.56	85,978.96	
Instruction and Curriculum Development Services	2,158,024.34	240,297.30	
Instructional Staff Training Services	241,152.41	343,749.30	
Instruction Related Technology	1,974.25		
School Board	874,876.99		
General Administration	648,147.60	130,226.61	
School Administration	13,594,109.25		
Facilities Acquisition and Construction	473,161.20		
Fiscal Services	1,735,672.32		
Food Services	37,266.32	6,926.87	
Central Services	1,351,628.71	57,682.95	
Pupil Transportation Services	8,630,415.39	5,869.28	
Operation of Plant	15,491,690.01		
Maintenance of Plant	4,700,324.01		
Administrative Technology Services	3,032,120.01	14,315.56	
Community Services	1,589,906.42		
Fixed Capital Outlay:			
Facilities Acquisition and Construction			
Other Capital Outlay	320,696.47	780,117.38	
Debt Service:			
Principal			3,702,000.00
Interest and Fiscal Charges	4,438.89		4,145,131.89
Total Expenditures	173,559,280.27	18,518,717.73	7,847,131.89
Excess (Deficiency) of Revenues Over Expenditures	3,747,999.25		(7,847,081.05)
Other Financing Sources (Uses)			
Transfers In	1,939,538.37		7,847,103.89
Certificates of Participation Issued			
Discount on Certificates of Participation			
Loans Incurred			
Proceeds from the Sale of Capital Assets			
Payments to Refunded Certificates of Participation Escrow Agent			
Transfers Out			(2.70)
Total Other Financing Sources (Uses)	1,939,538.37		7,847,101.19
Net Change in Fund Balances	5,687,537.62		20.14
Fund Balances, Beginning	23,276,377.81		5.74
Fund Balances, Ending	$ 28,963,915.43	$ 0.00	$ 25.88

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

Capital Projects - Local Capital Improvement Fund	Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
$	$	$ 1,727,220.53	$ 2,418,502.51
	53,506.24	23,996,861.18	43,648,818.25
	7,829.75	3,039,842.97	69,968,976.91
14,676,467.50			117,160,112.16
	4,681,959.11		4,681,959.11
		3,599,033.04	3,599,033.04
23,003.47	239,771.83	268,752.40	6,662,894.13
14,699,470.97	4,983,066.93	32,631,710.12	248,140,296.11
		8,503,199.86	133,820,448.07
		1,064,716.17	8,392,264.60
		92,017.88	3,060,429.40
		3,419,064.62	5,817,386.26
		1,430,449.66	2,015,351.37
		56.11	2,030.36
		1,422,971.01	2,297,848.00
		420,210.60	1,198,584.81
		8,915.47	13,603,024.72
2,805,475.69	312,813.16		3,591,450.05
		3,750.00	1,739,422.32
		10,308,862.93	10,353,056.12
			1,409,311.66
		75,722.68	8,712,007.35
		16,523.67	15,508,213.68
			4,700,324.01
			3,046,435.57
		1,727,220.53	3,317,126.95
2,510,612.98	1,185,502.18	25,286.72	3,721,401.88
1,214,288.70	1,381,158.74	510,231.96	4,206,493.25
203,346.44	235,678.77	560,000.00	4,701,025.21
7,694.56	638,145.14	268,991.92	5,064,402.40
6,741,418.37	3,753,297.99	29,858,191.79	240,278,038.04
7,958,052.60	1,229,768.94	2,773,518.33	7,862,258.07
	235,969.29		10,022,611.55
	37,090,000.00		37,090,000.00
	(352,790.10)		(352,790.10)
	30,105,500.00		30,105,500.00
	55,000.00		55,000.00
	(35,860,000.00)		(35,860,000.00)
(10,027,698.82)	(3,422.89)	(1,990,559.96)	(12,021,684.37)
(10,027,698.82)	31,270,256.30	(1,990,559.96)	29,038,637.08
(2,069,646.22)	32,500,025.24	782,958.37	36,900,895.15
4,319,372.33	440,162.19	2,145,897.84	30,181,815.91
$ 2,249,726.11	$ 32,940,187.43	$ 2,928,856.21	$ 67,082,711.06

BAY COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2011

Net Change in Fund Balances - Governmental Funds		$ 36,900,895.15
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of depreciation expense in excess of capital outlays in the current fiscal year.		(14,979,381.00)
Long-term debt proceeds provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceed repayments in the current fiscal year.		
Note Payable Issuance	$ (30,105,500.00)	
Certificates of Participation Refunding	(37,090,000.00)	
Repayment of Installment-Purchase Payable	203,346.74	
Repayment of Bonds Principal	560,000.00	
Repayment of Certificates of Participation Principal	39,562,000.00	(26,870,153.26)
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 paid in excess of the amount earned in the current period.		1,939,939.73
Other postemployment benefits costs are recorded in the statement of activites under the full accrual basis of accounting, but are not recorded in the governmental funds until paid. This is the net decrease in the other postemployment benefits liability for the current fiscal year.		61,607.00
Internal service funds are used by management to charge the cost of certain activities, such as insurance, to individual funds. The net revenue of internal service funds is reported with governmental activities.		1,276,411.92
Change in Net Assets - Governmental Activities		$ (1,670,680.46)

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

BAY COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET ASSETS -
PROPRIETARY FUNDS
June 30, 2011

	Business-Type Activities - Beacon Learning Center Enterprise Fund	Governmental Activities - Internal Service Fund
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 2,278,977.73	$ 16,170,806.14
Accounts Receivable	87,144.61	
Prepaid Items		1,752,157.79
Total Current Assets	2,366,122.34	17,922,963.93
Noncurrent Assets:		
Investments in SBA Fund B Surplus Funds Trust Fund		109,151.27
Furniture, Fixtures, and Equipment, Net	48,826.17	
Motor Vehicles, Net	2,972.24	
Computer Software, Net	3,879.12	
Total Noncurrent Assets	55,677.53	109,151.27
TOTAL ASSETS	$ 2,421,799.87	$ 18,032,115.20
LIABILITIES		
Current Liabilities:		
Accounts Payable	$ 2,718.62	$ 143.19
Due to Other Funds	7,189.95	4,493.67
Deferred Revenue	465,700.33	
Estimated Insurance Claims Payable		2,850,500.00
Total Current Liabilities	475,608.90	2,855,136.86
Noncurrent Liabilities:		
Compensated Absences Payable	118,866.34	
Estimated Insurance Claims Payable		9,064,407.00
Total Noncurrent Liabilities	118,866.34	9,064,407.00
Total Liabilities	594,475.24	11,919,543.86
NET ASSETS		
Invested in Capital Assets	55,677.53	
Unrestricted	1,771,647.10	6,112,571.34
Total Net Assets	1,827,324.63	6,112,571.34
TOTAL LIABILITIES AND NET ASSETS	$ 2,421,799.87	$ 18,032,115.20

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

BAY COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2011

	Business-Type Activities - Beacon Learning Center Enterprise Fund	Governmental Activities - Internal Service Fund
OPERATING REVENUES		
Charges for Services	$ 1,711,414.84	$ 5,517,777.95
Other Operating Revenues		80,440.55
Total Operating Revenues	1,711,414.84	5,598,218.50
OPERATING EXPENSES		
Salaries	674,906.35	470,868.51
Employee Benefits	210,854.36	210,179.48
Purchased Services	339,487.35	288,777.76
Materials and Supplies	19,813.06	7,701.14
Capital Outlay	12,874.42	2,049.03
Insurance Claims		2,924,806.71
Insurance Premiums		2,404,943.79
Other Expenses	50,726.07	64,614.32
Depreciation	21,284.31	
Total Operating Expenses	1,329,945.92	6,373,940.74
Operating Income (Loss)	381,468.92	(775,722.24)
NONOPERATING REVENUES		
Interest Revenue		53,061.34
Income (Loss) Before Transfers	381,468.92	(722,660.90)
Transfers In		2,004,572.82
Transfers Out		(5,500.00)
Change in Net Assets	381,468.92	1,276,411.92
Total Net Assets - Beginning	1,445,855.71	4,836,159.42
Total Net Assets - Ending	$ 1,827,324.63	$ 6,112,571.34

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

BAY COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2011

	Business-Type Activities - Beacon Learning Center Enterprise Fund	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Services	$ 1,966,308.30	$
Cash Received from Board Funds and Participants		8,617,777.95
Cash Payments to Suppliers for Goods and Services	(426,460.41)	(2,774,800.92)
Cash Payments to Employees for Services	(927,597.23)	(681,047.99)
Cash Payments for Insurance Claims		(2,999,076.71)
Other Operating Receipts		80,440.55
Net Cash Provided by Operating Activities	612,250.66	2,243,292.88
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfer from Other Funds, Net		1,999,072.82
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and Construction of Capital Assets	(6,545.01)	
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of Investments, Net		28,909.14
Interest Income		53,061.34
Net Cash Provided by Investing Activities		81,970.48
Net Increase in Cash and Cash Equivalents	605,705.65	4,324,336.18
Cash and Cash Equivalents, Beginning	1,673,272.08	11,846,469.96
Cash and Cash Equivalents, Ending	$ 2,278,977.73	$ 16,170,806.14

Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:

Operating Income (Loss)	$ 381,468.92	$ (775,722.24)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation	21,284.31	
Changes in Assets and Liabilities:		
Decrease in Accounts Receivable	115,367.49	
Decrease in Due From Other Funds		3,100,000.00
Increase in Prepaid Items		(6,551.68)
Decrease in Accounts Payable	(10,749.46)	(4,656.87)
Increase in Due to Other Funds	7,189.95	4,493.67
Decrease in Compensated Absences	(41,836.52)	
Increase in Deferred Revenue	139,525.97	
Decrease in Estimated Insurance Claims Payable		(74,270.00)
Total Adjustments	230,781.74	3,019,015.12
Net Cash Provided by Operating Activities	$ 612,250.66	$ 2,243,292.88

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

BAY COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - FIDUCIARY FUNDS
June 30, 2011

		Agency Funds
ASSETS		
Cash and Cash Equivalents	$	2,320,876.59
Accounts Receivable		229,972.91
Inventories		78,484.70
TOTAL ASSETS	$	2,629,334.20
LIABILITIES		
Accounts Payable	$	195,633.48
Internal Accounts Payable		2,433,700.72
TOTAL LIABILITIES	$	2,629,334.20

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

➢ Reporting Entity

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

Criteria for determining if other entities are potential component units that should be reported within the District's basic financial statements are identified and described in the Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600. The application of these criteria provides for identification of any entities for which the Board is financially accountable and other organizations for which the nature and significance of their relationship with the Board are such that exclusion would cause the District's basic financial statements to be misleading or incomplete.

Based on the application of these criteria, the following component units are included within the District's reporting entity:

- Blended Component Unit. The Bay County Educational Facilities Finance Corporation (Corporation) was formed to facilitate financing for the acquisition of facilities and equipment as further discussed in Note 8. Due to the substantive economic relationship between the District and the Corporation, the financial activities of the Corporation are included in the accompanying basic financial statements. Separate financial statements for the Corporation are not published.

- Discretely Presented Component Units. The component unit columns in the government-wide financial statements include the financial data of the District's three foundations and eight charter schools.

  The foundations are Bay Education Foundation, Inc., Tom P. Haney Education Foundation, Inc., and Bay Communications Foundation, Inc. The foundations are separate not-for-profit corporations organized and operated as direct-support organizations under Section 1001.453, Florida Statutes, to receive, hold, invest, and administer property and to make expenditures to and for the benefit of the District. Because of the nature and significance of their relationship with the District, the foundations are considered component units.

  The charter schools are Bay Haven Charter Academy, Inc., d/b/a Bay Haven Charter Academy Elementary School, Bay Haven Charter Academy Middle School, North Bay Haven Charter Elementary School, North Bay Haven Charter Middle School, and North Bay Haven Charter Career Academy; the Chautauqua Charter School, Inc., d/b/a Chautauqua Learn and Serve Charter School; and New Point Bay, Inc., d/b/a New Point Bay Academy and New Point Bay Charter High School. The charter schools are not-for-profit corporations organized pursuant to Chapter 617, Florida Statutes, the Florida Not For Profit Corporation Act, and Section 1002.33, Florida Statutes. The District may choose not to renew the charters as specified in the charters, but the District must

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

notify the charter schools in writing at least 90 days prior to the charter's expiration. During the term of the charter, the District may also terminate the charter if good cause is shown. Pursuant to Section 1002.33(8)(e), Florida Statutes, in the event a school is dissolved or terminated, any encumbered funds and all school property purchased with public funds shall automatically revert to the District. The charter schools are considered component units of the District since they are fiscally dependent on the District to levy taxes for its support.

Copies of the separate financial statements for the foundations and charter schools are available at the District's administrative office.

- **Basis of Presentation**

Government-wide Financial Statements - Government-wide financial statements, i.e., the statement of net assets and the statement of activities, present information about the District as a whole. These statements include the nonfiduciary financial activity of the District and its component units. The statements distinguish between governmental activities of the District and those that are considered business-type activities.

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 and for each segment of the business-type 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 associated with the pupil transportation services, central services, and operation of plant functions is allocated to those functions, while remaining depreciation expense 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 or business segment 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, and the net residual amounts between governmental and business-type activities.

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.

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 – Federal Economic Stimulus Fund – to account for certain Federal grant program resources related to the American Recovery and Reinvestment Act (ARRA) and other Federal stimulus programs.

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

- Debt Service – Other Fund – to account for the accumulation of resources for, and the payment of, debt principal, interest, and related costs for the District's certificates of participation and notes payable.
- 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 the financial resources generated by the issuance of certificates of participation, sales tax anticipation note, and the discretionary sales surtax to be used for educational outlay needs, including new construction, renovation and remodeling projects, and technology equipment.

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

- Enterprise Fund – Beacon Learning Center – to account for the financial activities and account balances of the Beacon Learning Center which provides educational services for a fee to individuals, public and private entities, and district school boards.
- Internal Service Fund – to account for the District's self-insurance programs.
- Agency Funds – to account for resources of the school internal funds, which are used to administer moneys collected at several schools in connection with school, student athletic, class, and club activities.

➢ **Basis of Accounting**

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

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

Governmental fund financial statements are prepared using the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made. Under the modified accrual basis of accounting, expenditures are generally recognized when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, other postemployment benefits, and compensated absences, which are recognized when due. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Proprietary funds are accounted for as proprietary activities under standards issued by the Financial Accounting Standards Board through November 1989, and applicable standards issued by the Governmental Accounting Standards Board. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing

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

services and producing and delivering goods in connection with the proprietary funds' principal ongoing operations. The principal operating revenues of the District's enterprise fund are charges for online educational resources and professional development courses. Operating expenses include salaries, benefits, materials, purchased services, capital outlay, and depreciation related to the development of these online educational resources and professional development courses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal operating revenues of the District's internal service funds are charges for property casualty and workers' compensation insurance. Operating expenses include insurance claims, excess coverage premiums, and related operating costs. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

The foundations are accounted for under the not-for-profit basis of accounting and uses the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred.

