REPORT NO. 2013-137
MARCH 2013

WALTON COUNTY
DISTRICT SCHOOL BOARD

Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended
June 30, 2012

STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD MEMBERS AND SUPERINTENDENT

Board members and the Superintendent who served during the 2011-12 fiscal year are listed below:

	District No.
Mildred T. Wilkerson	1
Faye Leddon, Vice Chair from 11-22-11	2
Sharon Roberts, Chair to 11-21-11	3
Mark D. Davis	4
Dennis Wallace, Vice Chair to 11-21-11, Chair from 11-22-11	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. 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.

WALTON COUNTY DISTRICT SCHOOL BOARD
TABLE OF CONTENTS

PAGE NO.

EXECUTIVE SUMMARY i

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS 1

MANAGEMENT'S DISCUSSION AND ANALYSIS 3

BASIC FINANCIAL STATEMENTS

- Statement of Net Assets 9
- Statement of Activities 10
- Balance Sheet – Governmental Funds 12
- Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets 14
- Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds 16
- Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities 18
- Statement of Fiduciary Assets and Liabilities – Fiduciary Funds 19
- Notes to Financial Statements 20

OTHER REQUIRED SUPPLEMENTARY INFORMATION

- Budgetary Comparison Schedule – General and Major Special Revenue Funds 38
- Schedule of Funding Progress – Other Postemployment Benefits Plan 40
- Notes to Required Supplementary Information 41

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS 42

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* 43

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 45

SCHEDULE OF FINDINGS AND QUESTIONED COSTS 47

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS 56

EXHIBIT A MANAGEMENT'S RESPONSE 57

EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

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

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

ADDITIONAL MATTERS

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

Finding No. 2: District records did not always evidence that ad valorem tax levy proceeds were used for authorized purposes, resulting in $73,325 of questioned costs.

Finding No. 3: The District's monitoring of financial activities of charter schools needed improvement.

Finding No. 4: Controls over procurement of contractual services needed enhancement.

Finding No. 5: The District had not effectively implemented an information technology (IT) security incident response plan.

Finding No. 6: The District's IT security controls related to data loss prevention needed improvement.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Child Nutrition Cluster, Federal Pell Grant, and Race-to-the-Top programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that could have a direct and material effect on each of its major Federal programs. However, we did note a noncompliance and control deficiency finding as summarized below.

Federal Awards Finding No. 1: Controls deficiencies and noncompliance were noted for the Federal Pell Grant Program, resulting in $8,719 of questioned costs.

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. 2012-127.**

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, 2012. We obtained an understanding of the District's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements and Federal awards. We also examined various transactions to determine whether they were executed, both in manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

Audit Methodology

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

AUDITOR GENERAL
STATE OF FLORIDA

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

DAVID W. MARTIN, CPA
AUDITOR GENERAL

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

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

INDEPENDENT AUDITOR'S
REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the 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, 2012, 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 39 percent of the assets and 91 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, 2012, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is presented for purposes of additional analysis as required by the United States Office of Management and Budget (OMB) 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 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,



David W. Martin, CPA
February 12, 2013

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, 2012. The information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events, and conditions and should be considered in conjunction with the District's financial statements and notes to financial statements found immediately following the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year are as follows:

- In total, net assets decreased $1,598,045.78, or 1.1 percent from the prior fiscal year.
- General revenues total $73,869,249.98, or 94.5 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total $4,263,665.35, or 5.5 percent of all revenues.
- Expenses total $79,730,961.11. Only $4,263,665.35 of these expenses was offset by program specific charges, with the remainder paid from general revenues.
- At the end of the fiscal year, the fund balance of the General Fund totals $2,739,444.62, or 4.8 percent of total General Fund revenues. The fund balance decreased $3,057,797.74, or 52.7 percent, from the prior fiscal year, and includes $223,764.01 of nonspendable funds, $427,801.63 of restricted funds, and $2,087,878.98 of unassigned funds.

