REPORT NO. 2011-066
DECEMBER 2010

WALTON COUNTY
DISTRICT SCHOOL BOARD

Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended
June 30, 2010



STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD MEMBERS AND SUPERINTENDENT

Board members and the Superintendent who served during the 2009-10 fiscal year are listed below:

	District No.
Mildred T. Wilkerson, Vice Chair from 11-17-09	1
William E. Laird, Chair to 11-16-09	2
Sharon N. Roberts, Vice Chair to 11-16-09	3
Mark D. Davis, Chair from 11-17-09	4
Darrell J. Barnhill	5

Carlene H. Anderson, 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 Christy L. Johnson, CPA, and the audit was supervised by James W. Kiedinger, Jr., CPA. For the information technology portion of this audit, the audit team leader was Stephanie J. Hogg, CPA, CISA, and the supervisor was Nancy M. Reeder, CPA, CISA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Manager, by e-mail at gregcenters@aud.state.fl.us or by telephone at (850) 487-9039.

This report and other reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 487-9175; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

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

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: The District needed to improve its financial reporting procedures.

ADDITIONAL MATTERS

Finding No. 2: District records did not sufficiently evidence that performance assessments of instructional personnel and school administrators were based primarily on student performance, contrary to Section 1012.34(3), Florida Statutes.

Finding No. 3: The Board had not adopted formal policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance pursuant to Section 1012.22(1)(c)2., Florida Statutes, and 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.

Finding No. 4: The District could improve its controls over the reporting of instructional contact hours for adult general education courses to the Florida Department of Education.

Finding No. 5: Enhancements were needed to ensure compliance with Section 119.071(5)(a), Florida Statutes, regarding notifying individuals of the need for and use of social security numbers.

Finding No. 6: The District's information technology security controls related to user authentication needed improvement.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Title I, Part A Cluster; Special Education Cluster; and State Fiscal Stabilization Fund Cluster programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that were applicable to the major Federal programs tested.

Audit Objectives and Scope

Our audit objectives were to determine whether the Walton 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. 2010-054.**

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, 2010. We obtained an understanding of the District's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements and Federal awards. We also examined various transactions to determine whether they were executed, both in manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

Audit Methodology

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

AUDITOR GENERAL
STATE OF FLORIDA

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111 West Madison Street
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AUDITOR GENERAL

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

INDEPENDENT AUDITOR'S
REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Walton County District School Board, as of and for the fiscal year ended June 30, 2010, 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 school internal funds, which represent 35 percent of the assets and 89 percent of the liabilities of the aggregate remaining fund information. In addition, we did not audit the financial statements 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 opinions, insofar as they relate to the amounts included for the school internal funds and the aggregate discretely presented component units, are 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. 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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information for the Walton County District School Board as of June 30, 2010, and the respective changes in financial position 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 Walton County District School Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* 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** (pages 3 through 8) and **OTHER REQUIRED SUPPLEMENTARY INFORMATION** (pages 40 through 43) 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
December 3, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Walton County District School Board has prepared the following discussion and analysis to provide an overview of the District's financial activities for the fiscal year ended June 30, 2010. 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 basic financial statements and notes to financial statements found on pages 9 through 38.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2009-10 fiscal year are as follows:

- In total, net assets increased $6,221,216.45, which represents a 4.4 percent increase from the 2008-09 fiscal year.
- General revenues total $83,524,952.17, or 95.5 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total $3,894,669.04, or 4.5 percent of all revenues.
- Expenses total $81,198,404.76; only $3,894,669.04 of these expenses was offset by program specific charges, with the remainder paid from general revenues. Total revenues exceeded total expenses by $6,221,216.45.
- The unreserved fund balance of the General Fund, representing the net current financial resources available for general appropriation by the Board, totals $4,099,553.32 at June 30, 2010, or 6.6 percent of total General Fund expenditures.

OVERVIEW OF FINANCIAL STATEMENTS

The basic financial statements consist of three components:

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

Government-wide Financial Statements

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

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 grants and contributions not restricted to specific programs provide most of the resources that support these activities.
- Component units – The District presents three separate legal entities in this report including the Walton Academy, Inc., The Seaside School, Inc., and the Walton Education Foundation, Inc. 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. Financial information for these component units is reported separately from the financial information presented for the primary government.

- The Walton County Public Education Finance Authority, Inc. (Authority), 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 Authority, the Authority has been included (blended) 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 – American Recovery and Reinvestment Act (ARRA) Economic Stimulus Fund, and the Capital Projects – Local Capital Improvement Fund. Data from the other governmental funds are combined into a single, aggregated presentation.

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

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, 2010, compared to net assets as of June 30, 2009:

Net Assets, End of Year

	Governmental Activities	
	6-30-10	6-30-09
Current and Other Assets	$ 19,484,087.76	$ 18,278,716.34
Capital Assets	159,575,381.40	150,174,079.43
Total Assets	179,059,469.16	168,452,795.77
Long-Term Liabilities	23,945,085.01	24,267,693.70
Other Liabilities	8,558,048.14	3,849,982.51
Total Liabilities	32,503,133.15	28,117,676.21
Net Assets:		
Invested in Capital Assets - Net of Related Debt	137,018,320.48	131,910,258.26
Restricted	6,085,190.82	8,132,966.59
Unrestricted	3,452,824.71	291,894.71
Total Net Assets	$ 146,556,336.01	$ 140,335,119.56

The largest portion of the District's net assets (93.5 percent) reflects its investment in capital assets (e.g., land; buildings; furniture, fixtures, and equipment), less any related debt still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending.

The restricted portion of the District's net assets (4.1 percent) represents resources that are subject to external restrictions on how they may be used. The unrestricted net assets (2.4 percent) may be used to meet the government's ongoing obligations to students, employees, and creditors.

The key elements of the changes in the District's net assets for the fiscal years ended June 30, 2010, and June 30, 2009, are as follows:

Operating Results for the Year

	Governmental Activities	
	6-30-10	6-30-09
Program Revenues:		
Charges for Services	$ 1,233,596.38	$ 1,370,293.31
Operating Grants and Contributions	2,183,767.25	3,755,379.82
Capital Grants and Contributions	477,305.41	2,233,701.41
General Revenues:		
Property Taxes, Levied for Operational Purposes	47,735,166.85	45,955,465.80
Property Taxes, Levied for Capital Projects	17,025,882.32	19,623,872.07
Grants and Contributions Not Restricted to Specific Programs	17,878,358.18	15,193,869.69
Unrestricted Investment Earnings	235,202.59	(55,749.26)
Miscellaneous	650,342.23	788,333.81
Total Revenues	87,419,621.21	88,865,166.65
Functions/Program Expenses:		
Instruction	41,443,828.88	42,696,989.19
Pupil Personnel Services	2,478,496.48	2,471,979.15
Instructional Media Services	1,268,099.07	1,318,790.87
Instruction and Curriculum Development Services	1,956,253.10	1,270,980.19
Instructional Staff Training Services	1,335,830.66	1,502,528.27
Instruction Related Technology	670,144.70	960,729.47
School Board	373,205.41	384,561.38
General Administration	453,752.21	314,111.77
School Administration	4,932,153.47	5,169,820.42
Facilities Acquisition and Construction	1,432,547.26	1,289,264.49
Fiscal Services	406,830.70	374,623.07
Food Services	3,207,035.17	3,488,132.11
Central Services	851,472.07	1,089,577.97
Pupil Transportation Services	4,500,383.52	4,319,507.47
Operation of Plant	8,125,315.58	7,721,589.66
Maintenance of Plant	1,482,830.04	1,481,111.25
Administrative Technology Services	311,598.21	318,502.01
Community Services	552,793.50	521,319.57
Unallocated Interest on Long-Term Debt	1,008,597.34	953,957.61
Unallocated Depreciation Expense	4,407,237.39	4,294,783.38
Total Functions/Program Expenses	81,198,404.76	81,942,859.30
Increase in Net Assets	$ 6,221,216.45	$ 6,922,307.35

The District's results of operations, including total revenues and total expenses, did not change significantly from the prior fiscal year. Grants and contributions not restricted to specific programs increased by approximately $2.7 million over the amount from the prior fiscal year due primarily to ARRA funds received. The largest revenue source is property taxes, which represents 74.1 percent of total governmental revenues. The largest expense is instruction, which represents 51 percent of total governmental expenses.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Major Governmental Funds

The General Fund is the chief operating fund of the District. At June 30, 2010, the unreserved fund balance is $4,099,553.32, while the total fund balance is $4,658,110.46. The unreserved fund balance decreased by $1,296,891.72, while the total fund balance decreased by $1,166,862.64 during the fiscal year. Total revenues and other financing sources did not significantly change from the prior fiscal year; however, total General Fund expenditures and other financing uses decreased by approximately $4.2 million, or 6.3 percent. The majority of the decrease occurred in the instruction function due primarily to the shifting of certain instructional salaries and benefits previously recorded in the General Fund to the Special Revenue – ARRA Economic Stimulus Fund.