The charter schools are accounted for as governmental organizations and follow the same accounting model as the District's governmental activities.

- **Deposits and Investments**

The District's cash and cash equivalents are considered to be cash on hand; demand deposits; certificates of deposit; and short-term, highly liquid investments with original maturities of three months or less. Investments classified as cash equivalents include amounts placed with the State Board of Administration (SBA) in Florida PRIME, formerly known as the Local Government Surplus Funds Trust Fund Investment Pool; Hancock Horizon Government Money Market Fund; Federated Government Obligations Fund; and certificates of deposit.

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

Investments consist of amounts placed in SBA Debt Service accounts for investment of debt service moneys; amounts placed with SBA for participation in the Florida PRIME and Fund B Surplus Funds Trust Fund (Fund B) investment pools created by Sections 218.405 and 218.417, Florida Statutes; those held by a trustee pursuant to a trust agreement entered into and restricted as part of the financing agreement for the Certificates of Participation, Series 2004, Series 2007, Series 2008, and Series 2010; and those made locally. The investment pools operate under investment guidelines established by Section 215.47, Florida Statutes.

The District's investments in Florida PRIME, which SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, as of June 30, 2011, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. These investments are reported at fair value, which is amortized cost.

The District's investments in Fund B are accounted for as a fluctuating net asset value pool, with a fair value factor of 0.78965331 at June 30, 2011. Fund B is not subject to participant withdrawal requests. Distributions from Fund B, as determined by SBA, are effected by transferring eligible cash or securities to Florida PRIME, consistent with the pro rata allocation of pool shareholders of record at the creation

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

date of Fund B. One hundred percent of such distributions from Fund B are available as liquid balance within Florida PRIME.

The investments held by the trustee are reported at fair value. The investments made locally consist of certificates of deposit and the Federated Government Obligations Fund, which are reported at fair value. 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 average cost, except that United States Department of Agriculture donated foods are stated at their fair value as determined at the time of donation to the District's food service program by the Florida Department of Agriculture and Consumer Services, Bureau of Food Distribution. The costs of inventories are recorded as expenditures when used rather than purchased.

- **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 $1,000. 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.

Interest costs incurred during construction of capital assets are not considered material and are not capitalized as part of the cost of construction.

Capital assets are depreciated using the unweighted average method over the following estimated useful lives:

Description	Estimated Lives
Improvements Other than Buildings	9 - 37.5 years
Buildings and Fixed Equipment	10 - 50 years
Furniture, Fixtures, and Equipment	3 - 15 years
Motor Vehicles	5 - 10 years
Audio Visual Materials and Computer Software	5 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 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. Governmental fund types recognize debt premiums and discounts, as well as issuance costs, during the current period. The face amount of debt issued is reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance

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

costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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

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

- **State Revenue Sources**

Significant revenues from State sources for current operations include the Florida Education Finance Program administered by the Florida Department of Education (Department) under the provisions of Section 1011.62, Florida Statutes. In accordance with this law, the District determines and reports the number of full-time equivalent (FTE) students and related data to the Department. The Department performs certain edit checks on the reported number of FTE and related data, and calculates the allocation of funds to the District. The District is permitted to amend its original reporting for a period of five months following the date of the original reporting. The Department may also adjust subsequent fiscal period allocations based upon an audit of the District's compliance in determining and reporting FTE and related data. Normally, such adjustments are treated as reductions or additions of revenue in the year when the adjustments are made.

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

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

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

- **District Property Taxes**

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

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

The Board adopted the 2010 tax levy on September 9, 2010. Tax bills are mailed in October and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to 4 percent for early payment.

Taxes become a lien on the property on January 1, and are delinquent on April 1, of the year following the year of assessment. State law provides for enforcement of collection of personal property taxes by seizure of the property to satisfy unpaid taxes, and for enforcement of collection of real property taxes

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

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 Bay 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.

- **Capital Outlay Surtax**

  In November 2010, the voters of Bay County approved a one-half cent school capital outlay surtax on sales in the County for 10 years, effective January 1, 2011, to pay construction costs of certain school facilities and related costs in accordance with Section 212.055(6), Florida Statutes.

- **Federal Revenue Sources**

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

2. BUDGETARY COMPLIANCE AND ACCOUNTABILITY

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

- Budgets are prepared, public hearings are held, and original budgets are adopted annually for all governmental fund types in accordance with procedures and time intervals prescribed by law and State Board of Education rules.
- Appropriations are controlled at the object level (e.g., salaries, purchased services, and capital outlay) within each activity (e.g., instruction, pupil personnel services, and school administration) and may be amended by resolution at any Board meeting prior to the due date for the annual financial report.
- Budgetary information is integrated into the accounting system and, to facilitate budget control, budget balances are encumbered when purchase orders are issued. Appropriations lapse at fiscal year-end and encumbrances outstanding are honored from the subsequent year's appropriations.

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

3. INVESTMENTS

As of June 30, 2011, the District has the following investments and maturities:

Investments	Maturities	Fair Value
State Board of Administration (SBA):		
Florida PRIME (1)(3)	31 Day Average	$ 399,697.96
Fund B Surplus Funds Trust Fund (Fund B) (4)	7.16 Year Average	1,780,472.52
Debt Service Accounts	6 Months	139,941.89
Hancock Horizon Government Money Market Fund (1)(5)	29 Day Average	5,810,857.97
Federated Government Obligations Fund (1)(2)	44 Day Average	3,579,464.08
Certificates of Deposit (1)	July 2011 through March 2015	286,044.86
Total Investments		$ 11,996,479.28

Notes: (1) Investments reported as a cash equivalent for financial statement reporting purposes.
(2) The Federated Government Obligations Fund invests primarily in short-term United States Treasury and government securities.
(3) Florida PRIME investments, totaling $313,324.96, are held under trust agreements pursuant to financing arrangements for the Certificates of Participation, Series 2004 and 2007.
(4) SBA Fund B investments, totaling $786,857.98, are held under trust agreements pursuant to financing arrangements for the Certificates of Participation, Series 2004 and 2007.
(5) The Hancock Horizon Government Money Market Fund invests primarily in obligations issued or guaranteed as to principal and interest by the United States Government or its agencies or instrumentalities, and repurchase agreements secured by such instruments. Shares in this fund are held as investments in the accounts governed by the trust agreements pursuant to the District's issues of Certificates of Participation, Series 2004, 2007, 2008, and 2010.

Interest Rate Risk

- Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Section 218.415(17), Florida Statutes, limits investment maturities to provide sufficient liquidity to pay obligations as they come due. The District's investment policy limits the length of investments as follows: (1) investments of short-term funds shall have maturities of no longer than 12 months, and (2) investments of bond reserves, construction funds, and other nonoperating funds shall have a term appropriate for the need for funds and in accordance with debt covenants, but in no event shall exceed five years. Investments of construction funds that are proceeds of tax-exempt debt issues shall have maturities of no longer than three years. The District's participation in Fund B is involuntary.
- Florida PRIME had a weighted average days to maturity (WAM) of 31 days at June 30, 2011. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the portfolio to interest rate changes. Due to the nature of the securities in Fund B, the interest rate risk information required by GASB Statement No. 40 (i.e. specific identification, duration, weighted average maturity, segmented time distribution, or simulation model) is not available. An estimate of the weighted average life (WAL) is available. In the calculation of the WAL, the time at which an expected principal amount is to be received, measured in years, is weighted by the principal amount received at that time divided by the sum of all expected principal payments. The principal amounts used in the WAL calculation are not discounted to present value as they would be in a weighted average duration calculation. The WAL, based on expected future cash flows, of Fund B at June 30, 2011, is estimated at 7.16 years. However, because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the WAL.

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

Credit Risk

- Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Section 218.415(17), Florida Statutes, limits investments to State Board of Administration (SBA) Local Government Surplus Funds Trust Fund Investment Pool, known as Florida PRIME, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Section 163.01, Florida Statutes; Securities and Exchange Commission (SEC) registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits in qualified public depositories, as defined in Section 280.02, Florida Statutes; and direct obligations of the United States Treasury. The District's investment policy limits investments to those prescribed by Florida Statutes.
- The District's investments in SBA Debt Service accounts are to provide for debt service payments on bond debt issued by the State Board of Education for the benefit of the District. The District relies on policies developed by SBA for managing interest rate risk and credit risk for this account.
- The District's investment in Florida PRIME is rated AAAm by Standard & Poor's. Fund B is unrated.
- The District's investments with Hancock Horizon Government Money Market Fund are rated AAAm by Standard & Poor's. The District's investments in the Federated Government Obligations Fund are rated AAAm by Standard & Poor's and Aaa by Moody's Investors Service.
- The District's investments in certificates of deposit are in qualified public depositories.

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

4. CHANGES IN CAPITAL ASSETS

Changes in capital assets are presented in the table below:

	Beginning Balance	Additions	Deletions	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	$ 16,198,729.20	$	$	$ 16,198,729.20
Construction in Progress	18,103,594.03	1,098,256.63	17,890,778.28	1,311,072.38
Total Capital Assets Not Being Depreciated	34,302,323.23	1,098,256.63	17,890,778.28	17,509,801.58
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	7,961,999.42	428,837.27		8,390,836.69
Buildings and Fixed Equipment	474,519,251.57	20,085,086.26		494,604,337.83
Furniture, Fixtures, and Equipment	28,474,722.17	2,875,350.38	1,416,169.87	29,933,902.68
Motor Vehicles	13,739,637.67	67,540.00	2,112,250.31	11,694,927.36
Audio Visual Materials and Computer Software	4,694,749.06	1,353,993.35		6,048,742.41
Total Capital Assets Being Depreciated	529,390,359.89	24,810,807.26	3,528,420.18	550,672,746.97
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	3,733,480.93	365,052.94		4,098,533.87
Buildings and Fixed Equipment	185,518,876.35	19,335,348.71		204,854,225.06
Furniture, Fixtures, and Equipment	21,335,462.45	2,155,913.91	1,416,169.87	22,075,206.49
Motor Vehicles	11,349,768.12	621,243.79	2,112,250.31	9,858,761.60
Audio Visual Materials and Computer Software	4,027,802.13	520,107.26		4,547,909.39
Total Accumulated Depreciation	225,965,389.98	22,997,666.61	3,528,420.18	245,434,636.41
Total Capital Assets Being Depreciated, Net	303,424,969.91	1,813,140.65		305,238,110.56
Governmental Activities Capital Assets, Net	$ 337,727,293.14	$ 2,911,397.28	$ 17,890,778.28	$ 322,747,912.14

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

	Beginning Balance	Additions	Deletions	Ending Balance
BUSINESS-TYPE ACTIVITIES				
Capital Assets Being Depreciated:				
Furniture, Fixtures, and Equipment	$ 238,257.63	$ 6,545.01	$ 58,064.96	$ 186,737.68
Motor Vehicles	16,367.00			16,367.00
Audio Visual Materials and Computer Software	68,061.74			68,061.74
Total Capital Assets Being Depreciated	322,686.37	6,545.01	58,064.96	271,166.42
Less Accumulated Depreciation for:				
Furniture, Fixtures, and Equipment	178,217.66	17,758.81	58,064.96	137,911.51
Motor Vehicles	11,162.30	2,232.46		13,394.76
Audio Visual Materials and Computer Software	62,889.58	1,293.04		64,182.62
Total Accumulated Depreciation	252,269.54	21,284.31	58,064.96	215,488.89
Total Capital Assets Being Depreciated, Net	70,416.83	(14,739.30)		55,677.53
Business-Type Activities Capital Assets, Net	$ 70,416.83	$ (14,739.30)	$ 0.00	$ 55,677.53

Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Pupil Transportation Services	$ 502,322.01
Operation of Plant	43,507.79
Central Services	75,413.98
Unallocated	22,376,422.83
Total Depreciation Expense - Governmental Activities	$ 22,997,666.61
BUSINESS-TYPE ACTIVITIES	
Beacon Learning Center	$ 21,284.31

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

5. CHANGES IN SHORT-TERM DEBT

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

	Beginning Balance	Additions	Deductions	Ending Balance
GOVERNMENTAL ACTIVITIES				
Tax Anticipation Note	$ 0	$ 5,000,000	$ 5,000,000	$ 0

In October 2010, the District acquired $5,000,000 by issuing a tax anticipation note to meet current operating needs pending receipt of ad valorem (property) tax proceeds. The note was repaid in December 2010 at par plus interest of $4,438.89.

6. INSTALLMENT-PURCHASE PAYABLE

The class and amount of property being acquired under an installment-purchase agreement are as follows:

	Asset Balance
Computer Equipment	$ 599,385

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

Fiscal Year Ending June 30	Total	Principal	Interest
2012	$ 103,456.98	$ 102,371.09	$ 1,085.89

The stated interest rate ranges from 3.0 to 4.9 percent.

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

7. NOTE PAYABLE

The note payable is comprised of the following:

Sales Tax Revenue Anticipation Note, Series D	Balance at June 30
$30,105,500, Borrowed 6-21-11, Under Provisions of Section 1011.14, Florida Statutes. Interest Rate of 1.7 Percent. Proceeds Used for Renovations at Surfside Middle School, Renovations at Callaway Elementary School, and Technology Upgrades at Various Schools. The Board's Intent is to Repay $6,291,624.04 on 6-15-12 and Extend Repayment of the Balance in Four Annual Installments of $6,291,624.04.	$ 30,105,500

Amounts payable for the planned extended repayment of the Section 1011.14, Florida Statutes, bank loan is as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
2012	$ 6,291,624.04	$ 5,825,420.59	$ 466,203.45
2013	6,291,624.07	5,916,446.76	375,177.31
2014	6,291,624.04	6,017,669.35	273,954.69
2015	6,291,624.04	6,120,623.75	171,000.29
2016	6,291,624.04	6,225,339.55	66,284.49
Total	$ 31,458,120.23	$ 30,105,500.00	$ 1,352,620.23

8. CERTIFICATES OF PARTICIPATION

The District entered into a financing arrangement on November 1, 1994, which was characterized as a master lease-purchase agreement, with the Bay County Educational Facilities Finance Corporation (Corporation) whereby the District secured financing of various educational facilities in the total amount of $23,715,000. The financing was accomplished through the issuance of Certificates of Participation, Series 1994, to be repaid from the proceeds of rents paid by the District. On October 15, 1997, the District issued Refunding Certificates of Participation, Series 1997, in the amount of $15,130,000 and placed the proceeds of the refunding and other resources into an irrevocable trust fund for future payments on a portion of the Certificates of Participation, Series 1994. As noted below, the District issued refunding certificates of participation, to refund the outstanding Refunding Certificates of Participation, Series 1997.

On February 1, 1999, the District amended the master lease-purchase agreement, whereby the District secured additional financing of educational facilities in the amount of $41,500,000. The financing was accomplished through the issuance of Certificates of Participation, Series 1999, to be repaid from the

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

proceeds of rents paid by the District. As noted below and in Note 9 – Defeased Debt, the District issued refunding certificates of participation, to refund the outstanding Refunding Certificates of Participation, Series 1999.