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 District's assets and liabilities, its net assets, is a measure of the District's financial health. The statement of activities presents information about the change in the District's net assets, its 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 five legally separate entities in this report that meet the criteria for inclusion provided by generally accepted accounting principles. The Walton County Public Education

Finance Authority, Inc. (Authority), is reported as a blended component unit. Due to the substantive economic relationship between the District and the Authority, the Authority is included as an integral part of the primary government. The Walton Academy, Inc., The Seaside School, Inc., the Chautauqua Learn and Serve at the Arc of Walton County Inc., and the Walton Education Foundation, Inc., are reported as discretely presented component units. Financial information for these component units is reported separately from the financial information presented for 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 entity-wide perspective contained in the government-wide statements. All of the District's funds may be classified within one of the broad categories discussed below.

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

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

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

Fiduciary Funds: Fiduciary funds, such as student activity funds, are used to report assets held in a trustee or fiduciary capacity for the benefit of external parties. 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, 2012, compared to net assets as of June 30, 2011:

Net Assets, End of Fiscal Year

	Governmental Activities	
	6-30-12	6-30-11
Current and Other Assets	$ 16,927,836.36	$ 20,609,353.43
Capital Assets	163,285,223.17	164,462,813.25
Total Assets	180,213,059.53	185,072,166.68
Long-Term Liabilities	29,467,277.26	31,893,035.81
Other Liabilities	1,725,238.77	2,560,541.59
Total Liabilities	31,192,516.03	34,453,577.40
Net Assets:		
Invested in Capital Assets - Net of Related Debt	141,944,563.16	140,391,867.41
Restricted	12,417,581.93	12,171,175.36
Unrestricted Deficit	(5,341,601.59)	(1,944,453.49)
Total Net Assets	$ 149,020,543.50	$ 150,618,589.28

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

The restricted portion of the District's net assets represents resources that are subject to external restrictions on how they may be used.

The key elements of the changes in the District's net assets for the fiscal years ended June 30, 2012, and June 30, 2011, are as follows:

	Operating Results for the Fiscal Year Ended	
	Governmental Activities	
	6-30-12	6-30-11
Program Revenues:		
Charges for Services	$ 1,452,684.64	$ 1,370,256.31
Operating Grants and Contributions	2,449,428.51	2,280,260.54
Capital Grants and Contributions	361,552.20	684,824.56
General Revenues:		
Property Taxes, Levied for Operational Purposes	42,888,557.28	45,972,285.84
Property Taxes, Levied for Capital Projects	11,687,630.13	12,349,676.25
Grants and Contributions Not Restricted to Specific Programs	18,659,883.38	20,727,074.21
Unrestricted Investment Earnings	81,194.28	158,256.01
Miscellaneous	551,984.91	1,009,428.61
Total Revenues	78,132,915.33	84,552,062.33
Functions/Program Expenses:		
Instruction	40,367,923.48	41,623,325.85
Pupil Personnel Services	2,316,025.03	2,395,141.68
Instructional Media Services	1,001,301.47	952,503.39
Instruction and Curriculum Development Services	1,535,854.44	1,911,356.37
Instructional Staff Training Services	1,260,656.88	1,182,906.47
Instruction Related Technology	757,274.52	701,794.57
School Board	334,349.05	361,887.05
General Administration	304,324.17	413,422.67
School Administration	4,567,700.00	4,654,341.21
Facilities Acquisition and Construction	1,815,372.87	899,104.09
Fiscal Services	410,823.79	327,181.63
Food Services	3,349,157.28	3,224,735.22
Central Services	719,713.36	903,423.38
Pupil Transportation Services	4,796,768.85	4,605,996.80
Operation of Plant	7,780,167.18	7,877,120.92
Maintenance of Plant	1,507,510.83	1,413,727.15
Administrative Technology Services	305,389.74	329,991.12
Community Services	621,769.02	722,640.09
Unallocated Interest on Long-Term Debt	1,113,235.57	1,248,629.36
Unallocated Depreciation Expense	4,865,643.58	4,740,580.04
Total Functions/Program Expenses	79,730,961.11	80,489,809.06
Increase (Decrease) in Net Assets	$ (1,598,045.78)	$ 4,062,253.27

The District's results of operations show a decrease in net assets of $1,598,045.78 for the current fiscal year, as compared to an increase of $4,062,253.27 in the prior fiscal year. Expenses did not change significantly from the prior fiscal year, but revenues decreased by $6,419,147, or 7.6 percent. Significant changes that contributed to the decrease are as follows:

- Property taxes levied for operational purposes decreased $3,083,728.56, or 6.7 percent, as a result of declining property valuations and property tax millages.
- Property taxes levied for capital projects decreased $662,046.12, or 5.4 percent, as a result of declining property valuations.
- Grants and contributions not restricted to specific programs decreased $2,067,190.83, or 10 percent, due mainly to reductions in resources for the American Recovery and Reinvestment Act (ARRA) and Education Jobs Fund (EJF) programs.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Major Governmental Funds

The General Fund is the District's chief operating fund. At the end of the fiscal year, the unassigned fund balance is $2,087,878.98, while the total fund balance is $2,739,444.62. The unassigned fund balance decreased by $2,931,628.13 during the fiscal year, while the total fund balance decreased by $3,057,797.74. A key factor impacting the change in fund balance was expenditures increasing by $3,003,826.91, or 5 percent, due mainly to the payment of salaries and benefits from the General Fund that were, in the prior fiscal year, paid from the EJF program accounted for in the Special Revenue – Federal Economic Stimulus Fund.

The Special Revenue – Federal Economic Stimulus Fund is used to account for resources related to the ARRA and EJF programs. Because grant revenues attributed to the grants accounted for in this fund are not recognized until expenditures are incurred, this fund generally does not accumulate a fund balance. Revenues and expenditures each total $417,326.64, and each decreased $4,562,830.56, or 91.6 percent during the fiscal year mainly for decreases in ARRA and EJF program funding.

The Capital Projects – Local Capital Improvement Fund is restricted for the acquisition, construction, and maintenance of capital assets. During the fiscal year, the fund balance increased $535,589.71, or 5.1 percent to $11,041,848.61 at fiscal year-end. Revenues decreased $703,854.44, or 5.7 percent mainly for a decrease in property taxes from declining property values. Expenditures decreased $989,709.88, or 14.9 percent mainly for reduced construction costs of the new Emerald Coast Middle School that was substantially completed during the prior fiscal year. It should be noted that $1,689,166.22 of fund balance has been encumbered for specific projects.

GENERAL FUND BUDGETARY HIGHLIGHTS

The District's budgets are prepared and amendments made according to Florida law, and the most significant budgeted fund is the General Fund. During the fiscal year, the District amended its General Fund budget several times. Final budgeted revenues were not significantly different from original budgeted revenues. Final budgeted expenditures exceeded original budgeted expenditures by $2,073,974.82, or 3.4 percent primarily for expected increases in operation of plant and pupil transportation services expenditures. Actual revenues and expenditures were not significantly different from final budgeted revenues and expenditures.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

At the end of the fiscal year, the District's investment in capital assets totals $163,285,223.17 (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. Major capital asset events during the fiscal year included the completion of the Walton High School Athletic Facilities and Emerald Coast Middle School construction projects and the beginning of the West DeFuniak Elementary School and Emerald Coast Middle School Eight Classroom Addition construction projects.

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, 2012, the District has total long-term debt outstanding of $21,340,660.01, comprised of $735,000 of bonds payable and $20,605,660.01 of certificates of participation payable. The District's total long-term debt decreased by $2,730,285.83, or 11.3 percent, for scheduled principal payments and amortization of premiums.

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

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, 2012

	Primary Government	Component Units
	Governmental Activities	
ASSETS		
Cash and Cash Equivalents	$ 15,707,893.13	$ 1,229,667.00
Accounts Receivable	213,312.39	19,075.00
Deposits Receivable		6,021.00
Due from Other Agencies	79,116.53	38,306.00
Prepaid Items		11,622.00
Investments	255,940.02	
Inventories	198,201.62	
Deferred Charges	473,372.67	
Capital Assets:		
Nondepreciable Capital Assets	7,435,548.58	652,413.00
Depreciable Capital Assets, Net	155,849,674.59	963,735.00
TOTAL ASSETS	$ 180,213,059.53	$ 2,920,839.00
LIABILITIES		
Salaries and Benefits Payable	$ 87,111.30	$ 10,813.00
Payroll Deductions and Withholdings	662,927.51	
Accounts Payable	605,964.97	32,217.00
Construction Contracts Payable	256,764.05	
Construction Contracts Payable - Retainage	79,736.76	
Due to Other Agencies	12,133.25	
Deferred Revenue	20,600.93	
Long-Term Liabilities:		
Portion Due Within One Year	3,606,642.82	14,474.00
Portion Due After One Year	25,860,634.44	
Total Liabilities	31,192,516.03	57,504.00
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	141,944,563.16	1,613,625.00
Restricted for:		
State Required Carryover Programs	427,801.63	
Debt Service	866,308.65	
Capital Projects	11,044,777.68	47,067.00
Food Service	78,693.97	
Other Purposes		33,112.00
Unrestricted (Deficit)	(5,341,601.59)	1,169,531.00
Total Net Assets	149,020,543.50	2,863,335.00
TOTAL LIABILITIES AND NET ASSETS	$ 180,213,059.53	$ 2,920,839.00