The Special Revenue – ARRA Economic Stimulus Fund is a new fund in the 2009-10 fiscal year. Revenues and expenditures for this fund totaled $3,513,810.37. The funding was mainly used for instructional and instruction related expenditures. Because grant revenues are not recognized until expenditures are incurred, the grants accounted for in this fund generally do not accumulate fund balances.

The Capital Projects – Local Capital Improvement Fund has a total fund balance of $4,323,677.20 at June 30, 2010, which is reserved for the acquisition, construction, and maintenance of capital assets. The fund balance decreased by approximately $2.7 million from the prior fiscal year, due primarily to declining property tax revenues as a result of declining property valuations.

GENERAL FUND BUDGETARY HIGHLIGHTS

The District's budgets are prepared and amendments made according to Florida law. The most significant budgeted fund is the General Fund.

During the course of the 2009-10 fiscal year, the District amended its General Fund budget several times. Final budgeted revenues, other financing sources, and other financing uses are not significantly different from the original budget. Final budgeted expenditures exceeded the original budgeted expenditures by $1,872,030.95, or 3.1 percent. Budgeted expenditures increased due primarily to salaries and benefits of additional instructional personnel necessitated by the Class Size Reduction constitutional amendment and increased utility (electricity) costs.

Actual revenues exceeded final budgeted revenues by $1,995,084.96, or 3.5 percent, due primarily to miscellaneous State grants and tax redemption funds received. Actual expenditures, other financing sources, and other financing uses are not significantly different from the final budget.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets for its governmental activities as of June 30, 2010, amounts to $159,575,381.40 (net of accumulated depreciation). This investment in capital assets includes land; land improvements; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; construction in progress; and computer software.

Construction in progress at June 30, 2010, included three facilities: a new Walton High School, a new Emerald Coast Middle School, and a maintenance storage building.

Additional information on the District's capital assets can be found in Notes 4 and 15 to the financial statements.

Long-Term Debt

At June 30, 2010, the District had long-term debt outstanding of $16,557,060.92. This amount is comprised of $1,295,000.00 of bonds payable and $15,262,060.92 for certificates of participation payable.

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

OTHER MATTERS OF SIGNIFICANCE

On August 5, 2010, the District issued Certificates of Participation, Series 2010, in the amount of $10,075,000. The proceeds will be used for the construction of the new Emerald Coast Middle School.

REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A or other required supplementary information, and financial statements and notes thereto, or requests for additional financial information should be addressed to the Chief Financial Officer, Walton County District School Board, 145 Park Street, Suite 3, DeFuniak Springs, Florida 32435.

BASIC FINANCIAL STATEMENTS

WALTON COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET ASSETS
June 30, 2010

	Primary Government Governmental Activities	Component Units
ASSETS		
Cash and Cash Equivalents	$ 18,007,905.75	$ 1,009,152.00
Investments	315,531.20	
Accounts Receivable	10,208.21	27.00
Deposits Receivable		6,021.00
Due from Other Agencies	216,102.26	28,703.00
Prepaid Items		9,859.00
Deferred Charges	741,295.48	
Inventories	193,044.86	
Capital Assets:		
Nondepreciable Capital Assets	55,998,628.06	633,413.00
Depreciable Capital Assets, Net	103,576,753.34	1,074,388.00
TOTAL ASSETS	$ 179,059,469.16	$ 2,761,563.00
LIABILITIES		
Salaries and Benefits Payable	$ 468,944.88	$ 2,784.00
Payroll Deductions and Withholdings	1,095,997.61	
Accounts Payable	521,941.47	54,350.00
Construction Contracts Payable	444,642.34	
Due to Other Agencies	5,093.25	16,269.00
Deferred Revenue	21,428.59	
Note Payable	6,000,000.00	
Long-Term Liabilities:		
Portion Due Within One Year	2,203,598.43	107,651.00
Portion Due After One Year	21,741,486.58	95,583.00
Total Liabilities	32,503,133.15	276,637.00
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	137,018,320.48	1,516,236.00
Restricted for:		
State Required Carryover Programs	558,557.14	12,406.00
Debt Service	783,791.17	
Capital Projects	4,327,457.26	95,847.00
Food Service	415,385.25	
Other Purposes		126,732.00
Unrestricted	3,452,824.71	733,705.00
Total Net Assets	146,556,336.01	2,484,926.00
TOTAL LIABILITIES AND NET ASSETS	$ 179,059,469.16	$ 2,761,563.00

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

WALTON COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2010

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	$ 41,443,828.88	$ 527,319.98	$	$
Pupil Personnel Services	2,478,496.48			
Instructional Media Services	1,268,099.07			
Instruction and Curriculum Development Services	1,956,253.10			
Instructional Staff Training Services	1,335,830.66			
Instruction Related Technology	670,144.70			
School Board	373,205.41			
General Administration	453,752.21			
School Administration	4,932,153.47			
Facilities Acquisition and Construction	1,432,547.26			336,156.96
Fiscal Services	406,830.70			
Food Services	3,207,035.17	665,372.89	2,183,767.25	
Central Services	851,472.07			
Pupil Transportation Services	4,500,383.52	40,903.51		
Operation of Plant	8,125,315.58			
Maintenance of Plant	1,482,830.04			
Administrative Technology Services	311,598.21			
Community Services	552,793.50			
Unallocated Interest on Long-Term Debt	1,008,597.34			141,148.45
Unallocated Depreciation Expense*	4,407,237.39			
Total Governmental Activities	$ 81,198,404.76	$ 1,233,596.38	$ 2,183,767.25	$ 477,305.41
Component Units				
Charter Schools/Education Foundation	$ 2,258,676.00	$	$ 478,723.00	$ 99,158.00
General Revenues:				
Taxes:				
Property Taxes, Levied for Operational Purposes				
Property Taxes, Levied for Capital Projects				
Grants and Contributions Not Restricted to Specific Programs				
Unrestricted Investment Earnings				
Miscellaneous				
Total General Revenues				
Change in Net Assets				
Net Assets - Beginning				
Net Assets - Ending				

* 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
Governmental Activities	Units
$ (40,916,508.90)	$
(2,478,496.48)	
(1,268,099.07)	
(1,956,253.10)	
(1,335,830.66)	
(670,144.70)	
(373,205.41)	
(453,752.21)	
(4,932,153.47)	
(1,096,390.30)	
(406,830.70)	
(357,895.03)	
(851,472.07)	
(4,459,480.01)	
(8,125,315.58)	
(1,482,830.04)	
(311,598.21)	
(552,793.50)	
(867,448.89)	
(4,407,237.39)	
(77,303,735.72)	
	(1,680,795.00)
47,735,166.85	
17,025,882.32	
17,878,358.18	1,788,128.00
235,202.59	13,899.00
650,342.23	1,473.00
83,524,952.17	1,803,500.00
6,221,216.45	122,705.00
140,335,119.56	2,362,221.00
$ 146,556,336.01	$ 2,484,926.00

WALTON COUNTY
DISTRICT SCHOOL BOARD
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2010