On July 1, 2004, the District amended the master lease-purchase agreement, whereby the District secured additional financing of educational facilities in the amount of $11,310,000. The financing was accomplished through the issuance of Certificates of Participation, Series 2004, to be repaid from the proceeds of rents paid by the District.

On April 1, 2007, the District amended the master lease-purchase agreement, whereby the District secured additional financing of educational facilities in the amount of $49,330,000. The financing was accomplished through the issuance of Certificates of Participation, Series 2007, to be repaid from the proceeds of rents paid by the District.

On August 20, 2008, the District amended the master lease-purchase agreement, whereby the District issued Refunding Certificates of Participation, Series 2008, in the amount of $8,768,000 to refund the outstanding Refunding Certificates of Participation, Series 1997.

On July 16, 2010, the District amended the master lease-purchase agreement, whereby the District issued Refunding Certificates of Participation, Series 2010, in the amount of $37,090,000 to refund the outstanding Refunding Certificates of Participation, Series 1999.

As a condition of these financing arrangements, the District has given a ground lease on District property to the Corporation, with a rental fee of $10 per year. The initial term of the lease commenced on November 1, 1994, and ends on the earlier of (a) payment of the outstanding 2004 Certificates, 2007 Certificates, 2008 Certificates, and 2010 Certificates, or (b) June 30, 2034. The properties covered by the ground lease are, together with the improvements constructed thereon from the financing proceeds, leased back to the District. If the District fails to renew the lease and to provide for the rent payments through to term, the District may be required to surrender the sites included under the Ground Lease Agreement for the benefit of the securers of the certificates for a period of time specified by the arrangement which may be through June 30, 2034.

The District properties included in the ground lease under the master lease-purchase arrangement include properties at Patronis Elementary School, Lucille Moore Elementary School, Robert L. Young Service Center, J.R. Arnold High School, Emerald Bay Academy, New Horizons Learning Center, Breakfast Point Academy, and Deer Point Elementary School.

The Certificates of Participation, Series 2004, include outstanding serial certificates maturing from 2011 through 2024. These payments are payable by the District, semiannually, on July 1 and January 1 at interest rates ranging from 3.625 to 5.0 percent.

The Certificates of Participation, Series 2007, include outstanding serial certificates maturing from 2011 through 2029. These payments are payable by the District, semiannually, on July 1 and January 1 at interest rates ranging from 3.625 to 5.0 percent.

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

The Refunding Certificates of Participation, Series 2008, include outstanding serial certificates maturing from 2011 through 2013. These payments are payable by the District, semiannually, on July 1 and January 1 at an interest rate of 3.15 percent.

The Refunding Certificates of Participation, Series 2010, include outstanding serial certificates maturing from 2011 through 2023. These payments are payable by the District, semiannually, on July 1 and January 1 at interest rates ranging from 2.25 to 4.50 percent.

The following is a schedule by years of future minimum lease payments under the lease agreement together with the present value of minimum lease payments as of June 30:

Fiscal Year Ending June 30	Total	Principal	Interest
2012	$ 7,833,455.50	$ 3,753,000.00	$ 4,080,455.50
2013	7,838,911.00	3,881,000.00	3,957,911.00
2014	7,860,252.00	4,030,000.00	3,830,252.00
2015	7,862,313.00	4,155,000.00	3,707,313.00
2016	7,861,249.00	4,275,000.00	3,586,249.00
2017-2021	39,306,165.50	23,835,000.00	15,471,165.50
2022-2026	39,800,582.00	29,860,000.00	9,940,582.00
2027-2029	24,077,150.00	21,895,000.00	2,182,150.00
Total Minimum Lease Payments	$ 142,440,078.00	$ 95,684,000.00	$ 46,756,078.00

9. DEFEASED DEBT

On July 16, 2010, the Board issued $37,090,000 in Refunding Certificates of Participation, Series 2010, with interest rates ranging from 2.25 to 4.50 percent to advance-refund the District's Refunding Certificates of Participation, Series 1999. The net proceeds of $36,090,487.67 (after payment of $999,512.33 in underwriting fees, insurance, and other issuance costs) were deposited with the trustee. On August 20, 2010, the District called the Refunding Certificates of Participation, Series 1999, totaling $35,860,000, at 100 percent.

The refunding of the Refunding Certificates of Participation, Series 1999, resulted in a decrease in future debt service payments of $2,133,333.27 and an economic gain (difference between the present value of the debt service payments on the old and new debt) of $1,657,784.53.

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

10. BONDS PAYABLE

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

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 2005B, Refunding	$ 4,560,000	5.0	2018
Series 2009A, Refunding	275,000	4.0- 5.0	2019
Total Bonds Payable	$ 4,835,000		

The bonds were issued by the State Board of Education to finance capital outlay projects of the District. These bonds are issued 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.

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

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2012	$ 830,850.00	$ 590,000.00	$ 240,850.00
2013	831,800.00	620,000.00	211,800.00
2014	831,250.00	650,000.00	181,250.00
2015	833,750.00	685,000.00	148,750.00
2016	834,500.00	720,000.00	114,500.00
2017-2019	1,689,750.00	1,570,000.00	119,750.00
Total	$ 5,851,900.00	$ 4,835,000.00	$ 1,016,900.00

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

11. CHANGES IN LONG-TERM LIABILITIES

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

Description	Beginning Balance	Additions	Deductions	Ending Balance	Due In One Year
GOVERNMENTAL ACTIVITIES					
Installment-Purchase Payable	$ 305,717.83	$	$ 203,346.74	$ 102,371.09	$ 102,371.09
Bonds Payable	5,395,000.00		560,000.00	4,835,000.00	590,000.00
Note Payable		30,105,500.00		30,105,500.00	5,825,420.59
Certificates of Participation Payable	98,156,000.00	37,090,000.00	39,562,000.00	95,684,000.00	3,753,000.00
Estimated Insurance Claims Payable	11,989,177.00	2,924,806.71	2,999,076.71	11,914,907.00	2,850,500.00
Compensated Absences Payable	12,192,029.73	1,200,707.77	3,140,647.50	10,252,090.00	2,020,791.83
Other Postemployment Benefits Payable	102,085.00	544,684.00	606,291.00	40,478.00	
Total Governmental Activities	$ 128,140,009.56	$ 71,865,698.48	$ 47,071,361.95	$ 152,934,346.09	$ 15,142,083.51
BUSINESS-TYPE ACTIVITIES					
Compensated Absences Payable	$ 160,702.86	$ 25,301.42	$ 67,137.94	$ 118,866.34	$ 0

For the governmental activities, compensated absences and other postemployment benefits are generally liquidated with resources of the General Fund. Estimated insurance claims payable is generally liquidated with resources of the internal service fund.

12. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

Funds	Interfund Receivables	Interfund Payables
Major:		
General	$ 110,238.62	$ 26,956.35
Special Revenue:		
Federal Economic Stimulus	36,813.53	25,350.59
Capital Projects:		
Local Capital Improvement	26,370.00	299,444.87
Other	299,444.87	
Enterprise:		
Beacon Learning Center		7,189.95
Nonmajor Governmental	586.35	110,017.94
Internal Service		4,493.67
Total	$ 473,453.37	$ 473,453.37

Interfund receivables and payables are primarily to reimburse the General Fund for expenditures paid on behalf of other funds and to reimburse the Capital Projects – Other Fund for expenditures paid on behalf of the Capital Projects – Local Capital Improvement Fund.

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

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

Funds	Interfund Transfers In	Interfund Transfers Out
Major:		
General	$ 1,939,538.37	$
Debt Service:		
Other	7,847,103.89	2.70
Capital Projects:		
Local Capital Improvement		10,027,698.82
Other	235,969.29	3,422.89
Nonmajor Governmental		1,990,559.96
Internal Service	2,004,572.82	5,500.00
Total	$ 12,027,184.37	$ 12,027,184.37

The interfund transfers are mainly to provide for debt repayments and to assist in financing maintenance operations of the District. Additionally, funds were transferred from Capital Projects – Local Capital Improvement Fund to the internal service fund for property and casualty insurance premiums.

13. FUND BALANCE REPORTING

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

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

- **Nonspendable**

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

- **Restricted**

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

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

- **Committed**

  The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the highest level of decision-making authority (i.e., the Board). These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same action it employed to previously commit the amounts. The District did not have any committed fund balances at June 30, 2011.

- **Assigned**

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

- **Unassigned**

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

14. SCHEDULE OF STATE REVENUE SOURCES

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

Source	Amount
Florida Education Finance Program	$ 32,854,082.00
Categorical Educational Program - Class Size Reduction	27,336,111.00
Workforce Development Program	2,994,480.00
Voluntary Prekindergarten	1,821,628.13
Gross Receipts Tax (Public Education Capital Outlay)	1,283,531.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	829,343.90
School Recognition	762,188.00
Charter School Capital Outlay	625,051.00
Excellent Teaching Program	322,535.52
Capital Outlay and Debt Service Distributed	152,372.00
Food Service Supplement	150,412.00
Discretionary Lottery Funds	92,819.00
Mobile Home License Tax	49,875.55
Miscellaneous	694,547.81
Total	$ 69,968,976.91

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

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

15. PROPERTY TAXES

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

	Millages	Taxes Levied
GENERAL FUND		
Nonvoted School Tax:		
Required Local Effort	5.397	$ 87,884,798.50
Prior Period Funding Adjustment	0.085	1,384,140.80
Basic Discretionary Local Effort	0.748	12,180,441.68
Critical Operating Needs	0.250	4,071,003.24
CAPITAL PROJECTS FUNDS		
Nonvoted Tax:		
Local Capital Improvements	0.923	15,030,143.95
Total	7.403	$ 120,550,528.17

16. FLORIDA RETIREMENT SYSTEM

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

Employees in the Plan vest at six years of service. All vested members are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, which may include up to 4 years of credit for military service, except for members classified as special risk who are eligible for normal retirement benefits at age 55 or at any age after 25 years of service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost-of-living adjustments.

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

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

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.

FRS Retirement Contribution Rates

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

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	10.77
Florida Retirement System, Elected County Officers	0.00	18.64
Florida Retirement System, Special Risk	0.00	23.25
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	12.25
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.11 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.03 percent for administrative costs of PEORP.
(B) Contribution rates are dependent upon retirement class in which reemployed.

The District's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the District. The District's contributions to the Plan for the fiscal years ended June 30, 2009, June 30, 2010, and June 30, 2011, totaled $11,362,478.36, $10,969,923.76, and $12,016,300.99, respectively, which were equal to the required contributions for each fiscal year. There were 204 PEORP participants during the 2010-11 fiscal year. Required contributions made to PEORP totaled $1,225,079.92.

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.

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

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

17. OTHER POSTEMPLOYMENT BENEFITS PAYABLE

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

Funding Policy. Plan contribution requirements of the District and Plan members are established and may be amended through recommendations of the Insurance Committee and action from the Board. The District has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2010-11 fiscal year, 393 retirees received other postemployment benefits. The District provided required contributions of $606,291 toward the annual OPEB cost, net of retiree contributions totaling $2,981,975, which represents 3.4 percent of covered payroll.

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

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

Description	Amount
Normal Cost (service cost for one year)	$ 316,128
Amortization of Unfunded Actuarial Accrued Liability	216,096
Interest on Normal Cost and Amortization	11,843
Annual Required Contribution	544,067
Interest on Net OPEB Obligation	4,594
Adjustment to Annual Required Contribution	(3,977)
Annual OPEB Cost (Expense)	544,684
Contribution Toward the OPEB Cost	(606,291)
Decrease in Net OPEB Obligation	(61,607)
Net OPEB Obligation, Beginning of Year	102,085
Net OPEB Obligation, End of Year	$ 40,478

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation as of June 30, 2011, and the two preceding years, were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2008-09	$ 556,171	90.6%	$ 146,893
2009-10	516,573	108.7%	102,085
2010-11	544,684	111.3%	40,478

Funded Status and Funding Progress. As of July 1, 2010, the most recent valuation date, the actuarial accrued liability for benefits was $5,551,029, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability of $5,551,029 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was $87,549,540, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 6.3 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and termination, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The required schedule of funding progress immediately following the notes to financial statements presents 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.

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

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

The District's OPEB actuarial valuation as of July 1, 2010, used the entry age normal cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2011, and the 2010-11 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4.5 percent rate of return on invested assets, which is the District's long-term expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 4 percent per year, and an annual healthcare cost trend rate of 8 percent initially for the 2009-10 fiscal year, declining uniformly to an ultimate rate of 5 percent after 6 years. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2011, was 26 years.

18. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

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

The following is a schedule of encumbrances at June 30, 2011:

Major Funds					
General	Special Revenue - Federal Economic Stimulus	Capital Projects - Local Capital Improvement	Capital Projects - Other	Nonmajor Governmental Funds	Total Governmental Funds
$ 650,701	$ 74,520	$ 1,344,909	$ 13,402,631	$ 147,576	$ 15,620,337

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

Construction Contracts. Encumbrances include the following construction contract commitments at fiscal year-end:

Project	Contract Amount	Completed to Date	Balance Committed
Northside Elementary School Re-Roof, Roof Maintenance and Repair:			
Contractor	$ 349,881.00	$ 16,745.40	$ 333,135.60
Architect	37,550.00	22,718.50	14,831.50
Surfside Middle School Renovations - Phase I:			
Architect	510,872.00	408,697.60	102,174.40
Contractor	1,499,873.00	44,729.05	1,455,143.95
Total	$ 2,398,176.00	$ 492,890.55	$ 1,905,285.45

19. 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. Workers' compensation, automobile liability, and general liability coverage are being provided on a self-insured basis up to specified limits. The District has entered into agreements with various insurance companies to provide specific excess coverage of claim amounts above the stated amount on an individual claim basis. The District has contracted with an insurance administrator to administer these self-insurance programs, including the processing, investigating, and payment of claims.

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

A liability in the amount of $11,914,907 was actuarially determined to cover estimated incurred, but not reported, insurance claims payable at June 30, 2011. The loss estimates include legal and certain other expenses associated with claims settlements (allocated loss adjustment expenses). These estimates do not include provisions for unallocated loss adjustment expenses, such as fees for the claim administrators or other miscellaneous costs associated with claims settlements. Liabilities for unpaid workers' compensation claims and claims adjustment expenses were discounted and reported at their present value using an investment yield rate of 4 percent.

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

The following schedule represents the changes in claims liability for the past two fiscal years for the District's self-insurance program:

	Beginning-of-Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-End
2009-10	$ 11,926,076.99	$ 2,921,562.89	$ (2,858,462.88)	$ 11,989,177.00
2010-11	11,989,177.00	2,924,806.71	(2,999,076.71)	11,914,907.00

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

THIS PAGE INTENTIONALLY LEFT BLANK.