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, 2012

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	$ 40,367,923.48	$ 326,680.26	$	$
Pupil Personnel Services	2,316,025.03			
Instructional Media Services	1,001,301.47			
Instruction and Curriculum Development Services	1,535,854.44			
Instructional Staff Training Services	1,260,656.88			
Instruction Related Technology	757,274.52			
School Board	334,349.05			
General Administration	304,324.17			
School Administration	4,567,700.00			
Facilities Acquisition and Construction	1,815,372.87			216,092.46
Fiscal Services	410,823.79			
Food Services	3,349,157.28	692,283.96	2,449,428.51	
Central Services	719,713.36			
Pupil Transportation Services	4,796,768.85	37,122.64		
Operation of Plant	7,780,167.18			
Maintenance of Plant	1,507,510.83			
Administrative Technology Services	305,389.74			
Community Services	621,769.02	396,597.78		
Unallocated Interest on Long-Term Debt	1,113,235.57			145,459.74
Unallocated Depreciation Expense*	4,865,643.58			
Total Primary Government	$ 79,730,961.11	$ 1,452,684.64	$ 2,449,428.51	$ 361,552.20
Component Units				
Charter Schools/Education Foundation	$ 2,810,745.00	$ 0.00	$ 82,762.00	$ 99,044.00
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 Asset	
Primary Government	Component
Governmental Activities	Units
$ (40,041,243.22)	$
(2,316,025.03)	
(1,001,301.47)	
(1,535,854.44)	
(1,260,656.88)	
(757,274.52)	
(334,349.05)	
(304,324.17)	
(4,567,700.00)	
(1,599,280.41)	
(410,823.79)	
(207,444.81)	
(719,713.36)	
(4,759,646.21)	
(7,780,167.18)	
(1,507,510.83)	
(305,389.74)	
(225,171.24)	
(967,775.83)	
(4,865,643.58)	
(75,467,295.76)	
	(2,628,939.00)
42,888,557.28	
11,687,630.13	
18,659,883.38	2,844,159.00
81,194.28	2,386.00
551,984.91	93,432.00
73,869,249.98	2,939,977.00
(1,598,045.78)	311,038.00
150,618,589.28	2,552,297.00
$ 149,020,543.50	$ 2,863,335.00

WALTON COUNTY
DISTRICT SCHOOL BOARD
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2012

	General Fund	Special Revenue - Federal Economic Stimulus Fund	Capital Projects - Local Capital Improvement Fund
ASSETS			
Cash and Cash Equivalents	$ 3,442,715.72	$ 103.24	$ 11,441,373.47
Accounts Receivable	213,097.39		
Due from Other Funds	44,900.75		
Due from Other Agencies	68,869.35		
Investments	129,302.31		47,822.68
Inventories	94,461.70		
TOTAL ASSETS	$ 3,993,347.22	$ 103.24	$ 11,489,196.15
LIABILITIES AND FUND BALANCES			
Liabilities:			
Salaries and Benefits Payable	$ 87,111.30	$	$
Payroll Deductions and Withholdings	638,938.88	103.24	
Accounts Payable	495,118.24		110,846.73
Construction Contracts Payable			256,764.05
Construction Contracts Payable - Retainage			79,736.76
Due to Other Funds			
Due to Other Agencies	12,133.25		
Deferred Revenue	20,600.93		
Total Liabilities	1,253,902.60	103.24	447,347.54
Fund Balances:			
Nonspendable:			
Inventory	94,461.70		
Fund B Investments	129,302.31		47,822.68
Total Nonspendable Fund Balance	223,764.01		47,822.68
Restricted for:			
State Required Carryover Programs	427,801.63		
Debt Service			
Capital Projects			10,994,025.93
Total Restricted Fund Balance	427,801.63		10,994,025.93
Unassigned Fund Balance	2,087,878.98		
Total Fund Balances	2,739,444.62		11,041,848.61
TOTAL LIABILITIES AND FUND BALANCES	$ 3,993,347.22	$ 103.24	$ 11,489,196.15