	General Fund	Special Revenue - ARRA Economic Stimulus Fund	Capital Projects - Local Capital Improvement Fund
ASSETS			
Cash and Cash Equivalents	$ 6,135,811.08	$ 6,820.86	$ 10,768,352.74
Investments	176,069.62	76.69	58,798.85
Accounts Receivable	10,110.21		
Due from Other Agencies	210,632.46		
Inventories	92,171.08		
TOTAL ASSETS	$ 6,624,794.45	$ 6,897.55	$ 10,827,151.59
LIABILITIES AND FUND BALANCES			
Liabilities:			
Salaries and Benefits Payable	$ 468,944.88	$	$
Payroll Deductions and Withholdings	1,081,194.05	5,748.59	
Accounts Payable	390,023.22	1,148.96	58,832.05
Construction Contracts Payable			444,642.34
Due to Other Agencies	5,093.25		
Deferred Revenue	21,428.59		
Note Payable			6,000,000.00
Total Liabilities	1,966,683.99	6,897.55	6,503,474.39
Fund Balances:			
Reserved for State Required Carryover Programs	558,557.14		
Reserved for Encumbrances			4,323,677.20
Reserved for Debt Service			
Unreserved:			
Undesignated, Reported in:			
General Fund	4,099,553.32		
Special Revenue Funds			
Capital Projects Funds			
Total Fund Balances	4,658,110.46		4,323,677.20
TOTAL LIABILITIES AND FUND BALANCES	$ 6,624,794.45	$ 6,897.55	$ 10,827,151.59

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

	Other Governmental Funds	Total Governmental Funds
	$ 1,096,921.07	$ 18,007,905.75
	80,586.04	315,531.20
	98.00	10,208.21
	5,469.80	216,102.26
	100,873.78	193,044.86
	$ 1,283,948.69	$ 18,742,792.28
	$	$ 468,944.88
	9,054.97	1,095,997.61
	71,937.24	521,941.47
		444,642.34
		5,093.25
		21,428.59
		6,000,000.00
	80,992.21	8,558,048.14
		558,557.14
		4,323,677.20
	783,791.17	783,791.17
		4,099,553.32
	415,385.25	415,385.25
	3,780.06	3,780.06
	1,202,956.48	10,184,744.14
	$ 1,283,948.69	$ 18,742,792.28

WALTON COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2010

Total Fund Balances - Governmental Funds		$ 10,184,744.14
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.		159,575,381.40
Debt issuance costs are not expensed in the government-wide statements, but are reported as deferred charges and amortized over the life of the debt.		741,295.48
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consist of:		
Bonds Payable	$ 1,295,000.00	
Certificates of Participation Payable	15,262,060.92	
Compensated Absences Payable	4,942,535.09	
Other Postemployment Benefits Payable	2,445,489.00	(23,945,085.01)
Total Net Assets - Governmental Activities		$ 146,556,336.01

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

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WALTON COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2010

	General Fund	Special Revenue - ARRA Economic Stimulus Fund	Capital Projects - Local Capital Improvement Fund
Revenues			
Intergovernmental:			
Federal Direct	$ 313,350.28	$	$
Federal Through State and Local	68,324.04	3,513,810.37	
State	9,652,432.67		
Local:			
Property Taxes	47,735,166.85		17,025,882.32
Charges for Services - Food Service			
Miscellaneous	1,278,422.75		54,087.33
Total Revenues	59,047,696.59	3,513,810.37	17,079,969.65
Expenditures			
Current - Education:			
Instruction	35,738,346.68	2,778,010.49	
Pupil Personnel Services	2,109,669.85	65,227.46	
Instructional Media Services	1,235,532.18		
Instruction and Curriculum Development Services	678,693.21	427,878.56	
Instructional Staff Training Services	568,231.34	88,179.56	
Instruction Related Technology	640,434.50	12,853.69	
School Board	367,448.68		
General Administration	224,963.68	104,735.66	
School Administration	4,797,943.73		
Facilities Acquisition and Construction			1,321,055.75
Fiscal Services	396,550.95		
Food Services	42,745.24	11,327.26	
Central Services	830,296.56		
Pupil Transportation Services	3,760,931.15		
Operation of Plant	8,050,498.34		
Maintenance of Plant	1,402,993.30		
Administrative Technology Services	307,019.59		
Community Services	460,669.38		
Fixed Capital Outlay:			
Facilities Acquisition and Construction			12,255,926.28
Other Capital Outlay	95,938.46	25,597.69	1,832,448.55
Debt Service:			
Principal			
Interest and Fiscal Charges	158,274.68		
Total Expenditures	61,867,181.50	3,513,810.37	15,409,430.58
Excess (Deficiency) of Revenues Over Expenditures	(2,819,484.91)		1,670,539.07
Other Financing Sources (Uses)			
Transfers In	2,352,622.27		
Transfers Out	(700,000.00)		(4,322,227.27)
Total Other Financing Sources (Uses)	1,652,622.27		(4,322,227.27)
Net Change in Fund Balances	(1,166,862.64)		(2,651,688.20)
Fund Balances, Beginning	5,824,973.10		6,975,365.40
Fund Balances, Ending	$ 4,658,110.46	$ 0.00	$ 4,323,677.20

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

Other Governmental Funds	Total Governmental Funds
$ 83,811.51	$ 397,161.79
6,165,562.91	9,747,697.32
747,346.82	10,399,779.49
	64,761,049.17
665,372.89	665,372.89
65,338.80	1,397,848.88
7,727,432.93	87,368,909.54
2,048,508.64	40,564,865.81
248,409.67	2,423,306.98
	1,235,532.18
830,683.52	1,937,255.29
663,721.04	1,320,131.94
8,165.42	661,453.61
	367,448.68
118,952.74	448,652.08
	4,797,943.73
111,491.51	1,432,547.26
	396,550.95
3,151,514.17	3,205,586.67
	830,296.56
14,418.00	3,775,349.15
	8,050,498.34
42,440.07	1,445,433.37
	307,019.59
83,811.51	544,480.89
145,535.54	12,401,461.82
56,446.56	2,010,431.26
1,640,000.00	1,640,000.00
763,419.22	921,693.90
9,927,517.61	90,717,940.06
(2,200,084.68)	(3,349,030.52)
2,805,700.11	5,158,322.38
(136,095.11)	(5,158,322.38)
2,669,605.00	
469,520.32	(3,349,030.52)
733,436.16	13,533,774.66
$ 1,202,956.48	$ 10,184,744.14

WALTON 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, 2010

Net Change in Fund Balances - Governmental Funds		$ (3,349,030.52)
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. The following details the amount of capital outlays in excess of depreciation expense in the current period:		
Capital Outlay - Facilities Acquisition and Construction - Capitalized	$ 12,401,461.82	
Capital Outlay - Other Capital Outlay - Capitalized	2,010,431.26	
Depreciation Expense	(5,061,302.78)	9,350,590.30
Donated capital assets increase net assets in the statement of activities, but do not provide current financial resources and, therefore, are not reported in the governmental funds.		36,888.69
The undepreciated cost of capital assets which are sold or otherwise disposed of is expensed in the statement of activities. However, the cost of these assets was recognized as an expenditure in the governmental funds in the year purchased. Thus, the change in net assets differs from the change in fund balance by the undepreciated cost of the disposed assets and other corrections.		13,822.98
Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. The following details the amount of repayments in the current year:		
Bonds Payable	260,000.00	
Certificates of Participation	1,380,000.00	1,640,000.00
Governmental funds report the effects of issuance costs, premiums, discounts, and similar items in the year the debt is issued, but these amounts are deferred and amortized over the life of the debt in the statement of activities:		
Amortized Deferred Charges	(153,663.69)	
Amortized Premiums	66,760.25	(86,903.44)
Other postemployment benefit costs are recorded in the statement of activities under the full accrual method, but in the governmental funds when due. This is the net increase in other postemployment benefits liability for the current period.		(1,226,501.00)
In the statement of activities, the cost of compensated absences is measured by the amounts earned during the year; while in the governmental funds, expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences earned in excess of the amount paid in the current period.		(157,650.56)
Change in Net Assets - Governmental Activities		$ 6,221,216.45

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

WALTON COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - FIDUCIARY FUNDS
June 30, 2010

	Agency Funds
ASSETS	
Cash and Cash Equivalents	$ 685,415.00
LIABILITIES	
Internal Accounts Payable	$ 685,415.00

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

WALTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

➢ Reporting Entity

The District School Board has direct responsibility for operation, control, and supervision of District schools and is considered a primary government for financial reporting. The Walton County School District (District) is considered part of the Florida system of public education. The governing body of the school district is the Walton County District School Board (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 Walton 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 School Board are such that exclusion would cause the District's basic financial statements to be misleading or incomplete. Based on these criteria, the following component units are included within the District's reporting entity:

- Blended Component Unit. The Walton County Public Education Finance Authority, Inc. (Authority), was formed to facilitate financing for the acquisition of facilities and equipment as further discussed in Note 6. Due to the substantive economic relationship between the District and the Authority, the financial activities of the Authority are included in the accompanying basic financial statements. Separate financial statements for the Authority 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 other component units.