OTHER REQUIRED SUPPLEMENTARY INFORMATION

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

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	$ 599,732.00	$ 631,686.16	$ 691,281.98	$ 59,595.82
Federal Through State and Local	300,000.00	688,447.24	1,079,733.10	391,285.86
State	67,214,709.00	67,143,100.56	66,921,304.19	(221,796.37)
Local:				
Property Taxes	102,296,189.00	102,296,189.00	102,483,644.66	187,455.66
Miscellaneous	2,449,735.00	4,356,071.95	6,131,315.59	1,775,243.64
Total Revenues	172,860,365.00	175,115,494.91	177,307,279.52	2,191,784.61
Expenditures				
Current - Education:				
Instruction	119,678,113.00	118,755,395.81	108,671,418.71	10,083,977.10
Pupil Personnel Services	6,718,030.00	7,333,365.14	7,119,824.41	213,540.73
Instructional Media Services	3,144,801.00	3,053,990.76	2,882,432.56	171,558.20
Instruction and Curriculum Development Services	2,213,215.00	2,484,929.05	2,158,024.34	326,904.71
Instructional Staff Training Services	426,498.00	435,745.50	241,152.41	194,593.09
Instruction Related Technology	8,892.00	9,407.00	1,974.25	7,432.75
School Board	1,138,588.00	1,141,246.90	874,876.99	266,369.91
General Administration	561,877.00	707,665.83	648,147.60	59,518.23
School Administration	13,323,674.00	13,882,559.86	13,594,109.25	288,450.61
Facilities Acquisition and Construction	431,374.00	473,161.20	473,161.20	
Fiscal Services	9,795,568.00	9,826,569.61	1,735,672.32	8,090,897.29
Food Services		40,360.19	37,266.32	3,093.87
Central Services	1,361,370.00	1,472,048.82	1,351,628.71	120,420.11
Pupil Transportation Services	7,833,935.00	8,630,415.39	8,630,415.39	
Operation of Plant	15,850,904.00	16,723,786.04	15,491,690.01	1,232,096.03
Maintenance of Plant	4,893,870.00	4,947,056.51	4,700,324.01	246,732.50
Administrative Technology Services	3,069,128.00	3,136,636.78	3,032,120.01	104,516.77
Community Services	1,575,839.00	1,704,297.74	1,589,906.42	114,391.32
Fixed Capital Outlay:				
Other Capital Outlay	421,549.00	511,955.13	320,696.47	191,258.66
Debt Service:				
Interest and Fiscal Charges		4,438.89	4,438.89	
Total Expenditures	192,447,225.00	195,275,032.15	173,559,280.27	21,715,751.88
Excess (Deficiency) of Revenues Over Expenditures	(19,586,860.00)	(20,159,537.24)	3,747,999.25	23,907,536.49
Other Financing Sources (Uses)				
Transfers In	2,122,232.00	2,752,783.00	1,939,538.37	(813,244.63)
Net Change in Fund Balances	(17,464,628.00)	(17,406,754.24)	5,687,537.62	23,094,291.86
Fund Balances, Beginning	23,276,378.00	23,276,378.00	23,276,377.81	(0.19)
Fund Balances, Ending	$ 5,811,750.00	$ 5,869,623.76	$ 28,963,915.43	$ 23,094,291.67

Special Revenue - Federal Economic Stimulus Fund

Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
$ 13,680,411.00	$ 19,594,920.00	$ 18,518,717.73	$ (1,076,202.27)
13,680,411.00	19,594,920.00	18,518,717.73	(1,076,202.27)
11,864,568.00	16,904,379.66	16,645,829.50	258,550.16
253,418.00	221,478.41	207,724.02	13,754.39
	85,978.96	85,978.96	
357,210.00	554,377.07	240,297.30	314,079.77
521,134.00	451,113.92	343,749.30	107,364.62
102,846.00	187,097.24	130,226.61	56,870.63
	6,926.87	6,926.87	
	120,716.00	57,682.95	63,033.05
15,715.00	7,401.28	5,869.28	1,532.00
82,950.00	42,651.00	14,315.56	28,335.44
482,570.00	1,012,880.84	780,117.38	232,763.46
13,680,411.00	19,595,001.25	18,518,717.73	1,076,283.52
$ 0.00	$ 0.00	$ 0.00	$ 0.00

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

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll [(B-A)/C]
July 1, 2008	$ 0	$ 5,518,519	$ 5,518,519	0.0%	$ 91,603,952	6.0%
July 1, 2010	0	5,551,029	5,551,029	0.0%	87,549,540	6.3%

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

1. BUDGETARY BASIS OF ACCOUNTING

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)	Amount Provided to Subrecipients
United States Department of Agriculture:				
Indirect:				
Child Nutrition Cluster:				
Florida Department of Education:				
School Breakfast Program	10.553	321	$ 1,353,181.50	$
National School Lunch Program	10.555	300, 350	5,135,841.60	
Summer Food Service Program for Children	10.559	323, 325	131,770.11	
Florida Department of Agriculture and Consumer Services:				
National School Lunch Program	10.555 (2)	None	419,906.96	
Total Child Nutrition Cluster			7,040,700.17	
Florida Department of Agriculture and Consumer Services:				
Fresh Fruit and Vegetable Program	10.582	330	32,653.39	
Total United States Department of Agriculture			7,073,353.56	
United States Department of Labor:				
Indirect:				
WIA Cluster:				
Gulf Coast Workforce Development Board, Inc.:				
WIA Adult Program	17.258	None	35,951.86	
WIA Youth Activities	17.259	None	66,593.50	
WIA Dislocated Workers	17.260	None	35,952.15	
Total United States Department of Labor			138,497.51	
United States Department of Education:				
Direct:				
Student Financial Assistance Cluster:				
Federal Pell Grant Program	84.063	N/A	1,532,986.77	
Federal Direct Student Loans	84.268	N/A	144,551.00	
Total Student Financial Assistance Cluster			1,677,537.77	
Impact Aid	84.041	N/A	437,176.14	
Total Direct			2,114,713.91	
Indirect:				
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027	263	5,963,083.89	32,810.08
Special Education - Preschool Grants	84.173	267	173,915.89	
ARRA - Special Education - Grants to States, Recovery Act	84.391	263	2,690,500.68	21,036.70
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	267	40,346.30	
Total Special Education Cluster			8,867,846.76	53,846.78
Title I, Part A Cluster:				
Florida Department of Education:				
Title I Grants to Local Educational Agencies	84.010	212, 222, 223, 226, 228	6,359,220.74	
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	212, 223, 226	2,082,352.58	
Total Title I, Part A Cluster			8,441,573.32	
Education for Homeless Children and Youth Cluster:				
Florida Department of Education:				
Education for Homeless Children and Youth	84.196	127	87,871.44	
ARRA - Education for Homeless Children and Youth, Recovery Act	84.387	127	5,057.90	
Total Education for Homeless Children and Youth Cluster			92,929.34	
Educational Technology State Grants Cluster:				
Florida Department of Education:				
Education Technology State Grants	84.318	121, 122	210,733.09	
ARRA - Education Technology State Grants, Recovery Act	84.386	121	32,086.20	
Total Educational Technology State Grants Cluster			242,819.29	
State Fiscal Stabilization Fund Cluster:				
Florida Department of Education:				
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	591	8,124,459.55	
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	592	175,885.62	
Total State Fiscal Stabilization Fund Cluster			8,300,345.17	

BAY COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
For the Fiscal Year Ended June 30, 2011

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)	Amount Provided to Subrecipients
United States Department of Education (continued):				
Indirect (continued):				
Florida Department of Education:				
Adult Education - Basic Grants to States	84.002	191	$ 152,760.00	$
Career and Technical Education - Basic Grants to States	84.048	161	358,191.75	
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	100,376.74	
Charter Schools	84.282	298	1,422,971.01	1,422,971.01
Twenty-First Century Community Learning Centers	84.287	244	496,248.34	
English Language Acquisition Grants	84.365	102	80,961.75	
Improving Teacher Quality State Grants	84.367	224	1,391,122.00	
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	RL111	239,277.90	
Education Jobs Fund	84.410	541	5,128,751.00	
Total Indirect			35,316,174.37	1,476,817.79
Total United States Department of Education			37,430,888.28	1,476,817.79
United States Department of Health and Human Services:				
Indirect:				
Florida Department of Children and Families:				
Block Grants for Prevention and Treatment of Substance Abuse	93.959	BDZ02	136,363.64	
Gulf Coast Workforce Development Board, Inc.:				
Temporary Assistance for Needy Families	93.558	None	49,304.89	
Total United States Department of Health and Human Services			185,668.53	
Corporation for National and Community Service:				
Indirect:				
Florida Department of Education:				
Learn and Serve America - School and Community Based Programs	94.004	234	38,050.98	33,626.32
United States Department of Homeland Security:				
Indirect:				
Florida Division of Emergency Management:				
Hazard Mitigation Grant	97.039	(3)	53,506.24	
Florida Department of Education:				
Homeland Security Grant Program	97.067	532	88,000.00	
Total United States Department of Homeland Security			141,506.24	
United States Department of Defense:				
Direct:				
Marine Corps Junior Reserve Officers Training Corps	None	N/A	44,134.02	
Navy Junior Reserve Officers Training Corps	None	N/A	59,258.22	
Air Force Junior Reserve Officers Training Corps	None	N/A	147,468.52	
Total United States Department of Defense			250,860.76	
Total Expenditures of Federal Awards			$ 45,258,825.86	$ 1,510,444.11

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 received during the fiscal year. Donated foods are valued at fair value as determined at the time of donation. Cash in lieu of donated foods of $28,361.34 is included in this amount.
(3) Hazard Mitigation Grant. Expenditures include $30,682.65 for contract number 08HM-6G-01-13-03-031, $17,387.74 for contract number 09HM-17-01-13-03-073, $3,422.80 for contract number 09HM-17-01-13-03-080, and $2,013.05 for contract number 09HM-17-01-13-076

AUDITOR GENERAL
STATE OF FLORIDA

DAVID W. MARTIN, CPA
AUDITOR GENERAL

G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450

PHONE: 850-488-5534
FAX: 850-488-6975

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, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Bay County District School Board as of and for the fiscal year ended June 30, 2011, which collectively comprise the District's basic financial statements, and have issued our report thereon under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the basic financial statements was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the charter schools, Tom P. Haney Education Foundation, Inc., and Bay Education Foundation, Inc., reported as discretely presented component units, as described in our report on the Bay County District School Board's financial statements. For the charter schools and Bay Education Foundation, Inc., 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. The financial statements of the Tom P. Haney Education Foundation, Inc., were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, as described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Financial Statement Finding No. 1, that we consider to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

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

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

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

Respectfully submitted,

David W. Martin, CPA
March 22, 2012

AUDITOR GENERAL
STATE OF FLORIDA

DAVID W. MARTIN, CPA
AUDITOR GENERAL

G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450

PHONE: 850-488-5534
FAX: 850-488-6975

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Compliance

We have audited the Bay County District School Board's compliance with the types of compliance requirements described in the United States Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the District's major Federal programs for the fiscal year ended June 30, 2011. The District's major Federal programs are identified in the **SUMMARY OF AUDITOR'S RESULTS** section of the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of District management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

As described in Federal Awards Finding Nos. 1 and 2 in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report, the District did not comply with requirements regarding Special Tests and Provisions, Cash Management, and Reporting that are applicable to its Student Financial Assistance Cluster program, and Subrecipient Monitoring and Period of Availability that are applicable to its Charter Schools program. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the fiscal year ended June 30, 2011. The results of our auditing procedures also disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding No. 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 to determine auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and another deficiency that we consider to be a significant deficiency.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of control deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis. 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 and 2 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding No. 3 to be a significant deficiency.

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 the response.

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

Respectfully submitted,

David W. Martin, CPA
March 22, 2012

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

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be a material weakness(es)?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified that are not considered to be a material weakness(es)?	Yes
Type of report the auditor issued on compliance for major programs:	Unqualified for all major programs, except for the Student Financial Assistance Cluster (CFDA Nos. 84.063 and 84.268) and the Charter Schools (CFDA No. 84.282) which were qualified.
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	Yes
Identification of major programs:	Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559); Title I, Part A Cluster (CFDA Nos. 84.010 and 84.389 – ARRA); Special Education Cluster (CFDA Nos. 84.027, 84.173, 84.391 – ARRA, and 84.392 – ARRA); Student Financial Assistance Cluster (CFDA Nos. 84.063 and 84.268); Charter Schools (CFDA No. 84.282); State Fiscal Stabilization Fund Cluster (CFDA Nos. 84.394 – ARRA and 84.397 – ARRA); State Fiscal Stabilization Fund – Race-to-the-Top Incentive Grants (CFDA No. 84.395 – ARRA); and Education Jobs Fund (CFDA No. 84.410)
Dollar threshold used to distinguish between Type A and Type B programs:	$1,357,764
Auditee qualified as low-risk auditee?	No

BAY COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

FINANCIAL STATEMENT FINDING

SIGNIFICANT DEFICIENCY

Finding No. 1: Financial Reporting

Our review of the District's 2010-11 fiscal year annual financial report, as presented for audit, disclosed that financial reporting procedures could be improved. For example:

- On the government-wide statement of net assets, District personnel did not consider the proper net asset classification for significant unspent debt proceeds, resulting in overstatements of net assets restricted for capital projects and unrestricted net assets by approximately $15 million each, and an understatement of invested in capital assets, net of related debt, of approximately $30 million.
- On the governmental fund financial statements, for the Capital Projects – Other Fund, District personnel inadvertently did not record the investments in State Board of Administration Fund B Surplus Funds Trust Fund at fair value, resulting in understatements of investments, miscellaneous local revenues, and restricted for capital projects fund balance by approximately $200,000 each.

Reporting errors such as these may cause financial statement users to incorrectly assess the District's financial position. We extended our audit procedures to determine the adjustments necessary to properly report account balances and transactions on the District's financial statements, and District personnel accepted these adjustments. However, our extended audit procedures cannot substitute for management's responsibility to implement controls over financial reporting. A similar finding was noted in our report No. 2011-138.

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

ADDITIONAL MATTERS

Finding No. 2: Electronic Funds Transfers

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

initiate EFTs. Also, SBE Rule 6A-1.0012, FAC, requires the District to maintain documentation signed by the initiator and authorizer of EFTs to confirm the authenticity of EFTs.