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

Other Governmental Funds	Total Governmental Funds
$ 823,700.70	$ 15,707,893.13
215.00	213,312.39
	44,900.75
10,247.18	79,116.53
78,815.03	255,940.02
103,739.92	198,201.62
$ 1,016,717.83	$ 16,499,364.44
$	$ 87,111.30
23,885.39	662,927.51
	605,964.97
	256,764.05
	79,736.76
44,900.75	44,900.75
	12,133.25
	20,600.93
68,786.14	1,770,139.52
103,739.92	198,201.62
60,560.24	237,685.23
164,300.16	435,886.85
	427,801.63
806,179.77	806,179.77
2,497.71	10,996,523.64
808,677.48	12,230,505.04
(25,045.95)	2,062,833.03
947,931.69	14,729,224.92
$ 1,016,717.83	$ 16,499,364.44

WALTON COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012

Total Fund Balances - Governmental Funds		$ 14,729,224.92
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.		163,285,223.17
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.		473,372.67
Long-term liabilities are not due and payable in the fiscal year and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at fiscal year-end consist of:		
Certificates of Participation Payable	$ 20,605,660.01	
Bonds Payable	735,000.00	
Compensated Absences Payable	4,802,419.25	
Other Postemployment Benefits Payable	3,324,198.00	(29,467,277.26)
Total Net Assets - Governmental Activities		$ 149,020,543.50

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

THIS PAGE INTENTIONALLY LEFT BLANK.

WALTON COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2012

	General Fund	Special Revenue - Federal Economic Stimulus Fund	Capital Projects - Local Capital Improvement Fund
Revenues			
Intergovernmental:			
Federal Direct	$ 288,059.94	$	$
Federal Through State and Local	171,910.74	417,326.64	
State	12,648,131.54		
Local:			
Property Taxes	42,888,557.28		11,687,630.13
Charges for Services - Food Service			
Miscellaneous	1,316,888.03		20,778.61
Total Local Revenues	44,205,445.31		11,708,408.74
Total Revenues	57,313,547.53	417,326.64	11,708,408.74
Expenditures			
Current - Education:			
Instruction	37,327,501.20	206,088.33	
Pupil Personnel Services	2,078,608.14	3,320.50	
Instructional Media Services	995,229.30		
Instruction and Curriculum Development Services	706,341.42	118,784.97	
Instructional Staff Training Services	350,559.59	62,003.39	
Instruction Related Technology	738,354.96	545.43	
School Board	333,291.86		
General Administration	200,032.75	4,568.82	
School Administration	4,530,972.64	8,749.00	
Facilities Acquisition and Construction	56,434.89		1,758,937.98
Fiscal Services	408,535.26		
Food Services	36,751.95		
Central Services	715,788.70		
Pupil Transportation Services	4,063,799.31		
Operation of Plant	7,762,098.01		
Maintenance of Plant	1,485,517.46		
Administrative Technology Services	304,389.73		
Community Services	336,744.31		
Fixed Capital Outlay:			
Facilities Acquisition and Construction			1,568,950.24
Other Capital Outlay	293,876.51	13,266.20	2,324,948.38
Debt Service:			
Principal			
Interest and Fiscal Charges	99,992.50		
Total Expenditures	62,824,820.49	417,326.64	5,652,836.60
Excess (Deficiency) of Revenues Over Expenditures	(5,511,272.96)		6,055,572.14
Other Financing Sources (Uses)			
Transfers In	2,451,238.76		
Insurance Loss Recoveries	2,236.46		18,778.57
Transfers Out			(5,538,761.00)
Total Other Financing Sources (Uses)	2,453,475.22		(5,519,982.43)
Net Change in Fund Balances	(3,057,797.74)		535,589.71
Fund Balances, Beginning	5,797,242.36		10,506,258.90
Fund Balances, Ending	$ 2,739,444.62	$ 0.00	$ 11,041,848.61