  The Walton Education Foundation, Inc. (Foundation), is a separate, not-for-profit corporation organized and operated as a direct-support organization 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 its relationship with the District, the Foundation is considered a component unit.

  The Seaside School, Inc., and the Walton Academy, Inc., are separate, 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 charter schools operate under charters approved by their sponsor, the Walton County District School Board. The charter schools are considered to be component units of the District since they are fiscally dependent on the District to levy taxes for their support.

  The financial data reported on the accompanying statements was derived from the Foundation's and charter schools' audited financial statements for the fiscal year ended June 30, 2010. The audit reports are filed in the District's administrative office.

WALTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

- **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 primary government and its component units.

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

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

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

Fund Financial Statements - Fund financial statements report detailed information about the District in the governmental 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 – ARRA Economic Stimulus Fund – to account for all financial resources generated by the American Recovery and Reinvestment Act (ARRA).
- Capital Projects – Local Capital Improvement Fund – to account for the financial resources generated by the local capital improvement tax levy to be used for educational capital outlay needs, including new construction and renovation and remodeling projects.

Additionally, the District reports the following fiduciary fund type:

- 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.

WALTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

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

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

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.

The Walton Education Foundation, Inc., is 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, 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.

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

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

WALTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

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, 2010, 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 0.67353149 at June 30, 2010. 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 date of Fund B. One hundred percent of such distributions from Fund B are liquid and are available within Florida PRIME.

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 the last invoice cost which approximates the first-in, first-out basis, 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 $500. 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 cost 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 straight-line method over the following estimated useful lives:

Description	Estimated Lives
Improvements Other than Buildings	7 - 35 years
Buildings and Fixed Equipment	10 - 50 years
Furniture, Fixtures, and Equipment	3 - 25 years
Motor Vehicles	5 - 10 years
Computer Software	5 years

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

WALTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

- **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. Certificates of Participation (Certificates) premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the Certificates. Certificates of participation payable are reported net of the applicable premium or discount.

  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 debt 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 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 fiscal 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. Such amendments may impact funding allocations for subsequent years. The Department may also adjust subsequent fiscal period allocations based upon an audit of the District's compliance in determining and reporting FTE and related data. Normally, such adjustments are treated as reductions or additions of revenue in the fiscal year 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 fiscal year to be expended for the same educational programs. The Department generally requires that these educational program revenues be accounted for in the General Fund. A portion of the fund balance of the General Fund is reserved in the governmental fund financial statements for the unencumbered balance of these 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 fiscal year is presented in a subsequent note.

WALTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

- **District Property Taxes**

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

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

  The Board adopted the 2009 tax levy on September 15, 2009. Tax bills are mailed in October and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to 4 percent for early payment.

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

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

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

- **Federal Revenue Sources**

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

2. BUDGETARY COMPLIANCE AND ACCOUNTABILITY

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

- Budgets are prepared, public hearings are held, and original budgets are adopted annually for all governmental fund types in accordance with procedures and time intervals prescribed by law and State Board of Education rules.
- Appropriations are controlled at the object level (e.g., salaries, purchased services, and capital outlay) within each activity (e.g., instruction, pupil personnel services, and school administration) and may be amended by resolution at any School Board meeting prior to the due date for the annual financial report.
- Budgets are prepared using the same modified accrual basis as is used to account for governmental funds.
- Budgetary information is integrated into the accounting system and, to facilitate budget control, budget balances are encumbered when purchase orders and other contract commitments are issued.

WALTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

Appropriations lapse at fiscal year-end and encumbrances outstanding are honored from the subsequent fiscal year's appropriations.

3. INVESTMENTS

Section 218.415(17), Florida Statutes, authorizes the District to invest in the State Board of Administration (SBA) Local Government Surplus Funds Trust Fund Investment Pool, which effective July 1, 2009, is known as Florida PRIME; any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Section 163.01, Florida Statutes; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits or savings accounts in qualified public depositories, as defined in Section 280.02, Florida Statutes; and direct obligations of the United States Treasury. The District's investment policy does not further limit the District's investment choices and the policy does not limit investment maturities as a means of managing its exposure to fair value losses from increasing interest rates.

Investments, reported as cash equivalents, with a fair value of $6,327,766.91 at June 30, 2010, are in Florida PRIME with a weighted average days to maturity (WAM) of 46 days. A portfolio's WAM reflects the average maturity based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the portfolio to interest rate changes. The District's investment in Florida PRIME is rated AAAm by Standard & Poor's.

Investments with a fair value of $291,722.03 at June 30, 2010, are in the SBA Fund B Surplus Funds Trust Fund (Fund B) with a weighted average life (WAL) of 8.05 years. A portfolio's WAL is the dollar weighted average length of time until securities held reach maturity. WAL, which also measures the sensitivity of the portfolio to interest rate changes, is based on legal final maturity dates for Fund B as of June 30, 2010. However, because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the WAL. The District's investment in Fund B is unrated.

In addition, the District reports investments totaling $23,809.17 at June 30, 2010, in the other governmental funds to provide for debt service payments on bond debt issued by the State Board of Education for the benefit of the District. These investments consist of United States Treasury securities, with maturity dates of six months or less, and are reported at fair value. The District relies on policies developed by SBA for managing credit risk for this account.

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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	$ 5,859,959.86	$	$	$ 5,859,959.86
Land Improvements - Nondepreciable	83,602.06			83,602.06
Construction in Progress	37,806,840.66	12,399,901.82	151,676.34	50,055,066.14
Total Capital Assets Not Being Depreciated	43,750,402.58	12,399,901.82	151,676.34	55,998,628.06
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	4,564,983.00	346,533.12		4,911,516.12
Buildings and Fixed Equipment	126,096,971.03	151,676.34		126,248,647.37
Furniture, Fixtures, and Equipment	12,581,335.54	960,368.20	744,644.70	12,797,059.04
Motor Vehicles	8,148,123.84	738,345.53	396,740.51	8,489,728.86
Computer Software	1,289,114.54	3,633.10	43,759.53	1,248,988.11
Total Capital Assets Being Depreciated	152,680,527.95	2,200,556.29	1,185,144.74	153,695,939.50
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	2,443,470.04	273,309.05		2,716,779.09
Buildings and Fixed Equipment	29,389,662.68	2,754,675.84	1,123.76 (1)	32,143,214.76
Furniture, Fixtures, and Equipment	8,889,036.25	1,282,540.86	737,083.51	9,434,493.60
Motor Vehicles	4,386,227.37	654,065.39	395,445.51	4,644,847.25
Computer Software	1,148,454.76	96,711.64	65,314.94 (1)	1,179,851.46
Total Accumulated Depreciation	46,256,851.10	5,061,302.78	1,198,967.72	50,119,186.16
Total Capital Assets Being Depreciated, Net	106,423,676.85	(2,860,746.49)	(13,822.98)	103,576,753.34
Governmental Activities Capital Assets, Net	$ 150,174,079.43	$ 9,539,155.33	$ 137,853.36	$ 159,575,381.40

Note: (1) These amounts include adjustments and corrections for prior fiscal year errors.

Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Pupil Transportation Services	$ 654,065.39
Unallocated	4,407,237.39
Total Depreciation Expense - Governmental Activities	$ 5,061,302.78

5. CHANGES IN SHORT-TERM DEBT

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

	Beginning Balance	Additions	Deletions	Ending Balance
GOVERNMENTAL ACTIVITIES				
Anticipation Notes:				
Tax Anticipation Note, Series 2009	$	$ 15,000,000	$ 15,000,000	$
Revenue Anticipation Note, Series 2010		6,000,000		6,000,000
Total Governmental Activities	$ 0	$ 21,000,000	$ 15,000,000	$ 6,000,000

In September 2009, the District acquired $15,000,000 by issuing a tax anticipation note, series 2009, to meet current operating needs pending receipt of property tax proceeds. The District repaid the note on March 31, 2010, at par plus interest of $158,274.68.

In April 2010, the District acquired $6,000,000 by issuing a revenue anticipation note, series 2010, in order to finance a portion of the costs of certain capital improvements pending receipt of Certificates of Participation proceeds (see Note 17). The final maturity date of the note is August 5, 2010.