During the 2010-11 fiscal year, the District regularly used EFTs to make electronic disbursements for the purchasing card program, tax anticipation note payments, and direct deposit of employee pay and other payroll related activity, such as child support payments. The Board established nine agreements with six banks to provide various services, such as EFTs; however, controls over the EFT process could be enhanced, as follows:

- While the District used informal processes including EFT control documents, such as transfer requests from various departments, transfer confirmations that included the name of the employee initiating the transfer, and approval of the transfer by the superintendent's designee, the Board had not adopted written policies prescribing the accounting and control procedures of EFTs, contrary to Section 1010.11, Florida Statutes.
- Six of the nine agreements contained the official title of the bank accounts; however, contrary to SBE Rule 6A-1.0012, FAC, the other three agreements omitted this information. Without identifying the pertinent accounts in agreements, account restrictions are not clearly established and unauthorized EFTs or EFT disputes may occur.
- Seven of the nine agreements contained the Superintendent's signature, but the remaining two lacked this signature; and three of the nine agreements contained the Board Chair's signature, but the remaining six lacked this signature, contrary to SBE Rule 6A-1.0012, FAC.
- Each agreement designated one or more District personnel to make EFTs. However, one agreement that designated the Manager of Financial Services to make EFTs lacked his signature, two agreements that designated the Budget Officer to make EFTs lacked her signature, and one agreement did not contain the signatures of any of the persons designated to make EFTs, contrary to SBE Rule 6A-1.0012, FAC.
- One agreement contained outdated information in that it was dated March 2004 and authorized a former chief financial officer, who terminated with the District in December 2006, to make EFTs. Subsequent to our inquiries, the District revised the agreement in December 2011 to delete authorizations of the former employee; however, the revised agreement did not contain the manual signatures of the Board Chair, Superintendent, and employees authorized to make EFTs, contrary to SBE Rule 6A-1.0012, FAC.

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

Recommendation: The Board should adopt formal written policies and procedures to ensure adequate integrity, security, confidentiality, and auditability of business transactions conducted using electronic commerce consistent with applicable Florida Statutes and SBE Rules. Such procedures should ensure bank agreements identify the official title of the bank accounts and contain required signatures.

Finding No. 3: Performance Assessments

Section 1012.34(3), Florida Statutes (2010),[1] required the District to establish annual performance assessment procedures for instructional personnel and school administrators. When evaluating the performance of these employees, the procedures were to primarily include consideration of student performance, using results from student achievement tests, such as the Florida Comprehensive Assessment Test (FCAT), pursuant to Section 1008.22(3), Florida Statutes (2010), at the school where the employee worked. Additional employee performance assessment criteria prescribed by Section 1012.34(3)(a), Florida Statutes (2010), included evaluation measures such as the employee's ability to maintain appropriate discipline, knowledge of subject matter, ability to plan and deliver instruction and use of technology in the classroom, and other professional competencies established by rules of the State Board of Education and Board policies. Section 1012.34(3)(d), Florida Statutes (2010), required that, if an employee was not performing satisfactorily, the performance evaluator had to notify the employee in writing and describe the unsatisfactory performance.

The District established performance assessment procedures generally based on criteria prescribed by Section 1012.34(3)(a), Florida Statutes (2010), except that the performance assessments of these employees did not evidence a student performance component. Without measuring employee performance by the required criteria, performance assessments of instructional personnel and school administrators may not effectively communicate the employee's accomplishments or shortcomings.

For the 2011-12 fiscal year, the District revised the instructional employee and school administrator performance assessment forms to reflect the State Student Success Act and Federal Race-to-the-Top initiatives, which included student performance as the primary measurement, and the Florida Department of Education approved the revised forms. A similar finding was noted in our audit report No. 2011-138.

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

Finding No. 4: Compensation and Salary Schedules

Section 1001.42(5)(a), Florida Statutes, requires the Board to designate positions to be filled, prescribe qualifications for those positions, and provide for the appointment, compensation, promotion, suspension, and dismissal of employees, subject to the requirements of Chapter 1012, Florida Statutes. Section 1012.22(1)(c)2., Florida Statutes (2010),[2] provided that, for instructional personnel, the Board must base a portion of each employee's compensation on performance. In addition, Section 1012.22(1)(c)4., Florida Statutes (2010), required the Board to adopt a salary schedule with differentiated pay for instructional personnel and school-based administrators. The salary schedule is subject to negotiation as provided in Chapter 447, Florida Statutes, and was required to provide

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

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

differentiated pay based on District-determined factors, including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties.

Board Policy 4.121 provides that instructional personnel who receive a satisfactory performance evaluation in the prior fiscal year will receive a step increase as listed on the salary schedule, and those who demonstrate outstanding performance and meet other criteria will receive a supplement based on 5 percent of their salary. However, the Board had not adopted formal policies and procedures establishing the documented process to identify the instructional personnel and school-based administrators entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4., Florida Statutes (2010). Such policies and procedures could specify the prescribed factors to be used as the basis for determining differentiated pay, the documented process for applying the prescribed factors, and the individuals responsible for making such determinations.

The 2010-11 fiscal year salary schedule and applicable union contract for instructional personnel and school-based administrators provided pay levels based on various factors such as job classification, years of experience, level of education, and other factors. However, the District's procedures for documenting compliance with Section 1012.22(1)(c), Florida Statutes (2010), could be improved, as follows:

- **Instructional Personnel**. The instructional salary schedule and union contract provided salary supplements for additional responsibilities beyond the standard work day, such as supplements for athletic coaching positions, extracurricular sponsors, and department heads. Also, the salary schedule evidenced consideration of differentiated pay for level of job performance difficulties and school demographics for teachers at schools with exceptional student education populations, and for the critical shortage area of school psychologist. However, District records did not evidence the criteria for identifying the selected critical shortage area. Such documentation could include records evidencing a minimal number of applicants, high personnel turnover rates, and other factors demonstrating the difficulty of hiring and retaining school psychologists.
- **School-based Administrators**. The school-based administrators' salary schedule evidenced consideration of additional responsibilities, school demographics, and level of job performance difficulties by the differing administrative pay grades for elementary, middle, and high school administrators based on the type school. Also, the salary schedule evidenced consideration of differentiated pay for level of job performance difficulties and school demographics for school-based administrators at schools with exceptional student education populations. District personnel indicated that the District had no critical shortages of school-based administrators since all positions were filled with certified personnel. However, this would not exempt the District from the requirement in Section 1012.22(1)(c)4., Florida Statutes (2010), to provide consideration of differentiated pay for critical shortage areas. Further, as similarly noted for instructional personnel, District records did not evidence that any criteria had been established for determining critical shortage areas of school-based administrators.

District personnel indicated that salary schedule revisions to comply with the statutory differentiated pay requirements were delayed to ensure consistency with the Federal Race-to-the-Top grant requirements. However, without Board-adopted policies and procedures for identifying the basis for the differentiated pay, the District may be limited in its ability to demonstrate that the various differentiated pay factors are consistently considered and applied for instructional personnel and school-based administrators. A similar finding was noted in our report No. 2011-138.

Recommendation: The Board should adopt formal policies and procedures for ensuring that differentiated pay of instructional personnel and school-based administrators is appropriately identified on salary schedules, consistent with Section 1012.22(1)(c), Florida Statutes.

Finding No. 5: Facilities Management

The facilities planning department is responsible for managing construction and renovation projects. During the 2010-11 fiscal year, the facilities planning department employed six full-time employees, including construction and capital energy personnel, and the department's operating cost was approximately $474 thousand. Also, during this fiscal year, the District had expenditures totaling approximately $3.7 million for capital projects fund construction and renovation projects and, as shown on the District's Five-Year Facilities Work Plan as approved by the Board on September 22, 2010, the District planned to spend an additional $62 million on these projects over the next four years. At June 30, 2011, the historical cost of the District's educational and ancillary facilities was approximately $504 million and, as shown in the Florida Department of Education's Florida Inventory of School Houses data, District facilities had an average age of approximately 26 years.

The facilities maintenance department is responsible for ensuring facilities are safe and suitable for their intended use. The facilities maintenance department performed heating, ventilating, air-conditioning (HVAC), electrical, plumbing, other maintenance-related jobs. During the 2010-11 fiscal year, this department employed 82 full-time employees, including grounds and maintenance personnel, and the department's operating cost was approximately $4.8 million.

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

- **Alternative Construction Methods or Maintenance Techniques**. The District primarily awards construction contracts to design professionals and construction contractors using traditional design-bid-build methods, although it also uses guaranteed maximum price construction methods. In addition, maintenance-related jobs, such as HVAC replacement and repair, are routinely performed by maintenance personnel based on safety and suitability priorities, although some of these jobs are outsourced to local vendors. District personnel indicated that they had not established written policies and procedures for evaluating the various construction methods or maintenance-related job techniques and, while they consider alternative methods and techniques, they have not documented an evaluation of the various approaches to determine which would be most cost effective and beneficial. Without Board-approved policies and procedures, and documented evaluations, there is an increased risk that the District may not use the most cost-effective and beneficial construction method or maintenance technique.

- **Accountability**. The District's facilities planning and maintenance departments have established short-term and long-term goals; however, our review disclosed that these goals did not address accountability for these departments. For example, the goals for the facilities planning department included but are not limited to recycling, improving indoor air quality, conservation, and cost containment. Examples of facilities maintenance department goals included improving energy efficiency, implementing energy conservation measures, and providing employee training opportunities. However, the goals of these departments did not sufficiently identify efficiency or cost-effectiveness outcomes.

  To adequately establish outcome measures, the departments could set goals such as completing construction or maintenance projects that meet or exceed building code industry standards at the lowest possible cost. Progress in attaining the goals could be measured by developing accountability systems to monitor work

orders for return assignments or corrective action because a project did not initially meet building code requirements, and to compare project costs to industry standards for similar work. Additional goals could include setting benchmark time frames for routine projects or jobs and progress toward meeting the goal could be measured by comparing project or job completion times to industry standards for similar work. Establishing goals that focus on accountability and measureable objectives and benchmarks could assist the District in determining whether its facilities planning and maintenance departments are operating as effectively and as cost-efficiently as possible.

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

Finding No. 6: Construction Management Services – Contract Administration

Section 1013.45(1)(c), Florida Statutes, authorizes the District to contract for the construction or renovation of facilities with a construction management entity (CME). Under the CME process, contractor profit and overhead are contractually agreed upon, and the CME is responsible for all scheduling and coordination in both design and construction phases and is generally responsible for the successful, timely, and economical completion of the construction project. The CME may also be required to offer a guaranteed maximum price (GMP). A GMP contract allows for the difference between the actual cost of the project and the GMP amount, or the net cost savings, to be returned to the District. A GMP contract requires District personnel to closely monitor construction costs and the award of bids to subcontractors.

In November 2009, the District approved a GMP contract with a CME for the Merritt Brown Middle School HVAC renovation project with total costs of $5,967,831. Our review disclosed that improvements were needed in the District's monitoring procedures over construction projects, as follows:

- During the 2010-11 fiscal year, the CME was paid approximately $890,000 and District personnel evidenced preapproval of these expenditures by signing payment applications from the CME; however, the applications were not supported by detailed invoices upon payment. For four applications from the CME totaling approximately $655,500, the District received an application and continuation sheet that reflected the schedule of values and the work completed to date. District personnel indicated that review procedures included verifying the mathematical accuracy, recalculating retainage, and verifying that prior payments were properly applied to the application. District personnel further indicated that verification of the percentage of completion for the various subcontractors was based on visual inspection by District personnel and the architect, as well as a consistent presence by District personnel at the work site. In addition, District personnel indicated that the project was substantially completed in July 2010 and subcontractor invoices were received in spring 2011; however, as of January 24, 2012, the District still had not reconciled the invoices to the CME payment applications.
- District records did not separately identify and accumulate changes in subcontractor contract amounts. We selected 13 subcontractor contracts to determine whether the CME payments agreed with related subcontractor bid documents and contracts; however, we noted certain payments relating to 5 contracts that did not agree to bid and related contract amounts, with differences ranging from approximately $5,550 to $25,600 and totaling approximately $42,000. Also, for 4 of these 5 subcontractor contracts, the CME budgeted allowances for areas that were not bid prior to final GMP contract approval and, when the subcontractors for these areas were selected, the scheduled values on the payment applications were not updated for the actual contracted amounts. Differences between the scheduled values on the payment applications and actual contracted amounts totaled approximately $34,000. When subcontractor bids,

contracts, change orders, and scheduled values listed on CME payment applications are not timely reconciled during the construction process, there is an increased risk that the District may overpay for these services.

Without procedures to sufficiently and appropriately reconcile CME payment applications to detailed supporting documentation, such as subcontractor bids, contracts, and changes orders, the risk increases that overpayments to CMEs may occur and not be timely detected and corrected.

Recommendation: The District should enhance controls to ensure that payments for CME services are appropriately supported and reconciled to related subcontractor bids, contracts, and changes orders.

Finding No. 7: Food Service Collections

The District reported local food service collections totaling approximately $3.6 million for the 2010-11 fiscal year. Our review indicated that controls over District food service collections were generally adequate; however, we noted certain improvements could be made, as follows:

- At Arnold High School, a la carte sales totaled $107,437 or approximately 52 percent of the local food service sales at the school for the 2010-11 fiscal year. To account for these sales, two cashiers maintained separate cash containers and the daily totals collected from the sales were entered into the point-of-sale-system; however, procedures to account for the collections did not include the use of a point-of-sale cash register system or other receipting devices to evidence the individual sales made. Although District personnel used inventory control procedures at the school to verify the total moneys collected from these sales, the inventories were not separately identified by cashier to establish responsibility for cash shortages that might occur. District personnel indicated that the use of a point-of-sale system would not be efficient for a la carte sales, as they serve a large number of students in 10 to 15 minutes and use of a point-of-sale system would significantly delay the process; however, given the substantial sales of a la carte items, appropriate controls over these collections are necessary.
- At Mowat Middle School, a la carte sales totaled $25,164, adult meal sales totaled $6,203, and the combined total of these sales represents approximately 29 percent of the local food service sales at the school for the 2010-11 fiscal year. During the lunch period, the school's two cashiers accounted for student a la carte sales and adult meal collections using separate cash containers placed beside the point-of-sale system. As opportunities allowed while processing students through the meal line, and at the end of the serving period, the cashiers entered these sales into the point-of-sale system; however, procedures to account for the collections did not include the use of a point-of-sale cash register system or other receipting devices to evidence the individual sales made. In addition, alternative control procedures, such as independent inventory controls, were not in place to account for a la carte sales. Although District personnel indicated that use of the cash containers were for efficiency purposes and attempts were made to enter the transactions in the point-of-sale system for these collections as often as possible, this would not negate the need for appropriate controls over these collections.

Without adequate controls over a la carte and adult meal sales, the District may be limited in its ability to account for these sales or timely detect errors or fraud and fix responsibility should a loss of collections occur.

Recommendation: The District should enhance control procedures to provide for proper accountability of food service a la carte and adult meal sales.

Finding No. 8: Information Technology - Access Privileges

Access controls are intended to protect data and information technology (IT) resources from unauthorized disclosure, modification, or destruction. Effective access controls provide employees access to IT resources based on a

demonstrated need to view, change, or delete data and restrict employees from performing incompatible functions or functions outside of their areas of responsibility.

To access the finance and human resources (HR) application, District employees must log on to both the District's network and the application. The network also provided District employees access to such resources as stored documents and data, e-mail, calendars, printers, instructional Web sites, and instructional software systems.