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

Other Governmental Funds	Total Governmental Funds
$ 284,055.57	$ 572,115.51
7,033,214.85	7,622,452.23
628,315.57	13,276,447.11
	54,576,187.41
692,283.96	692,283.96
2,784.43	1,340,451.07
695,068.39	56,608,922.44
8,640,654.38	78,079,937.29
2,634,356.92	40,167,946.45
222,056.48	2,303,985.12
	995,229.30
706,434.47	1,531,560.86
846,638.38	1,259,201.36
16,427.03	755,327.42
	333,291.86
98,618.59	303,220.16
	4,539,721.64
	1,815,372.87
	408,535.26
3,312,140.60	3,348,892.55
	715,788.70
14,580.00	4,078,379.31
3,082.66	7,765,180.67
12,968.66	1,498,486.12
	304,389.73
283,690.57	620,434.88
97,102.00	1,666,052.24
75,281.15	2,707,372.24
2,675,000.00	2,675,000.00
926,552.59	1,026,545.09
11,924,930.10	80,819,913.83
(3,284,275.72)	(2,739,976.54)
3,202,212.57	5,653,451.33
	21,015.03
(114,690.33)	(5,653,451.33)
3,087,522.24	21,015.03
(196,753.48)	(2,718,961.51)
1,144,685.17	17,448,186.43
$ 947,931.69	$ 14,729,224.92

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, 2012

Net Change in Fund Balances - Governmental Funds		$ (2,718,961.51)
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 depreciation expense in excess of capital outlays in the current fiscal year:		
Capital Outlay - Facilities Acquisition and Construction - Capitalized	$ 1,666,052.24	
Capital Outlay - Other Capital Outlay - Capitalized	2,707,372.24	
Depreciation Expense	(5,568,254.00)	(1,194,829.52)
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.		31,963.01
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 fiscal year purchased. Thus, the change in net assets differs from the change in fund balance by the undepreciated cost of the disposed assets.		(14,723.57)
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 fiscal year:		
Bonds Payable	$ 290,000.00	
Certificates of Participation	2,385,000.00	2,675,000.00
Governmental funds report the effects of issuance costs, premiums, discounts, and similar items in the fiscal 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	$ (127,252.74)	
Amortized Premiums	55,285.83	(71,966.91)
Other postemployment benefits costs are recorded in the statement of activities under the full accrual basis of accounting, but are not recorded in the governmental funds until paid. This is the net increase in the other postemployment benefits liability for the current fiscal year.		(430,686.00)
In the statement of activities, the cost of compensated absences is measured by the amounts earned during the fiscal year, while in the governmental funds, expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences paid in excess of the amount earned in the current fiscal year.		126,158.72
Change in Net Assets - Governmental Activities		$ (1,598,045.78)

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, 2012

	Agency Funds
ASSETS	
Cash and Cash Equivalents	$ 632,513.00
Investments	26,279.00
TOTAL ASSETS	$ 658,792.00
LIABILITIES	
Accounts Payable	$ 2,554.00
Internal Accounts Payable	656,238.00
TOTAL LIABILITIES	$ 658,792.00

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

WALTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity. The Walton County District School Board (Board) has direct responsibility for operation, control, and supervision of District schools and is considered a primary government for financial reporting. The Walton County School District (District) is considered part of the Florida system of public education. The governing body of the District is the Board, which is composed of five elected members. The elected Superintendent of Schools is the executive officer of the Board. Geographic boundaries of the District correspond with those of 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 Board are such that exclusion would cause the District's basic financial statements to be misleading or incomplete. Based on the application of these criteria, the following component units are included within the District's reporting entity:

Blended Component Unit. The 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., the Walton Academy, Inc., and the Chautauqua Learn and Serve at the Arc of Walton County 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 component units of the District since they are fiscally dependent on the District to levy taxes for their support.

WALTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

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, 2012. The audit reports are filed in the District's administrative offices.

Basis of Presentation:

- Government-wide Financial Statements – Government-wide financial statements, i.e., the statement of net assets and the statement of activities, present information about the District as a whole. These statements include the nonfiduciary financial activity of the District and its component units.