6. CERTIFICATES OF PARTICIPATION

On June 1, 1999, the District entered into a financing arrangement characterized as a master lease-purchase agreement, with the Walton County Public Education Finance Authority, Inc. (Authority), to issue Certificates of Participation (Certificates) and to provide a vehicle for future Certificate financings. Through such arrangements, the District secured financing for various educational facilities. Such financings are repaid from the proceeds of rents paid by the District. The following schedule describes the current status of these Certificates as of June 30:

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

Issue	Original Amount	Principal Paid	Principal Refunded	Refunded By Series	Balance 6-30-10
1999	$ 25,960,000	$ 9,915,000	$ 16,045,000	2005	$
2005	16,660,000	1,720,000			14,940,000

As a condition of the financing arrangement, the District has given a ground lease on District property to the Authority with a rental fee of $10 per year. The term of the ground lease ends on the earlier of the date on which all the Series 1999 and 2005 Certificates have been paid in full, or June 30, 2029. 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 until the end of the ground lease.

The District properties included in the ground lease under this arrangement include properties at Freeport and South Walton High Schools.

The lease payments are payable by the District semiannually, on July 1 and January 1, at interest rates ranging from 3.25 to 5.25 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
2011	$ 2,068,817.50	$ 1,425,000.00	$ 643,817.50
2012	2,067,505.00	1,470,000.00	597,505.00
2013	2,067,525.00	1,520,000.00	547,525.00
2014	2,064,325.00	1,570,000.00	494,325.00
2015	2,064,375.00	1,625,000.00	439,375.00
2016-2019	8,265,237.50	7,330,000.00	935,237.50
Total Minimum Lease Payments	18,597,785.00	14,940,000.00	3,657,785.00
Plus: Unamortized Premium	322,060.92	322,060.92	
Total Certificates of Participation	$ 18,919,845.92	$ 15,262,060.92	$ 3,657,785.00

WALTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

7. BONDS PAYABLE

Bonds payable at June 30, 2010, are as follows:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 2005A	$ 635,000	5.00	2016
Series 2005B, Refunding	135,000	5.00	2018
District Revenue Bonds:			
Series 1998	525,000	4.83	2013
Total Bonds Payable	$ 1,295,000		

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

- **State School Bonds**

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

- **District Revenue Bonds**

  These bonds are generally referred to as Capital Improvement Revenue Notes and are authorized by Chapter 65-2373, Laws of Florida, which provides that the bonds be secured from the pari-mutuel tax proceeds distributed annually to Walton County from the State's Pari-mutuel Tax Collection Trust Fund pursuant to Chapter 550, Florida Statutes (effective July 1, 2000, tax proceeds are distributed pursuant to Section 212.20(6)(d)6.a., Florida Statutes). The annual distribution is remitted by the Florida Department of Financial Services to the District. As required by the bond resolution, the District has established the sinking fund and has accumulated and maintained adequate resources in the sinking fund.

Annual requirements to amortize all bonded debt outstanding as of June 30, 2010, are as follows:

WALTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2011	$ 143,500.00	$ 105,000.00	$ 38,500.00
2012	148,250.00	115,000.00	33,250.00
2013	147,500.00	120,000.00	27,500.00
2014	146,500.00	125,000.00	21,500.00
2015	150,250.00	135,000.00	15,250.00
2016-2018	181,500.00	170,000.00	11,500.00
Total State School Bonds	917,500.00	770,000.00	147,500.00
District Revenue Bonds:			
2011	186,372.75	165,000.00	21,372.75
2012	188,161.75	175,000.00	13,161.75
2013	189,467.75	185,000.00	4,467.75
Total District Revenue Bonds	564,002.25	525,000.00	39,002.25
Total	$ 1,481,502.25	$ 1,295,000.00	$ 186,502.25

8. 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					
Certificates of Participation Payable	$ 16,320,000.00	$	$ 1,380,000.00	$ 14,940,000.00	$ 1,425,000.00
Unamortized Premium	388,821.17		66,760.25	322,060.92	61,115.08
Total Certificates of Participation Payable	16,708,821.17		1,446,760.25	15,262,060.92	1,486,115.08
Bonds Payable	1,555,000.00		260,000.00	1,295,000.00	270,000.00
Compensated Absences Payable	4,784,884.53	605,133.92	447,483.36	4,942,535.09	447,483.35
Other Postemployment Benefits Payable	1,218,988.00	1,696,096.00	469,595.00	2,445,489.00	
Total Governmental Activities	$ 24,267,693.70	$ 2,301,229.92	$ 2,623,838.61	$ 23,945,085.01	$ 2,203,598.43

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

WALTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

9. INTERFUND TRANSFERS

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	$ 2,352,622.27	$ 700,000.00
Capital Projects:		
Local Capital Improvement		4,322,227.27
Nonmajor Governmental	2,805,700.11	136,095.11
Total	$ 5,158,322.38	$ 5,158,322.38

The District made transfers from the Capital Projects – Local Capital Improvement Fund to Nonmajor Governmental Funds for debt service payments and to the General Fund to supplement maintenance operations and pay for other advertised projects and property and casualty insurance premiums. The District transferred Charter School Capital Outlay moneys from the Nonmajor Governmental Funds to the General Fund before subsequently disbursing the moneys to the charter schools. The District transferred moneys from the General Fund to the Nonmajor Governmental Funds to supplement food service operations.

10. RESERVE FOR ENCUMBRANCES

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

The Florida Department of Education requires that fund balances be reserved at fiscal year-end to report an amount likely to be expended from the 2010-11 fiscal year budget as a result of purchase orders outstanding at June 30, 2010.

Construction contract commitments totaling $8,436,967.58 are not reported as encumbered in the Capital Projects – Local Capital Improvement Fund since the funding source for these commitments had not been encumbered at June 30, 2010. These commitments are included in a subsequent note on Construction Contract Commitments.

WALTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

11. SCHEDULE OF STATE REVENUE SOURCES

The following is a schedule of the District's State revenue for the 2009-10 fiscal year:

Source	Amount
Categorical Educational Program - Class Size Reduction	$ 7,094,302.00
Florida Education Finance Program	1,434,120.00
School Recognition	336,358.00
Voluntary Prekindergarten Program	319,987.27
Motor Vehicle License Tax (Capital Outlay and Debt Service)	236,843.41
Workforce Development Program	151,395.00
Charter School Capital Outlay Funds	130,395.00
Gross Receipts Tax (Public Education Capital Outlay)	110,067.00
Discretionary Lottery Funds	18,163.00
Miscellaneous	568,148.81
Total	$ 10,399,779.49

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

12. PROPERTY TAXES

The following is a summary of millages and taxes levied on the 2009 tax roll for the 2009-10 fiscal year:

	Millages	Taxes Levied
GENERAL FUND		
Nonvoted School Tax:		
Required Local Effort	2.183	$ 30,632,780.41
Basic Discretionary Local Effort	0.748	10,496,252.75
Voted Tax:		
Additional Millage	0.500	7,016,211.73
CAPITAL PROJECTS FUNDS		
Nonvoted Tax:		
Local Capital Improvements	1.223	17,161,653.89
Total	4.654	$65,306,898.78

13. FLORIDA RETIREMENT SYSTEM

All regular employees of the District are covered by the State-administered Florida Retirement System (FRS). Provisions relating to FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112 Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code, wherein eligibility, contributions, and benefits are defined and described in detail.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

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. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost-of-living adjustments.

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

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in 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.

WALTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

FRS Retirement Contribution Rates

The Florida Legislature establishes, and may amend, contribution rates for each membership class of FRS. During the 2009-10 fiscal year, contribution rates were as follows:

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

Notes: (A) Employer rates include 1.11 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.05 percent for administrative costs of PEORP.
(B) Contribution rates are dependent upon the 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 for the fiscal years ended June 30, 2008, June 30, 2009, and June 30, 2010, totaled $3,783,599.71, $3,951,634.41, and $3,849,347.62, respectively, which were equal to the required contributions for each fiscal year. Required contributions made to PEORP for 55 District participants totaled $430,771.43 during the 2009-10 fiscal year.