Our tests of selected access privileges to the finance and HR application and network disclosed that some employees had access privileges that permitted the employees to perform incompatible duties and that some network service accounts were no longer needed. Specifically:

- One computer operator was granted access within the domain administrator group that was used to administer the District's network, contrary to an appropriate separation of duties and unnecessary for her assigned responsibilities. In addition, six service accounts within the domain administrator group were no longer used by the District. Domain administrator access privileges allow an individual complete control over network servers, including the ability to render a network unavailable for use and consequently a user's ability to access the District information and resources. Typically domain administrator access privileges are limited to employees who are responsible for performing network administration duties or services that require complete access to network resources. When complete network access privileges are unnecessarily granted, the risk is increased that unauthorized or unintentional network hardware, software, or configuration changes may occur and not be timely detected. In response to our inquiry, the District removed the computer operator from the domain administrator group and disabled the six service accounts.
- One middle school administrative assistant had update access privileges to critical transactions within the HR application including adding employees, making time and payroll adjustments, and printing checks. Because the employee had transferred from the finance department to the middle school, this access was inappropriate for her currently assigned job responsibilities. After the District's review of application access privileges in September 2011, the employee's HR application access privileges were appropriately restricted.

To compensate, in part, for the above deficiencies, the District had certain controls, such as independent bank account reconciliations, independently verified supporting voucher documentation, and monitoring of department budgets. However, the existence of inappropriate or unnecessary access privileges indicated a need for the District to enhance its procedures for reviewing access privileges to address administrator-level access, service accounts, and reassigned employees. Although our test of salaries, expenditures, journal entries and analytical procedures did not disclose any errors or fraud from the above deficiencies, until its review procedures are enhanced, inappropriate access privileges may not be timely detected and addressed by the District, increasing the risk of unauthorized disclosure, modification, or destruction of District data and IT resources. A similar finding was noted in our report No. 2011-138.

Recommendation: The District should enhance its procedures for reviewing the appropriateness of access privileges and timely remove or adjust any inappropriate or unnecessary access detected.

Finding No. 9: Information Technology - Timely Deactivation of Access Privileges

Effective management of IT access privileges includes the timely deactivation of employee IT access privileges when employment is terminated. As certain critical application systems and confidential or sensitive information stored within individual users' documents are accessible through the District's network, prompt action is necessary to ensure that the access privileges are not misused by former employees or others to compromise data or IT resources.

The HR department was responsible for providing written notification of employment terminations to the IT department to remove former employees' network and application access. Our test of access privileges for the

network and finance and HR applications for 31 of the 377 employees who terminated employment during the 2010-11 fiscal year disclosed that the network access privileges of 6 former employees were not deactivated for 40 to 74 days after termination of employment. The untimely deactivations were caused, in part, by delayed termination notifications to the IT department. In addition, the application access privileges of 1 of the 6 former employees were not deactivated for 108 days after termination of employment. In response to our inquiry, the District deactivated the unnecessary access privileges of the former employees, except for one that the District rehired. Based on the former employees' last logon dates, their network and application access privileges were not used subsequent to termination. Although our tests did not disclose any errors or fraud as a result of the above-noted control deficiencies, without timely deactivation of former employees' access privileges, there is an increased risk that access privileges could be misused.

Recommendation: The District should enhance its procedures to ensure timely deactivation of IT access privileges of former employees.

Finding No. 10: Information Technology - Risk Assessment

Management of IT-related risks is a key part of enterprise IT governance. Incorporating an enterprise perspective into day-to-day governance actions helps an entity understand its greatest security risk exposures and determine whether planned controls are appropriate and adequate to secure IT resources from unauthorized disclosure, modification, or destruction. IT risk assessment, including the identification of risks and the evaluation of the likelihood of threats and the severity of threat impact, helps support management's decisions in establishing cost-effective measures to mitigate risk and, where appropriate, formally accept residual risk.

Although the District had informally considered external and internal risks and identified security controls, such as selected configuration settings and policies and procedures to mitigate these risks, it had not developed a written, comprehensive IT risk assessment. The absence of a written, comprehensive IT risk assessment may limit the District's assurance that all likely threats and vulnerabilities have been identified, the most significant risks have been addressed, and appropriate decisions have been made regarding which risks to accept and which risks to mitigate through security controls.

Recommendation: The District should develop a written, comprehensive IT risk assessment to provide a documented basis for managing IT-related risks.

Finding No. 11: Information Technology - Security Incident Response Plan

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

District personnel indicated that the District did not have a written IT security incident response plan due to reduction in staffing and lack of funding. However, should an event occur that involves the potential or actual compromise, loss, or destruction of District data or IT resources, the lack of a written security incident response plan could result in the District's failure to take appropriate and timely action to prevent further loss or damage to the District's data and IT resources.

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

Finding No. 12: Information Technology - Security Controls - User Authentication and Data Loss Prevention

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

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

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Federal Awards Finding No. 1:
Federal Agency: United States Department of Education
Pass-Through Entity: Not Applicable
Awards Numbers: P063P093385, P063P103385, and P268K113385
Program: Student Financial Assistance Cluster (CFDA Nos. 84.063 and 84.268)
Finding Type: Material Noncompliance and Material Weakness
Questioned Costs: $45,109 (CFDA No. 84.063)

Special Tests and Provisions – Administrative Capability. During the 2010-11 fiscal year, the District administered the Pell and Direct Student Loans programs at Tom P. Haney Vocational Center (Haney). To continue participation in these programs, Federal regulations require the District to demonstrate to the United States Department of Education (ED) that it is capable of adequately administering the programs under various standards established in Title 34, Section 668.16, Code of Federal Regulations (CFR). These administrative capability standards include, among other items:

- The District's ability to administer the program in accordance with all statutory provisions;
- The use of an adequate number of qualified persons to administer the program, including consideration of staff size, number of student aid applications evaluated, the number of students and amount of funds administered, the financial aid delivery system used, the degree of office automation, and the number and distribution of financial aid staff;
- The administration of the program with adequate checks and balances in its system of internal controls, including separating the functions of authorizing payments and disbursing or delivery of funds; and
- Establishing and maintaining records required by regulations and the program.

For the 2008-09 fiscal year, the District reported Pell program expenditures of approximately $409,000 and the District did not participate in the Direct Student Loans program; however, total expenditures for these programs grew

to approximately $1.7 million for the 2010-11 fiscal year. The previous financial aid counselor responsible for these programs transferred to another position at Haney and a new counselor began in September 2010. In March and May 2011, the District hired another financial aid counselor and a financial aid assistant, respectively, for a total of three employees to administer the programs. However, as shown in the following tabulation and discussed below, our audit disclosed Pell program questioned costs of $45,109, underawards of $9,239, control deficiencies, and noncompliance with Pell and Direct Student Loans Federal requirements, as follows:

Types of Pell Program Questioned Costs	Questioned Costs
Reporting	$ 911
Special Tests and Provisions:	
Verifications	19,710
Disbursement overawards	14,549
Crossover Payments	6,648
Escheating	2,342
Return of Funds	949
Total	$ 45,109

Types of Pell Program Underawards	Underaward Amounts
Special Tests and Provisions:	
Disbursements	$ 1,275
Crossover Payments	7,509
Return of Funds	455
Total	$ 9,239

These questioned costs, underawards, control deficiencies, and noncompliance in the District's administration of the Pell and Direct Student Loans programs discussed below are likely attributable, in whole or in part, to inadequate administrative capability.

Cash Management. Pursuant to Title 34 Section 668.162, CFR, ED is responsible for establishing Financial Student Aid (FSA) funding processes, which may be through advance, reimbursement, or heightened cash monitoring methods. While most entities receive FSA funding through the advance payment method, ED imposes more stringent funding processes, such as heightened cash monitoring (e.g., HCM2), for entities found to be in noncompliance with Federal requirements. The HCM2 status may require an entity to seek reimbursement of FSA expenditures by submitting requests to ED that identify students, amounts requested, and providing documentation to support those requests.

From July through mid-November 2010, using ED's cash advance e-Payments (G5) system, the District received cash advances of Pell program funds that were deposited into the General Fund bank account. Once funds were received, the finance office wrote checks from this account for deposit into the Haney school internal account, and the Haney account was used to make Pell program disbursements to students. From mid-November 2010 through March 20, 2011, using the G5 system, the District received cash advances of Pell program funds that were deposited into the General Fund bank account based on pending awards, and the finance office wrote checks from a District account to make Pell program disbursements to students. Effective March 21, 2011, based on deficiencies noted during a

compliance review by the ED Federal Student Aid Office, as similarly noted below, ED discontinued Haney from the cash advance payment method and placed the school on heightened cash monitoring status 2 or HCM2, which requires the District to submit specified requested information prior to drawing cash.

Title 34, Section 668.166, CFR, defines excess cash as program funds not disbursed to students by the end of the third business day following the date the District receives the funds from ED. Also, the District must return excess cash over its cash tolerance of 1 percent of the prior year draws within three days and the balance of the excess cash within seven days. However, our review of District records disclosed deficiencies in the cash management of Pell program funds, as follows:

- Haney personnel established student accounts for students receiving Pell funds and, as of July 1, 2010, student account credit balances of Pell program funds totaled $124,755. Before July 1, 2010, the Pell program's most recent cash advance to Haney was April 29, 2010, and the advance was not disbursed until August 30, 2010, or 123 days after receipt by the District. In November 2010, the District discontinued use of student accounts.
- From July 1 through November 8, 2010, the District received 11 cash advances totaling $892,086; however, 10 of the cash advances totaling $886,061 that exceeded the tolerable cash limit were held from 19 to 79 days after receipt, and the excessive cash balances ranged from $15,483 to $593,284.
- District records did not evidence any reconciliations of the G5 system to the accounting records for the 2010-11 fiscal year to confirm the District's Pell program disbursements. We compared the amounts disbursed to each cash advance amount through the G5 system by the District and noted that disbursements were made, but the District did not obtain advances of $5,550 and $2,310 in Pell program funds for its November 23, 2010, and March 25, 2011, disbursements, respectively.

Proper cash management of Pell program funds would provide for timely funding of eligible Pell grant recipients and reconciliations of the G5 system to accounting records would reduce the risk of errors or fraud.

Reporting – Financial Reporting. Pursuant to the June 7, 2011, Federal Register, the District was required to report all disbursements and adjustments for the 2010-11 award year to ED by September 30, 2011. The District elected to report this information through the common origination and disbursement (COD) system; however, District records did not evidence reconciliations of the COD system and accounting and financial aid records for the 2010-11 fiscal year. Further, Haney personnel did not notify the District's finance office when it returned Pell funds to ED or disbursed Pell funds to students through the internal accounts. As a result, returns and disbursements totaling approximately $160,000 and $100,000, respectively, recorded in Haney's financial aid and accounting records, were not recorded in the District's accounting records. Absent timely disbursements and adjustments to the COD system and reconciliations of the COD system to District records, errors or fraud may occur without being timely detected.

For 60 Pell program students selected for testing that received 89 disbursements totaling $186,745, we compared Haney's financial aid and accounting records to the student records reported in the COD system for transactions occurring during the 2010-11 fiscal year. We noted the following:

- Haney personnel reported a $911 disbursement in the COD system for one student, but due to oversight, did not record it in the accounting records or disburse the award to the student. Without timely reconciliations of the COD system and Haney's financial aid and accounting records, the District's assurance of the accuracy of the COD system and financial aid and accounting records is limited, and students may not receive financial aid to which they are entitled. As a result, the undisbursed funds of $911 represent questioned costs subject to disallowance by the grantor.
- Title 34, Section 668.164, CFR, defines the disbursement date as the date the District makes a disbursement to a student's account or pays a student directly. However, for 66 disbursements totaling $130,474, the

disbursement date recorded in the COD system was from 1 to 55 days prior to the actual disbursement date. The majority of the date differences occurred because the District recorded dates in the COD system upon receipt of the funds in the bank account from ED, instead of the actual disbursement dates.

Because several regulatory requirements are based on that date, including when the student becomes a Federal student aid (FSA) recipient and has the rights and responsibilities of a FSA recipient, it is important to properly enter the disbursement date in the COD system. Incorrect disbursement dates recorded in the COD system increases the risk that students may not receive additional Federal program funding to which they are entitled.

- For the 60 students tested, Haney returned funding to ED for 11 students totaling $5,988, and we noted exceptions for 10 of the 11 returns, as follows:
  - For 6 of the 11 returns, the amounts and dates returned to the Pell program as reported in the COD system differed from the amounts and dates recorded in Haney's accounting records. The differences totaled $1,106 for the 6 returns and the dates in COD ranged from 7 days prior to 1 day after the actual return date in the accounting records. These errors were caused by calculation errors and by using the dates the returns were calculated or submitted to the bookkeeper rather than the actual date that amounts were returned to ED.
  - For 4 of the 11 returns, we noted that return to Pell program amounts totaling $2,181, were included in the July 2011 HCM2 submission request to ED; however, the returns were not entered into the COD or the accounting system until November 2011 because Haney personnel were waiting to record the transactions until acceptance of the submission by ED.

Special Tests and Provisions – Verification. Title 34, Sections 668.51 through 668.61, CFR, require applicants selected by ED for verification to provide documentation to the District supporting information used in determining the applicant's expected family contribution (EFC), which generally includes income, number of family members, number of family members attending postsecondary educational institutions, income tax paid, and certain untaxed income and benefits. If the applicant does not provide the requested information, the student forfeits the Pell program grant, and must return any payments received for that award year.

Our tests of 60 student applications disclosed that 41 of the applications were selected by ED for verification, and the 41 applications supported Pell program expenditures of $127,305. However, based on our review of the 41 applications, we noted deficiencies in the verification process for eight students, as follows:

- For four students, household sizes shown on the verification worksheets did not agree with the Institutional Student Information Records (ISIR) and the differences had not been resolved prior to disbursement.
- For one student, supporting information was not obtained to perform the verification process.
- For one student, the amount of income taxes paid shown on the supporting information did not agree with the ISIR and the difference had not been resolved prior to disbursement.
- For one student, the amount of income shown on the supporting documentation and the household size shown on the verification worksheet did not agree with the ISIR and the difference had not been resolved prior to disbursement.
- For one student, supporting information was not obtained for the amount of child support reported on the ISIR. The household size shown on the verification worksheet did not agree with the ISIR and the differences had not been resolved prior to disbursement.

As a result, payments to these eight students totaling $19,710 represent questioned costs subject to disallowance by the grantor.

Special Tests and Provisions – Institutional Eligibility. Title 34, Section 668.16, CFR, requires the District to establish, publish, and apply reasonable standards for measuring whether an otherwise eligible student is maintaining

satisfactory academic progress (SAP) in his or her educational program. These standards must include a qualitative measure, such as grades or work projects completed and a quantitative measure such as a maximum timeframe in which the student must complete his or her educational program. For an undergraduate program, the timeframe must not be longer than 150 percent of the published length of the educational program for a full-time student, and the timeframe must be divided into increments of equal size. The District must make determinations at the end of each increment whether the student has successfully completed the appropriate percentage or the established schedule. Also, the SAP policy must be consistently applied to all categories of students within all programs.