  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 – Federal Economic Stimulus Fund – to account for certain Federal grant program resources related to the American Recovery and Reinvestment Act (ARRA) and Education Jobs Fund programs.
  - 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, 2012

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

The Foundation 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 the SBA debt service accounts for investment of debt service moneys, amounts placed with the SBA for participation in the Florida PRIME and Fund B Surplus Funds Trust Fund

WALTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

(Fund B) investment pools created by Sections 218.405 and 218.417, Florida Statutes, and those made locally. The investment pools operate under investment guidelines established by Section 215.47, Florida Statutes.

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

The District's investments in Fund B are accounted for as a fluctuating net asset value pool, with a fair value factor of 0.83481105 at June 30, 2012. Fund B is not subject to participant withdrawal requests. Distributions from Fund B, as determined by the SBA, are effected by transferring eligible cash or securities to Florida PRIME, consistent with the pro rata allocation of pool shareholders of record at the creation date of Fund B. One hundred percent of such distributions from Fund B are available as liquid balance within Florida PRIME.

Investments made locally consist of a certificate of deposit, which is reported at fair value. Types and amounts of investments held at fiscal year-end are described in a subsequent note.

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 the United States Department of Agriculture donated foods are stated at their fair value as determined at the time of donation to the District's food service program by the Florida Department of Agriculture and Consumer Services, Bureau of Food Distribution. 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

WALTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

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

Long-Term Liabilities. Long-term obligations that will be financed from resources to be received in the future by governmental funds are reported as liabilities in the government-wide statement of net assets. Certificates of participation (Certificates) premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the Certificates. Certificates 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.

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 the 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 fiscal years. The Department may also adjust subsequent fiscal year allocations based upon an audit of the District's compliance in determining and reporting the FTE and related data. Normally, such adjustments are treated as reductions or additions of revenue in the fiscal year when the adjustments are made.

The State provides financial assistance to administer certain educational programs. 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 restricted in the governmental fund financial statements for the balance of categorical and earmarked educational program resources.

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

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

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

WALTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

The Board adopted the 2011 tax levy on September 13, 2011. 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

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

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

WALTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

3. INVESTMENTS

As of June 30, 2012, the District has the following investments and maturities:

Investments	Maturities	Fair Value
SBA:		
Florida PRIME (1)	38 Day Average	$ 2,787,057.04
Fund B	5.73 Year Average	237,685.23
Debt Service Accounts	6 Months	18,254.79
Certificate of Deposit	August 2012	26,279.00
Total Investments		$ 3,069,276.06

Note: (1) This investment is reported as a cash equivalent for financial statement reporting purposes.

- Interest Rate Risk

  Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Section 218.415(17), Florida Statutes, limits investment maturities to provide sufficient liquidity to pay obligations as they come due. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses from increasing interest rates.

  Florida PRIME had a weighted average days to maturity (WAM) of 38 days at June 30, 2012. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the portfolio to interest rate changes. Due to the nature of the securities in Fund B, the interest rate risk information required by GASB Statement No. 40 (i.e., specific identification, duration, weighted average maturity, segmented time distribution, or simulation model) is not available. An estimate of the weighted average life (WAL) is available. In the calculation of the WAL, the time at which an expected principal amount is to be received, measured in years, is weighted by the principal amount received at that time divided by the sum of all expected principal payments. The principal amounts used in the WAL calculation are not discounted to present value as they would be in a weighted average duration calculation. At June 30, 2012, based on expected future cash flows, the WAL of Fund B is estimated at 5.73 years. However, because Fund B consists of restructured or defaulted securities, there is considerable uncertainty regarding the WAL. Participation in Fund B is involuntary.

- Credit Risk

  Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Section 218.415(17), Florida Statutes, limits investments to the SBA's Florida PRIME, or any other intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Section 163.01, Florida Statutes; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits in qualified public depositories, as defined in Section 280.02, Florida Statutes; and direct obligations of the United States Treasury. The District's investment policy limits investments to bids from qualified depositories, certificates of deposit, time deposits, securities of the United States Government, State-managed cooperative investment plans, and other forms of investments as authorized by Section 218.415, Florida Statutes.

WALTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

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

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

The District's investment in the certificate of deposit is in a qualified public depository.