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

14. 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, former employees who retire from the District are eligible to participate in the District's health and hospitalization plan for medical, prescription drug, and life insurance coverage. The District subsidizes the premium rates paid by retirees by allowing them to participate in the plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an 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. The District's health plan contribution requirements 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. For the 2009-10 fiscal year, 125 retirees received other postemployment benefits. The District provided required contributions of $469,595 toward the annual OPEB cost, comprised of payments made on behalf of retirees and net of retiree contributions totaling $893,323, which represents 2.7 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 Governmental Accounting Standards Board 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:

Description	Amount
Normal Cost (service cost for one year)	$ 987,203
Amortization of Unfunded Actuarial Accrued Liability	625,036
Interest on Normal Cost and Amortization	78,713
Annual Required Contribution	1,690,952
Interest on Net OPEB Obligation	43,274
Adjustment to Annual Required Contribution	(38,130)
Annual OPEB Cost	1,696,096
Contribution Toward the OPEB Cost	(469,595)
Increase in Net OPEB Obligation	1,226,501
Net OPEB Obligation, Beginning of Year	1,218,988
Net OPEB Obligation, End of Year	$ 2,445,489

WALTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

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, 2010, and the preceding fiscal year, were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Beginning Balance, 7-1-08	$		$ 0
2008-09	1,630,300	25.2%	1,218,988
2009-10	1,696,096	27.7%	2,445,489

Funded Status and Funding Progress. As of October 1, 2007, the most recent valuation date, the actuarial accrued liability for benefits was $18,881,231 and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability of $18,881,231 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was $32,872,430, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 57.4 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.

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 initial OPEB actuarial valuation as of October 1, 2007, used the entry age normal cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2010, and the District's 2009-10 fiscal year annual required contribution. This method was selected because it is the most common method used for government pension valuations and spreads the cost evenly as a percent of pay throughout the collective careers of those in the covered workforce. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 3.55 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 9 percent initially for the 2008-09 fiscal year, reduced by 0.5 percent per year, to an ultimate rate of 5 percent after eight years.

WALTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

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, 2010, was 28 years.

15. CONSTRUCTION CONTRACT COMMITMENTS

The following is a summary of major construction contract commitments remaining at fiscal year-end:

Project	Contract Amount	Completed to Date	Balance Committed
Walton High School	$ 28,237,316.85	$ 27,953,599.24	$ 283,717.61
Emerald Coast Middle School	17,879,260.52	9,076,607.88	8,802,652.64
Total	$ 46,116,577.37	$ 37,030,207.12	$ 9,086,370.25

16. RISK MANAGEMENT PROGRAMS

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Walton County District School Board is a member of the Panhandle Area Educational Consortium – Risk Management Consortium under which several district school boards have established a combined limited self-insurance program for property protection, general liability, automobile liability, workers' compensation, money and securities, employee fidelity and faithful performance, boiler and machinery, and other coverage deemed necessary by the members of the Consortium. Section 1001.42(12)(k), Florida Statutes, provides the authority for the District to enter into such a risk management program. The Consortium is self-sustaining through member assessments (premiums) and purchases coverage through commercial companies for claims in excess of specified amounts. The Board of Directors for the Consortium is composed of superintendents of all participating districts. The Washington County District School Board serves as fiscal agent for the Consortium. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past three fiscal years.

The District provides health and hospitalization coverage through purchased commercial insurance with minimum deductibles for each line of coverage.

17. SUBSEQUENT EVENT

On August 5, 2010, the District issued Certificates of Participation, Series 2010, in the amount of $10,075,000. The proceeds will be used for the construction of the new Emerald Coast Middle School.

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OTHER REQUIRED SUPPLEMENTARY INFORMATION

WALTON COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE -
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 2010

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	$ 231,918.00	$ 231,918.00	$ 313,350.28	$ 81,432.28
Federal Through State and Local	80,000.00	80,000.00	68,324.04	(11,675.96)
State	8,954,198.20	9,006,969.71	9,652,432.67	645,462.96
Local:				
Property Taxes	46,428,667.12	46,428,667.12	47,735,166.85	1,306,499.73
Miscellaneous	1,013,034.38	1,305,056.80	1,278,422.75	(26,634.05)
Total Revenues	56,707,817.70	57,052,611.63	59,047,696.59	1,995,084.96
Expenditures				
Current - Education:				
Instruction	34,669,985.66	35,738,346.68	35,738,346.68	
Pupil Personnel Services	2,210,525.48	2,120,265.89	2,109,669.85	10,596.04
Instructional Media Services	1,409,128.65	1,258,888.78	1,235,532.18	23,356.60
Instruction and Curriculum Development Services	774,424.69	690,490.43	678,693.21	11,797.22
Instructional Staff Training Services	657,229.81	593,023.06	568,231.34	24,791.72
Instruction Related Technology	1,058,979.87	682,389.73	640,434.50	41,955.23
School Board	372,865.09	369,865.09	367,448.68	2,416.41
General Administration	226,534.62	239,348.62	224,963.68	14,384.94
School Administration	4,321,170.50	4,804,128.69	4,797,943.73	6,184.96
Fiscal Services	362,528.86	399,528.86	396,550.95	2,977.91
Food Services		45,841.23	42,745.24	3,095.99
Central Services	1,051,676.38	872,020.80	830,296.56	41,724.24
Pupil Transportation Services	3,534,434.20	3,801,806.24	3,760,931.15	40,875.09
Operation of Plant	7,367,865.75	8,050,498.34	8,050,498.34	
Maintenance of Plant	1,458,344.29	1,418,597.65	1,402,993.30	15,604.35
Administrative Technology Services	306,168.42	307,668.42	307,019.59	648.83
Community Services	390,632.41	470,878.66	460,669.38	10,209.28
Fixed Capital Outlay:				
Other Capital Outlay		95,938.46	95,938.46	
Debt Service:				
Interest and Fiscal Charges	80,000.00	165,000.00	158,274.68	6,725.32
Total Expenditures	60,252,494.68	62,124,525.63	61,867,181.50	257,344.13
Deficiency of Revenues Over Expenditures	(3,544,676.98)	(5,071,914.00)	(2,819,484.91)	2,252,429.09
Other Financing Sources (Uses)				
Transfers In	2,532,923.00	2,610,150.27	2,352,622.27	(257,528.00)
Transfers Out	(700,000.00)	(700,000.00)	(700,000.00)	
Total Other Financing Sources (Uses)	1,832,923.00	1,910,150.27	1,652,622.27	(257,528.00)
Net Change in Fund Balances	(1,711,753.98)	(3,161,763.73)	(1,166,862.64)	1,994,901.09
Fund Balances, Beginning	5,824,973.10	5,824,973.10	5,824,973.10	
Fund Balances, Ending	$ 4,113,219.12	$ 2,663,209.37	$ 4,658,110.46	$ 1,994,901.09

Special Revenue - ARRA Economic Stimulus Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
$ 3,398,146.00	$ 4,998,983.92	$ 3,513,810.37	$ (1,485,173.55)
3,398,146.00	4,998,983.92	3,513,810.37	(1,485,173.55)
2,917,130.11	3,758,916.36	2,778,010.49	980,905.87
12,906.63	119,820.11	65,227.46	54,592.65
303,832.04	711,441.76	427,878.56	283,563.20
44,761.42	219,847.83	88,179.56	131,668.27
	24,500.23	12,853.69	11,646.54
98,370.99	127,532.68	104,735.66	22,797.02
21,144.81			
	11,327.26	11,327.26	
	25,597.69	25,597.69	
3,398,146.00	4,998,983.92	3,513,810.37	1,485,173.55
$ 0.00	$ 0.00	$ 0.00	$ 0.00

WALTON 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) - Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll [(B-A)/C]
October 1, 2007	$ 0	$ 18,881,231	$ 18,881,231	0.0%	$ 32,872,430	57.4%

WALTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2010

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

WALTON COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2010

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	$ 451,789.56	$
National School Lunch Program	10.555	300	1,455,708.99	
Summer Food Service Program for Children	10.559	323	18,052.70	
Florida Department of Agriculture and Consumer Services:				
National School Lunch Program	10.555 (2)	None	208,266.00	
Total Child Nutrition Cluster			2,133,817.25	
Florida Department of Financial Services:				
Secure Payments for States and Counties Containing Federal Lands	10.665	None	5,207.76	
Total United States Department of Agriculture			2,139,025.01	
United States Department of Education:				
Direct:				
Impact Aid	84.041 (3)	N/A	257,499.00	
Federal Pell Grant Program	84.063	N/A	83,811.51	
Total Direct			341,310.51	
Indirect:				
Title I, Part A Cluster:				
Florida Department of Education:				
Title I Grants to Local Educational Agencies	84.010	212, 222, 223, 226, 228	1,696,706.84	104,180.00
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	212, 223, 226	517,636.68	
Total Title I, Part A Cluster			2,214,343.52	104,180.00
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027	263	1,507,085.65	
Special Education - Preschool Grants	84.173	267	33,245.63	
ARRA - Special Education - Grants to States, Recovery Act	84.391	263	593,487.18	
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	267	29,834.65	
University of South Florida:				
Special Education - Grants to States	84.027	None	36,473.66	
Total Special Education Cluster			2,200,126.77	
Educational Technology State Grants Cluster:				
Florida Department of Education:				
Education Technology State Grants	84.318	121, 122	29,644.63	
ARRA - Education Technology State Grants, Recovery Act	84.386	121	25,615.48	
Total Educational Technology State Grants Cluster			55,260.11	
State Fiscal Stabilization Fund Cluster:				
Florida Department of Education:				
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	591	2,140,024.00	
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	592	184,495.06	
Total State Fiscal Stabilization Fund Cluster			2,324,519.06	
Florida Department of Education:				
Career and Technical Education - Basic Grants to States	84.048	161	158,065.49	
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	21,353.99	
Transition to Teaching	84.350	227	74,954.39	
English Language Acquisition Grants	84.365	102	25,608.14	
Improving Teacher Quality State Grants	84.367	224	467,540.50	
School Improvement Grants	84.377	126	17,540.40	
ARRA - Education for Homeless Children and Youth, Recovery Act	84.387	127	22,717.32	
Total Indirect			7,582,029.69	104,180.00
Total United States Department of Education			7,923,340.20	104,180.00
United States Department of Homeland Security:				
Indirect:				
Florida Department of Education:				
Homeland Security Grant Program	97.067	532	71,276.86	
United States Department of Defense:				
Direct:				
Air Force Junior Reserve Officers Training Corps	None	N/A	55,851.28	
Total Expenditures of Federal Awards			$ 10,189,493.35	$ 104,180.00

Notes: (1) Basis of Presentation. The Schedule of Expenditures of Federal Awards represents amounts expended from Federal programs during the fiscal year using 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. Commodities are valued at fair value as determined at the time of donation.

(3) Impact Aid. Expenditures include $105,364 for grant number/program S041A-2010-1272; $105,364 for grant number/program S041A-2009-1272; and $46,771 for grant number/program S041A-2006-1272.

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

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

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Walton County District School Board as of and for the fiscal year ended June 30, 2010, which collectively comprise the District's basic financial statements, and have issued our report thereon under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the basic financial statements was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the school internal funds and aggregate discretely presented component units, as described in our report on the Walton County District School Board's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

A *deficiency 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
December 3, 2010

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE 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 Walton 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, 2010. 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*. Those standards and OMB *Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2010.

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.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above.

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
December 3, 2010

WALTON COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	None reported
Type of report the auditor issued on compliance for major programs:	Unqualified for all major programs
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB *Circular A-133*?	No
Identification of major programs:	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), and State Fiscal Stabilization Fund Cluster (CFDA Nos. 84.394 - ARRA and 84.397 - ARRA)
Dollar threshold used to distinguish between Type A and Type B programs:	$305,684
Auditee qualified as low-risk auditee?	Yes

WALTON COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

FINANCIAL STATEMENT FINDING

SIGNIFICANT DEFICIENCY

Finding No. 1: Financial Reporting

One of the principal methods that a school district uses to document accountability for the public resources that it receives for its operations is by preparing its annual financial report. As such, District personnel should ensure that the report is accurate and contains all required disclosures so that users, such as the School Board, Superintendent, District management, and other interested parties, can appropriately evaluate, among other things, District operations, budgetary compliance, and financial condition.

Our review of the District's 2009-10 fiscal year annual financial report, as presented for audit, disclosed that the District entered into a short-term revenue anticipation note for $6 million, pursuant to Section 1011.14, Florida Statutes; however, the District applied accounting entries commonly used for long-term debt. As a result, the District incorrectly reported the note proceeds on its financial statements as other financing sources in the Capital Projects – Local Capital Improvement (LCI) Fund instead of a short-term (current) liability. This error had the effect of overstating fund balance and understating liabilities of the LCI Fund by $6 million. Additionally, the District did not provide any of the required disclosures related to this short-term revenue anticipation note, such as the term of the note, purpose for the financing, and source of repayment in its notes to financial statements. Without properly presenting and disclosing information about current liabilities, users of the financial statements may make incorrect conclusions about the financial position of the LCI Fund.

These reporting errors occurred mainly because District personnel did not perform effective review procedures to ensure that the District properly reported amounts and disclosed information in the financial statements. We extended our audit procedures to determine the necessary adjustments to properly report the account balances and note disclosures, and the District accepted these adjustments. However, our extended audit procedures cannot substitute for management's responsibility to implement adequate control procedures over financial reporting.

Recommendation: To facilitate necessary financial reporting, the District should enhance procedures to ensure that the account balances, transactions, and note disclosures are properly reported in the basic financial statements.

ADDITIONAL MATTERS

Finding No. 2: Performance Assessments

Section 1012.34(3), Florida Statutes, requires the District to establish annual performance assessment procedures for instructional personnel and school administrators. When evaluating the performance of employees, the procedures

must 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, at the school where the employee works. Additional employee performance assessment criteria prescribed by Section 1012.34(3)(a), Florida Statutes, include 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, requires that, if an employee is not performing satisfactorily, the performance evaluator must notify the employee in writing and describe the unsatisfactory performance.

The District established performance assessment procedures based on criteria prescribed by Section 1012.34(3)(a), Florida Statutes, that included provisions to evaluate instructional and school administrative employees based on student performance. While the instructional and school administrative performance appraisal forms included student performance as a component of the evaluation, District records did not sufficiently evidence a correlation between student performance and the employee's performance assessments and records did not demonstrate that student performance was the primary factor for the overall evaluation rating. For example, the evaluation form did not provide a numeric or percentage indicator to show that student achievement was the primary contributing factor used to evaluate employee performance. Without sufficiently documenting the extent to which student performance affects employee performance, performance assessments of instructional personnel and school administrators are incomplete and may not effectively communicate the employee's accomplishments or shortcomings.

Recommendation: The District should enhance procedures to ensure that performance assessments of instructional personnel and school administrators are based primarily on student performance, and maintain records to evidence this.

Finding No. 3: 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, provides 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, requires 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 must allow 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.

While compensation of instructional personnel is typically subject to collective bargaining, the Board had not adopted formal policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance pursuant to Section 1012.22(1)(c)2., Florida Statutes. Such policies and procedures could establish and communicate the performance measures affecting instructional employee compensation. In addition, the Board had not adopted formal policies and procedures establishing the documented process to identify instructional personnel and school-based administrators entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4., Florida Statutes. Such policies and procedures could specify the prescribed factors to be used as the basis for determining differential pay, the documented process for applying the prescribed factors, and the individuals responsible for making such determinations.

The 2009-10 fiscal year salary schedules for instructional personnel and school-based administrators and applicable union contracts for instructional personnel 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, could be improved, as follows:

- **Instructional Personnel**. The instructional personnel salary schedule and union contracts did not evidence that a portion of the compensation of each instructional employee was based on performance, contrary to Section 1012.22(1)(c)2., Florida Statutes.

  The instructional personnel salary schedule and union contracts provided salary supplements for additional responsibilities beyond the standard seven and one-half hour day, such as supplements for athletic coaches and band directors. In addition, the District has historically employed teachers as speech language pathologists in a higher pay scale due to the District's prior determination that the speech language pathologist position was a critical shortage area that required a higher pay scale to attract individuals for the job. However, neither the salary schedule nor the union contracts specifically identified this as a critical shortage area, and these records did not evidence differentiated pay based on school demographics and level of job performance difficulties for instructional personnel, contrary to Section 1012.22(1)(c)4., Florida Statutes.