Annually, the Board approves the Haney student handbook, which provides information of the school's admissions and enrollment process, registration and payment schedule, and other policies and procedures of the school. The 2010-11 fiscal year student handbook defined unsatisfactory progress as a student that exceeded 25 percent of the time allotted for an occupational completion point (OCP); however, the handbook lacked a qualitative measure such as grades or work projects completed, contrary to Federal regulations. Also, Haney provided students a student agreement that identified unsatisfactory progress based on excessive class time, as defined in the student handbook, but the agreement also required students to maintain a minimum C grade average in a class for SAP. For the spring 2011 term, Haney replaced the student agreement with a financial aid student agreement that added an attendance requirement that students could not miss 60 percent or more of classes or the students would be considered as making unsatisfactory progress. Consequently, SAP standards may not have been consistently applied, increasing the risk of Pell program disbursements to ineligible students. In March 2011, after a compliance review by the ED Federal Student Aid Office, the District revised its SAP forms and published a new policy in the 2011-12 fiscal year Haney student handbook.

Special Tests and Provisions – Disbursements. During our test of disbursements totaling $186,745 to 60 Pell program students, we noted the following:

- Three students exceeded the time allotted for the OCPs earned for the program by more than 25 percent, which ranged from 36 percent to 53 percent more than the hours required for their OCPs. These students were enrolled in the program prior to the 2010-11 award year; however, their previously earned hours were not considered in their SAP determination, and they should have been placed on academic probation since SAP requirements were not met. Haney personnel relied on the student's continued enrollment in the program as evidence that the student was meeting SAP requirements. Consequently, the 2010-11 award year disbursements to these three students totaling $10,150 represent questioned costs subject to disallowance by the grantor.
- Pursuant to Title 34, Section 668.4(g), CFR, if a student withdraws from a program during a payment period and then reenters the same program after 180 days, the District must calculate new payment periods for the remainder of a student's program. However, one student tested left a program and reenrolled more than 180 days after leaving the program but the District calculated the award based on a full academic year without prorating the award for the amount of hours left in the program until completion, contrary to CFRs, resulting in an overaward to the student of $2,066, which represents questioned costs subject to disallowance by the grantor.
- Pursuant to Section 479(a) of the Higher Education Act, the financial aid administrator, on the basis of adequate documentation, can make adjustments on a case-by-case basis to the values of the data items required to calculate the EFC to allow for treatment of an eligible applicant with special circumstances. However, for one student tested, Haney personnel used professional judgment but did not update the ISIR with applicable income information noted on the professional judgment worksheet. Consequently, the EFC was understated, resulting in an overaward to the student of $1,050, which represents questioned costs subject to disallowance by the grantor.
- Pursuant to Title 34, Section 690.67, CFR, a student may receive a second scheduled Pell program award for the 2010-11 award year. Each scheduled award should be the same maximum amount with a student

receiving two scheduled awards up to $5,500 each, and payments for each payment period for the first and second scheduled awards should be calculated in the same manner. However, although one student tested was enrolled in an eligible program and completed the payment period, the student did not receive a complete payment for the second scheduled Pell program award payment period for the 2010-11 award year. As a result, the student was underpaid $1,275 for the 2010-11 award year.

- Pursuant to Title 34, Section 668.58, CFR, the District may make an interim disbursement of Pell program funds before verification is complete if the application information is reasonably accurate. If subsequent verification discloses that the student received an overpayment or the student fails to complete verification, the District is liable for the interim disbursement. Haney personnel disbursed a full payment period disbursement to a student tested prior to the completion of verification; however, once verification was completed, the student's EFC changed and the calculated Pell award was $866 less than the original calculation. Because Haney personnel did not adjust subsequent payments to this student or recover the overaward, the $866 overaward represents questioned costs subject to disallowance by the grantor.
- Pursuant to Title 34, Section 690.62, CFR, the scheduled award is the maximum amount a student can receive during an award year for full-time attendance in an academic year. The student's scheduled award is established by the Pell program payment schedule that ED issues prior to the start of each award year. In accordance with this CFR, the amount of the scheduled award is listed on the full-time payment schedule and is based on the student's EFC and cost of attendance (COA). The annual award is the maximum amount a student receives during a full academic year for a given enrollment status, EFC, and COA. Once the scheduled award is determined, the District must follow Title 34, Section 668.4, CFR, to calculate the amount of disbursement per payment period and any proration of the award amount for programs with less than an academic year remaining for completion. However, one student tested was overawarded $417 because Haney personnel did not prorate the scheduled award for hours remaining in the program, resulting in $417 of questioned costs subject to disallowance by the grantor.
- The instructors made SAP determinations for 16 students tested, without District records to evidence the basis upon which the determinations were made, and the District made no SAP determination for 1 student tested. These exceptions occurred before the District revised its SAP forms in March 2011, as discussed above under the heading **Special Tests and Provisions – Institutional Eligibility**.

Special Tests and Provisions – Crossover Payments. Pursuant to Title 34, Section 668.4(f), CFR, if a student withdraws from a program during a payment period and later reenters the same program within 180 days, the student remains in that same payment period and is eligible to receive program funds that the student was eligible for prior to withdrawal, including funds that the District or student returned. Also, according to Title 34, Section 690.64, CFR, if a student enrolls in a payment period that is scheduled to occur in two award years, the entire payment period must be considered to occur within one award year and the District must assign the payment period to the award year in which the student receives the greater payment for the payment period.

Six of 60 students tested enrolled during the 2009-10 school year, continued in their program during the 2010-11 school year, and Haney personnel entered the 6 students in a new payment period at the beginning of the 2010-11 school year, instead of continuing the students in the payment period that was in progress at the end of the 2009-10 school year. Consequently, Haney overawarded 5 of the students for the 2010-11 award year, resulting in $6,300 in questioned costs, and underawarded the students $7,509 for 2009-10 award year. Also, Haney overawarded $348 to 1 student for the 2009-10 award year that ended September 2010, resulting in questioned costs of $348 during the 2010-11 fiscal year.

Special Tests and Provisions – Disbursements: Escheating Prohibition. Title 34, Section 668.164(h)(2), CFR, requires the District to return outstanding Pell program checks to ED no later than 240 days after the date of the check. Our review of outstanding student checks as of June 30, 2011, disclosed three unclaimed Pell checks totaling $2,342 that were outstanding from 374 to 506 days. Subsequently, two of the checks totaling $1,692, were voided, reissued, and cleared in September 2011, and the remaining check of $650 was voided and reissued in November

2011. Because these checks were outstanding longer than 240 days, the unclaimed $2,342 should have been returned to ED and represents questions costs subject to disallowance by the grantor.

Special Tests and Provisions – Return of Pell Program Funds. Title 34, Section 668.22(h)(4)(ii), CFR, requires the District, within 30 days of the date of determining that a student withdrew, to send a notice to any student who received Pell program overpayments resulting from withdrawal in order to recover the overpayments. Also, Title 34, Section 668.22(j)(1), CFR, requires the District to return such unearned funds to ED within 45 days. In addition, Title 34, Section 668.22(a)(5)(ii)(B)(1), CFR, requires the District to disburse earned but unpaid Pell program funds to a student who withdraws prior to receiving Pell program funds as soon as possible but no later than 45 days after the date the District determines that the student withdrew.

Our test of 38 return calculations for 36 students awarded Pell program funds who withdrew during the 2010-11 fiscal year disclosed the following:

- Of the 38 return calculations, we noted that the District did not timely perform the return process, as follows:
  - The District did not perform return calculations for 7 students tested and, for 3 students tested, the calculation was performed from 50 to 87 days after the date of determination. While no amounts were due to the student or ED, without timely return calculations, there is an increased risk that Pell program returns may be inaccurate.
  - For 4 students who withdrew prior to receiving Pell program funds, the District disbursed $1,229 to the students from 14 to 152 days after the 45 day deadline. Also, for 6 students who received Pell program funds and withdrew, the District returned $3,290 in Pell funds ranging from 23 to 63 days after the 45 day deadline.
  - In March 2011, as a requirement of Haney's HCM2 status discussed above, ED required Haney to submit awards, return calculations, and supporting documentation for review and approval. Since the returns were included in the submissions that required review and approval by ED, the District was limited in its ability to ensure the return dates were timely. For 11 students whose return calculations were made after ED required Haney to submit its records, return calculations of $4,023 and post-withdrawal disbursements of $266 were calculated from 1 to 252 days after the deadline (45 days after the date the District determined that the student withdrew). For 2 of the 11 students who owed $938 to ED, the District sent the student notifications from 85 to 134 days after the date of determination, although required to provide notification within 30 days of determining that the student withdrew.

- The District did not accurately determine the amount of Pell program funds that students earned as of the student's withdrawal date, contrary to Title 34, Section 668.22, CFR, as follows:
  - For 9 students who received Pell program funds prior to withdrawal, the District returned less to ED than the amounts due, resulting in $590 in questioned costs subject to disallowance by the grantor.
  - For 1 student who did not receive Pell program funds prior to withdrawal but received a post-withdrawal disbursement, the student received $359 in excess of our audited amounts, resulting in questioned costs of $359 subject to disallowance by the grantor.
  - For 4 students who received Pell program funds prior to withdrawal, the District returned $916 to ED in excess of amounts due. While this does not result in questioned costs, it is indicative of deficiencies in procedures to adequately monitor the return of Pell program funds.
  - For 3 students who received Pell program funds prior to withdrawal, the District calculated excessive return amounts totaling $251 and insufficient post withdrawal disbursement amounts totaling $39. Since these returns and post-withdrawal disbursements have not been submitted for reimbursement to ED as of January 2012, these exceptions do not result in questioned costs, but are indicative of deficiencies in procedures to adequately monitor the return of Pell program funds.

- For 3 students who did not receive funds prior to withdrawal but received a post-withdrawal disbursement, the students were underawarded a total of $455. While this does not result in questioned costs, it is indicative of deficiencies in procedures to adequately monitor the return of Pell program funds.
- For 3 students who received Pell program funds prior to withdrawal and owed funds to ED, the District underreported a total of $228 for the students. While this does not result in questioned costs, it is indicative of deficiencies in procedures to adequately monitor the return of Pell program funds.

Special Tests and Provisions - Federal Direct Student Loans. Although Haney began its Federal Direct Student Loans (FDSL) program during the 2010-11 fiscal year, the District had not established adequate procedures to ensure the program was administered consistent with Federal guidelines. For example, the District had not established procedures to ensure that students received FDSL information such as:

- notification of the aid award, contrary to Title 34, Section 668.165, CFR;
- entrance counseling for first-time borrowers, contrary to Title 34, Section 685.304(a), CFR;
- notification of disbursement, contrary to Title 34, Section 668.165, CFR;
- notification of subsequent loans, with either active or passive confirmation, contrary to Title 34, Section 668.165, CFR; and
- exit counseling, contrary to Title 34, Section 685.304(b), CFR.

Providing accurate and timely information to borrowers is essential so that students can make key decisions regarding their loans.

In addition, disbursement dates of FDSLs establish the dates that students assume responsibility for the loans and loan cancelation timeframes, which are generally between 14 to 30 days after the disbursement date. However, contrary to Title 34 Section 668.164, CFR, Haney personnel generally reported in COD the dates FDSLs were approved for disbursement, instead of the actual disbursement dates. As a result, the disbursement dates reported in COD did not agree with dates FDSL funds were paid directly to 4 students tested who received 6 FDSL disbursements. The dates in COD ranged from 5 to 13 days prior to dates that FDSL funds were disbursed to the students. Haney personnel indicated that errors in administering the FDSL program were due to a lack of training, and the FDSL program was discontinued for the 2011-12 fiscal year. When disbursement dates are not properly reported, students may misunderstand their FDSL responsibilities and their ability to cancel FDSLs could be limited.

ED Onsite Review. The ED Federal Student Aid Office performed an onsite review of the District's Pell and FDSL programs during March 2011 to determine compliance with Federal regulations and other requirements. In June 2011, ED issued preliminary results of the review that cited several deficiencies similar to those noted above and, in May 2011, ED performed a compliance assistance visit at the District. As of January 2012, the final report of ED's findings has not been released.

Program Compliance. Professional auditing standards require that when an auditee does not comply, in all material respects, with a compliance requirement that could have a direct and material effect on one of its major Federal programs, appropriate disclosures (qualifications) should be made in the auditor's report. As the District did not comply with the requirement regarding Special Tests and Provisions, Cash Management, and Reporting that are applicable to its Student Financial Assistance Cluster, our report on the District's compliance with those requirements includes a qualification to that effect. A similar finding was noted in our report No. 2011-138.

Recommendation: The District should make appropriate changes to meet the Federal administrative capability requirements of the Pell and Federal Direct Student Loan programs. Also, the District should establish adequate procedures over the programs to ensure that program receipts and disbursements are consistent with Federal requirements. In addition, the District should document to the grantor (United States Department of Education) the allowability of the questioned costs, totaling $45,109, or restore these moneys to the Pell program. Further, the District should consult with ED regarding resolution of underawards totaling $9,239.

District Contact Person: Michael Hepinstall, Director of Haney Technical Center

Federal Awards Finding No. 2:
Federal Agency: United States Department of Education
Pass-Through Entity: Florida Department of Education
Program: Charter Schools (CFDA 84.282)
Finding Type: Material Noncompliance and Material Weakness
Questioned Costs: $229,114

Subrecipient Monitoring. Pursuant to United States Office of Management and Budget (OMB) Circular A-133, paragraph 400(d), a pass-through entity is responsible, in part, for: (1) identifying to the subrecipients the Federal award information; (2) advising subrecipients of requirements imposed on them by Federal laws, regulations, and provisions of contract or grant agreements; (3) monitoring subrecipients' activities to provide reasonable assurance that subrecipients administer Federal awards in compliance with Federal regulations; and (4) ensuring that subrecipients expending $500,000 or more in Federal awards during the fiscal year have the required audits performed, and that appropriate corrective action is taken on any findings.

In addition, the pass-through entity is responsible for implementing procedures to timely track the Federal funds passed through to, and expended by, each subrecipient to determine the level of accountability required; adequately considering factors such as size of awards, percentage of the total program's funds awarded to subrecipients, and the complexity of the compliance requirements; and properly documenting the process. Subrecipient monitoring normally occurs throughout the year and may include reviewing financial and performance reports submitted by the subrecipient, performing site visits to review financial and programmatic records and observe operations, and regular contacts and appropriate inquiries with the subrecipients concerning program activities.

OMB Circular A-87, Attachment A, Section C.1., provides, in part, that costs must be adequately documented to be allowable under Federal awards. Also, OMB Circular A-87, Attachment B, Section 8.h., provides that, for employees expected to work on multiple activities or cost objectives, a distribution of their salaries or wages be supported by monthly personnel activity reports or equivalent documentation unless a substitute system has been approved by the cognizant Federal agency. These reports must reflect an after-the-fact distribution of the actual activity of each employee, the total activity for which each employee is compensated, 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.

For the 2010-11 fiscal year, the District reported Federal Charter School program expenditures totaling approximately $1.4 million that were passed through to six charter schools. The District used program funds to sponsor four charter schools (North Bay Haven Charter Elementary, North Bay Haven Charter Middle School, North Bay Haven Charter Career Academy, and NewPoint Academy Middle School) that opened for the first time in August 2010, and program

funds for a mentoring dissemination grant at Bay Haven Charter Academy and for closeout of a dissemination grant at the Chautauqua Learn & Serve Charter School.

Our review of District records supporting District monitoring procedures and four grants of four charter schools disclosed site visits were not performed at three of the four charter schools and monitoring procedures for the remaining charter school did not include consideration of the Federal compliance requirements. Without appropriate monitoring of Federal compliance requirements, there is an increased risk that charter schools may use Federal funds for unauthorized purposes and not comply with grant provisions.

To determine the allowability of program expenditures and whether program goods or services were received prior to payment, we tested six expenditures to four of the charter schools, including $414,676 for reimbursements of expenditures such as salaries and benefits, materials and supplies, and computer equipment. While our tests confirmed the propriety of certain expenditures, we noted that District records did not evidence the allowability of costs totaling $229,114. For example, contrary to OMB Circular A-133, salary and benefit charges were not supported by personnel activity reports or other time and effort records documenting the amount of time employees spent on grant-related activities, stipends paid for training courses were not supported by proof of attendance such as sign in and sign out sheets, and supporting invoices were not available for various other charges for goods and services. A contributing factor for these deficiencies is that the District had not designated an employee to oversee and monitor the Federal Charter School program compliance requirements. Although District personnel indicated that a District bookkeeper reviewed the supporting documentation when provided, the District did not have a process for expenditure reimbursement requests to be approved before payment was made. Without a designated individual overseeing charter school grants and ensuring that adequate supporting documentation is received, there is an increased risk that unallowable transactions could occur without detection and correction. Consequently, expenditures of $229,114 represent questioned costs subject to disallowance by the grantor (Florida Department of Education (FDOE)).

Period of Availability. Our tests of Charter School program expenditures described above disclosed a reimbursement request received by the District on December 14, 2010, from the Chautauqua Learn & Serve Charter School for $38,575. Based on the grant award, the last day to incur expenditures was November 30, 2010; however, the reimbursement request only identified total expenditures by function and object code and excluded any supporting documentation. Without evidence that the expenditures were made within the period of availability, the expenditures represent questioned costs subject to disallowance by the grantor (FDOE), which are included in the questioned cost amount above ($229,114).

Program Compliance. Professional auditing standards require that when an auditee does not comply, in all material respects, with a compliance requirement that could have a direct and material effect on one of its major Federal programs, appropriate disclosures (qualifications) should be made in the auditor's report. As the District did not comply with the requirement regarding Subrecipient Monitoring and Period of Availability requirements that are applicable to its Charter School program, our report on the District's compliance with those requirements includes a qualification to that effect.

Recommendation: The District should enhance its procedures for monitoring Federal moneys passed through to charter schools to ensure compliance with Federal requirements. Specifically, the District should assign an individual to monitor the charter school grants for compliance with Federal regulations and ensure that adequate documentation is received to support charter school expenditures prior to making reimbursement payments. Additionally, the District should document to the grantor (FDOE) the allowability of charges totaling $229,114 for the Charter School program, or these funds should be restored to the program.

District Contact Persons: Jim Loyed, Manager of Financial Services

Federal Awards Finding No. 3:
Federal Agency: United States Department of Agriculture
Pass-Through Entity: Florida Department of Agriculture
Program: Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559) and State Fiscal Stabilization Fund (SFSF) – Race-to-the-Top Incentive Grants (CFDA No. 84.395 – ARRA)
Finding Type: Noncompliance and Significant Deficiency
Questioned Costs: $39,390 (CFDA Nos. 10.553, 10.555, and 10.559)

Allowable Costs/Cost Principles – Documentation of Time and Effort. OMB 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.

Our review disclosed that enhancements were needed in District procedures for maintaining documentation to support the allocation of salaries and benefits charges to the Child Nutrition Cluster (CNC) and Race-to-the-Top (RTT) programs for the 2010-11 fiscal year, as follows:

- The District reported CNC program expenditures totaling approximately $5.3 million for salaries and benefits. To determine the propriety of these expenditures, we tested approximately $645,000 paid to 13 employees. Our test disclosed 2 employees, funded 65 and 35 percent or a total of approximately $39,390 from the CNC program, who, because of oversights, did not maintain the required personnel activity reports or other documentation to evidence the actual time devoted to program activities. Although requested, District personnel could not confirm the amount of time that the employees devoted to the CNC program, resulting in $39,390 of questioned costs subject to disallowance by the grantor.
- The District reported RTT program expenditures totaling approximately $78,000 for salaries and benefits. To determine the propriety of these expenditures, we tested a total of approximately $71,000 paid to five employees. Our test disclosed four of these employees, funded from 19 to 33 percent or total salaries and benefits of approximately $69,000 from the RTT program, who did not maintain the required personnel activity reports or equivalent documentation to evidence the actual time devoted to program activities. District personnel indicated that, due to personnel changes, the personnel activity reports were not prepared. Subsequent to our inquiry in November 2011, we were provided personnel activity reports for the four employees that confirmed that the salaries and benefits charges to the program were correct.

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

Recommendation: The District should enhance its procedures to ensure that personnel activity reports or equivalent documentation are maintained for employees who work on multiple activities or cost objectives. In addition, the District should document to the grantor (FDOE) the allowability of the questioned costs, totaling $39,390, or restore the moneys to the program.

District Contact Persons: Kim Blackwell, Food Service Director, and Nancy Boyd, Assistant Superintendent for Teaching & Learning 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. 2011-138.

MANAGEMENT'S RESPONSE

Management's response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

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

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

Audit Report No. and Federal Awards Finding No.	Program/Area	Brief Description	Status	Comments
2011-138 (1)	Federal Pell Grant (CFDA No. 84.063) - Activities Allowed or Unallowed, Cash Management, Reporting, and Special Tests and Provisions	Controls over the Federal Pell Grant Program were inadequate, resulting in questioned costs of $167,375.	Not Corrected.	
2011-138 (2)	Special Education - Grants to States (CFDA No. 84.027) - Allowable Costs/Cost Principles	Controls over Special Education contracted services were weak, resulting in questioned costs of $24,675.	Partially Corrected.	The deficiency has been corrected; however, final resolution of the questioned costs remains with the Florida Department of Education and remains unresolved.

EXHIBIT A

MANAGEMENT'S RESPONSE

WILLIAM V. HUSFELT, III
SUPERINTENDENT

1311 Balboa Avenue
Panama City, Florida
32401

(850) 767-4100
Hearing Impaired Access
(800) 955-8770 Voice
(800) 955-8771 TDD

www.bay.k12.fl.us

Board Members:

Joe Wayne Walker
District 1

Ryan Neves
District 2

Ginger Littleton
District 3

Jerry Register
District 4

Steve Moss
District 5

March 22, 2012

Mr. David W. Martin, CPA
Auditor General
State of Florida
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, FL 32399-1450

Dear Mr. Martin:

Pursuant to your letter of February 21, 2012 concerning Preliminary and Tentative Audit Findings resulting from your audit of the Bay County School Board for the fiscal year ending June 30, 2011, I am providing below my explanation concerning the findings and the actions we have taken to correct the deficiencies.

Financial Reporting
The District will work to improve its financial reporting procedures to ensure that financial statement account balances and transactions are properly reported.

Electronic Funds Transfers
The District is in the process of re-evaluating all banking agreements. All current agreements are being corrected and some dormant accounts are being closed. The District is also moving towards a two-person process for wire transfers.

Performance Assessments
The District Instructional Personnel system for FY 2011-2012 was approved on October 11, 2011 and is currently in effect. The District Administrator Appraisal System for FY 2011-2012 included the State requirements with regards to School Administrators' evaluations and was approved by the Bay District School Board on December 13, 2011. With the preparation of FY 2012-2013, a new appraisal system is currently being developed based on the adopted Florida Principal Leadership Standards. The District continues its efforts to place heavy emphasis on student performance/student growth and a performance-based assessment completed by the school administrators. Beginning this summer, training sessions on the new system, will be conducted by both FDOE consultants and District trainers.

Compensation and Salary Schedules
The new Teacher Appraisal System and Administrator Appraisal System were implemented in the 2011-2012 school year. These documents measure teacher and administrator assessments primarily by student performance and have been approved by Florida Department of Education (FLDOE) and the Bay District School Board as appropriate for implementation. However, no funds were received to implement increased salaries for high-performing instructional staff members or administrators.

While ratings have been assigned to each standard no decision has been made concerning monetary compensation due to lack of adequate funding. Plans are being developed in the event that funding becomes available in the future. With salary freezes, salary cuts and furlough days being implemented as budget cut measures, there is no money available for personnel to receive "differentiated pay" at this time. Administrators have not had a salary increase in three (3) years (and have actually taken a cut in pay for several years); it does not look any better for next year.

The Bay District School Teacher Appraisal System for 2011-2012 was approved by the Bay District School Board on October 11, 2011. The Administrator Appraisal System for 2011-2012 was approved by the Bay District School Board on December 13, 2011. A new system is currently being developed

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

for the 2012-2013 school year based on the newly adopted Florida Principal Leadership Standards.

Although the School Psychologist position has been listed as critical shortage area by the State and on the Bay District Salary Schedule, there are no shortages in Bay County. In fact, at the end of this past year, a school psychologist was non-renewed due to a decrease in student need. Therefore, revisions are being made to the Salary Schedule to delete this area of critical shortage. The Deputy Superintendent and the newly appointed Executive Director of Human Resources are working on policies and/or procedures for establishing the criteria for identifying critical shortage areas for Instructional Personnel and School-based Administrators.

Facilities Management
The District has prepared a written policy and procedure as recommended by the audit for review and approval of the School Board.

Construction Management Services – Contract Administration
The District has initiated a procedure to enhance the controls of payments for CME services and subcontractor bids and contracts as recommended by the auditor.

Food Service Collections
The District has initiated control procedures at the High School and Middle School for proper accountability of the Food Service a la carte and adult meal sales by removing the containers from the a la carte stands and maintaining separate inventory controls.

Information Technology – Access Privileges
All access to District Finance data is controlled within the Finance Department using screens that allow for the maintenance of District users. These controls have been corrected and reports are generated and provided to the Finance Department to facilitate access control. User access to domain accounts is being monitored and procedures are being revised as time allows.

Information Technology – Timely Deactivation of Access Privileges
Information Services acknowledges that the activation and deactivation of employees is a problem. The Information Technology Department is working closely with our Human Resource Director to develop a plan that provides better control as employees leave the organization.

Information Technology – Risk Management
This finding is correct in that while the District Information Technology Department does have a plan and monitors a number of possible areas that could present issues; they are not yet in a formal written format. The District Information Technology staff is committed to make an effort to start the process of getting these processes identified and formalized this year.

Information Technology – Security Incident Response Plan
The District acknowledges that the level of our current security response plan is in need of improvement. The District Information Technology staff will engage the assistance of the departments and areas that are best suited to handle such events and make an effort to have this plan implemented as of the next school year.

Information Technology – Security Controls – User Authentication and Data Loss Prevention
District Information Technology staff is planning a review of current controls, procedures and policies that relate to user authentication. Based on that review, changes will be implemented in the 2012-2013 school year that will help identify and enforce any area of weakness.

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

Federal Awards Finding No. 1 – Student Financial Assistance Cluster - Federal Pell Grant Program and Federal Direct Student Loans

There have been significant changes made in the Financial Aid Department to meet the Federal administrative capability requirements of the Pell program. First, as of May, 2011, Haney chose to discontinue the Federal Direct Student Loan program. Secondly, the Financial Aid Department has increased from one employee two years ago to six employees today. The increase of staff will allow Haney to adequately administer the program under various standards established in Title 34, Section 668.16, and Code of Federal Regulations (CFR). The Financial Aid staff is scheduled to attend Free Application for Federal Student Aid (FASFA) training opportunities this summer. The training will help us stay abreast of new policies and procedures as well as to improve on current policy and procedures. The training will also allow us to meet with and network with other institutions across the state of Florida. The new Finance Director hired at Haney is currently working with staff in reviewing records. He is working with staff in establishing reconciliation procedures to ensure that program receipts and disbursements are consistent with Federal requirements. We have changed the office hours of our Financial Aid Department from being open Monday – Friday to being open Monday – Thursday. Friday is designated as a work day to allow everyone to check records and to meet and discuss any concerns. This is also a time we review any new policies or procedures that need to be implemented.

A new Financial Aid handbook was created in April, 2011. This handbook was revised after attending Free Application for Federal Student Aid (FASFA) training this past summer. We also requested guidance and assistance from a Federal Program Specialist from the United States Department of Education in getting our Financial Aid Department in compliance. The Program Specialist spent several days with us and assisted us in aligning our new Financial Aid handbook. They also worked with us on the understanding and clarification of deferent terminologies and definitions.

The audit disclosed Pell program questioned costs of $45,109 and under awards of $9,239 as follows:

- Financial Reporting--The Financial Reporting of $911 is included in our submission four dated March 9, 2012.

- Verifications--The verification amount should also be resolved. We determined during a review performed in March, 2012, that the Institutional Student Information Records (ISIR) has been verified and changes made as needed. None of these changes made affected the amount of funds awarded to the students. Therefore, we feel the $19,710 was a valid disbursement to the students and no refunds should be required.

- Disbursement Overawards--We acknowledge these funds should have been returned. The Financial Aid Department has since established the new Financial Aid Policy and Procedures Manual, attended the annual FASFA Conference and worked with the Federal Program Specialist.

- Crossover Payments—The students were under awarded in the 2009-2010 school year and the same four students were given an over award in the 2010-2011 school year. This created a total net difference of $1,209 for those students.

- Escheating--The amount of $2,342 will be returned to the Department of Education as part of submission five after the approval of submission four which was submitted on March 9, 2012.

- Return of Funds-- The terminology regarding attendance and the definition was misunderstood and clarified after our training with FASFA.

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

The amount of funds that we have determined that we owe is the disbursement overawards of $14,549. The other amounts have been corrected and/or disbursed to students. We have made tremendous strides in correcting our processes and increased our Financial Aid Personnel to ensure policy and procedures will be followed.

We are in the process of consulting with the United States Department of Education in regards with the underawards for the 2009-2010 and 2010-2011 award years.

Federal Awards Finding No. 2 – Charter Schools
The District is in the process of establishing new monitoring procedures for charter schools federal pass through funds.

Federal Awards Finding No. 3 – Child Nutrition Cluster and State Fiscal Stabilization
The District has enhanced its procedures to ensure that the personnel activity reports are maintained for the employees who work on multiple activities or cost objectives.

Sincerely,

William V. Husfelt, III
District Superintendent