- **School-based Administrators**. The administrative salary schedule for school-based administrators reasonably provided differentiated pay for additional responsibilities, school demographics, and level of performance difficulties based on the student enrollment of the school. For example, high school principals at schools with more than 700 students are in a higher pay scale than those high school principals with 600 to 700 students and those with less than 500 students. However, the salary schedules did not specifically evidence consideration of differentiated pay based on critical shortage areas for school-based administrators, contrary to Section 1012.22(1)(c)4., Florida Statutes.

Without Board-adopted policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance, and sufficiently identifying the basis for the differentiated pay, the District may be limited in its ability to demonstrate that each instructional employee's performance correlated to their compensation and the various differentiated pay factors were consistently considered and applied.

Recommendation: The Board should adopt formal policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance, and 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. 4: Adult General Education Courses

Section 1004.02(3), Florida Statutes, defines adult general education, in part, as comprehensive instructional programs designed to improve the employability of the State's workforce. Chapter 2009-81, Laws of Florida, Specific Appropriation 111, states that from the funds provided in Specific Appropriations 9 and 111, each school district shall report enrollment for adult general education programs identified in Section 1004.02, Florida Statutes, in accordance with the Florida Department of Education (FDOE) instructional hours reporting procedures. Procedures provided by FDOE to the school districts stated that fundable instructional contact hours are those scheduled hours that occur between the date of enrollment in a class and the withdrawal date or end-of-class date, whichever is sooner.

As similarly noted in our report No. 2010-054, although improved, the District needs to continue improving its controls over enrollment reporting. For the 2009-10 fiscal year, the District reported 26,578 adult general education contact hours for 167 students to FDOE. Our tests of the 1,826 hours reported for 10 students enrolled in 27 adult general education classes disclosed exceptions in the enrollment reporting for 20 of the classes tested, resulting in 507

overreported hours. District personnel indicated that these exceptions were due to errors made by District personnel when recording attendance, submitting course information, or entering student entry and exit dates.

Since future funding may be based, in part, on enrollment data submitted to FDOE, it is important that such data be submitted correctly.

Recommendation: The District should continue its efforts to enhance controls over the reporting of instructional contact hours for adult general education courses to the Florida Department of Education. The District should also contact the Florida Department of Education to determine proper resolution of the overreported hours.

Finding No. 5: Collection of Social Security Numbers

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

Section 119.071(5)(a), Florida Statutes, provides that the District may not collect an individual's SSN unless the District has stated in writing the purpose for its collection and unless it is specifically authorized by law to do so, or is imperative for the performance of the District's duties and responsibilities as prescribed by law. Additionally, this section requires that if the District collects an individual's SSN, it must provide that individual with a written statement indicating whether the collection of the SSN is authorized or mandatory under Federal or State law, and identifying the specific Federal or State law governing the collection, use, or release of SSNs for each purpose for which the SSN is collected. This section also provides that SSNs collected by the District may not be used for any purpose other than the purpose provided in the written statement. This section further requires that the District review whether its collection of SSNs is in compliance with the above requirements and immediately discontinue the collection of SSNs for purposes that are not in compliance.

The District collects SSNs for a variety of reasons, such as record keeping and tax-related purposes, and has developed a written statement that identifies the reasons for which it collects SSNs. The District included the statement on its Web site and also can provide the statement to individuals when collecting SSN information from them in person. However, as also noted in our report No. 2010-054, the District did not provide the written statement to individuals each time it collected their SSN. Additionally, the written statement did not identify the specific Federal or State law governing the collection, use, or release of SSNs for each purpose for which the District collected SSNs, including any authorized exceptions that applied to such collection, use, or release, and it did not state whether collection of the individual's SSN was authorized or mandatory under Federal or State law. District personnel were not aware that the written statement had to include this information.

Effective controls to properly monitor the need for and use of SSNs and to ensure compliance with statutory requirements reduces the risk that SSNs may be used for unauthorized purposes.

Recommendation: The District should continue its efforts to comply with Section 119.071(5)(a), Florida Statutes.

Finding No. 6: Information Technology – User Authentication

Security controls are intended to protect the confidentiality, integrity, and availability of data and information technology (IT) resources. Our audit disclosed certain District security controls related to user authentication that 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, 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 to ensure the continued confidentiality, integrity, and availability of District data and IT resources.

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

There were no audit findings on Federal programs required to be reported under OMB *Circular A-133*, Section 510.

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the District had taken corrective actions for findings included in our report No. 2010-054.

MANAGEMENT'S RESPONSE

Management's response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

WALTON COUNTY
DISTRICT SCHOOL BOARD
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2010

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
2010-054 (1)	Education for Homeless Children and Youth, Recovery Act (CFDA No. 84.387); Title I Grants to Local Educational Agencies, Recovery Act (CFDA No. 84.389); Special Education Grants to States, Recovery Act (CFDA No. 84.391); Special Education - Preschool Grants, Recovery Act (CFDA No. 84.392); State Fiscal Stabilization Fund Cluster (CFDA Nos. 84.394 and 84.397)/Reporting and Special Tests and Provisions	Contrary to registration requirements for Federal awards, the District did not timely renew its registration in the Central Contractor Registration database.	Corrected	The District now timely renews its registration in the Central Contractor Registration database.

EXHIBIT A

MANAGEMENT'S RESPONSE

Carlene H. Anderson
Superintendent of Schools

Walton
COUNTY SCHOOL DISTRICT

145 Park Street
DeFuniak Springs, FL 32435
850.892.1100
Fax 850.892.1191
www.walton.k12.fl.us

December 3, 2010

David W. Martin, CPA
Auditor General
7282 Plantation Road, Suite 401
Pensacola, FL 32504

Dear Mr. Martin:

In response to your preliminary and tentative audit findings for the fiscal year ended June 30, 2010, I submit the following explanations and corrective actions:

Finding No. 1: Financial Reporting
We fully recognize the need to document accountability for the public resources that we receive by preparing an annual financial report that is accurate and contains all required disclosures. The incorrect reporting of the $6 million short-term revenue anticipation note was due primarily to very limited accounting experience with short-term notes that are not liquidated prior to the fiscal year end. Accordingly, we are in the process of revising our review procedures in this regard.

Finding No. 2: Performance Assessments
We will improve our procedures to ensure that performance assessments of instructional personnel and school administrators are primarily based on student performance, and we will ensure that records are maintained to evidence this. We have emphasized in meetings with principals on multiple occasions that performance assessments must be based primarily on student performance, and we will develop the methods and measures necessary to ensure that this is properly reflected in the assessments and maintained accordingly.

Finding No. 3: Compensation and Salary Schedules
As you mentioned, the District has attempted to apply levels of differentiation in salary schedules of both the instructional personnel and the school-based administrators. In actual practice it is extremely difficult to develop differentiated pay schedules based on such factors as additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties, especially in those areas subject to collective bargaining. However, we recognize the importance of this measure and will seek to improve our procedures accordingly.

The board will adopt formal policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance, and differentiated pay of instructional personnel and school-based administrators is appropriately identified on salary schedules.

"Making All Decisions in the Best Interest of Students"

Mildred Wilkerson, District 1 | Faye Leddon, District 2 | Sharon Roberts, District 3 | Mark D. Davis, District 4 | Dennis Wallace, District 5

EXHIBIT A

MANAGEMENT'S RESPONSE (CONTINUED)

David W. Martin, CPA, Auditor General,
December 3, 2010, page 2

Finding No. 4: Adult General Education Courses
Although, as you noted, we have improved our controls over adult general education course reporting over the last year, we will continue our efforts in this regard. We will contact the Florida Department of Education to determine proper resolution of the overreported hours.

Finding No. 5: Collection of Social Security Numbers
Over the last year we have identified all of the District forms that ask the completer to provide his or her social security number. During this process we attempted to discontinue requesting social security numbers unless a valid reason could be given for obtaining them. However, due to the heightened standards and awareness that have surfaced concerning this matter, we will continue our efforts to comply with Section 119.071(5)(a), Florida Statutes.

Finding No. 6: Information Technology – User Authentication
The continued confidentiality, integrity, and availability of District data and IT resources are of paramount importance to the District. We will review this matter with our technical personnel in an effort to improve security controls related to user authentication.

I appreciate this opportunity to add to the information presented in your preliminary and tentative audit findings. As always, your staff was extremely professional and courteous.

Sincerely,

Carlene H. Anderson
Superintendent of Schools