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	$ 450.00	$	$ 5,860,409.86
Land Improvements	83,602.06			83,602.06
Construction in Progress	20,676,997.78	1,655,952.24	20,841,413.36	1,491,536.66
Total Capital Assets Not Being Depreciated	26,620,559.70	1,656,402.24	20,841,413.36	7,435,548.58
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	5,352,592.88	452,034.63		5,804,627.51
Buildings and Fixed Equipment	164,228,982.36	20,841,413.36		185,070,395.72
Furniture, Fixtures, and Equipment	11,760,197.40	1,528,189.94	567,395.75	12,720,991.59
Motor Vehicles	8,838,524.34	749,615.11	165,515.00	9,422,624.45
Computer Software	1,128,276.73	19,145.57	274,588.04	872,834.26
Total Capital Assets Being Depreciated	191,308,573.71	23,590,398.61	1,007,498.79	213,891,473.53
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	2,938,098.43	222,394.91		3,160,493.34
Buildings and Fixed Equipment	35,541,598.06	3,497,011.01		39,038,609.07
Furniture, Fixtures, and Equipment	8,879,850.20	1,134,954.59	552,672.18	9,462,132.61
Motor Vehicles	4,988,217.52	702,610.42	165,515.00	5,525,312.94
Computer Software	1,118,555.95	11,283.07	274,588.04	855,250.98
Total Accumulated Depreciation	53,466,320.16	5,568,254.00	992,775.22	58,041,798.94
Total Capital Assets Being Depreciated, Net	137,842,253.55	18,022,144.61	14,723.57	155,849,674.59
Governmental Activities Capital Assets, Net	$ 164,462,813.25	$ 19,678,546.85	$ 20,856,136.93	$ 163,285,223.17

Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Pupil Transportation Services	$ 702,610.42
Unallocated	4,865,643.58
Total Depreciation Expense - Governmental Activities	$ 5,568,254.00

WALTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

5. CHANGES IN SHORT-TERM DEBT

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

	Beginning Balance	Additions	Deductions	Ending Balance
GOVERNMENTAL ACTIVITIES				
Tax Anticipation Note, Series 2011	$ 0	$ 14,100,000	$ 14,100,000	$ 0

In September 2011, the District acquired $14,100,000 by issuing a tax anticipation note, Series 2011, to meet current operating needs pending receipt of property tax proceeds. The District repaid the note on April 6, 2012, at par plus interest of $99,992.50.

6. CERTIFICATES OF PARTICIPATION

The District entered into a financing arrangement on June 1, 1999, which arrangement was characterized as a master lease-purchase agreement, with the Authority, to issue Certificates and to provide a vehicle for future Certificate financing. Through such arrangements, the District secured financing of 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:

Original Issue	Original Amount	Principal Paid	Principal Refunded	Refunded By Series	Balance 6-30-12
1999	$ 25,960,000	$ 9,915,000	$ 16,045,000	2005	$
2005	16,660,000	4,615,000			12,045,000
2010	10,075,000	1,720,000			8,355,000

As a condition of the financing arrangement, the District has given ground leases on District property to the Authority with a rental fee of $10 per year. The term of the ground lease for the Series 1999 and 2005 Certificates ends on the earlier of the date on which the Series 1999 and 2005 Certificates have been paid in full, or June 30, 2029. The term of the ground lease for the Series 2010 Certificates ends on the earlier of the date on which the Series 2010 Certificates have been paid in full, or ten years from the final maturity date of the Series 2010 Certificates and any Series of Certificates refunding the Series 2010 Certificates. The properties covered by the ground leases are, together with the improvements constructed thereon from the financing proceeds, leased back to the District. If the District fails to renew the leases and to provide for the rent payments through to term, the District may be required to surrender the sites included under the ground lease agreements for the benefit of the securers of the Certificates until the end of the ground leases.

District properties included in the ground leases under this arrangement include properties at Freeport High School, South Walton High School, and Emerald Coast Middle School.

WALTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

The lease payments are payable by the District semiannually, on July 1 and January 1, at interest rates ranging from 2.98 to 5.25 percent. The following is a schedule by years of future minimum lease payments under the lease agreements together with the present value of minimum lease payments as of June 30:

Fiscal Year Ending June 30	Total	Principal	Interest
2013	$ 3,256,504.00	$ 2,460,000.00	$ 796,504.00
2014	3,255,292.00	2,540,000.00	715,292.00
2015	3,251,436.00	2,620,000.00	631,436.00
2016	3,250,535.00	2,730,000.00	520,535.00
2017	3,259,740.00	2,855,000.00	404,740.00
2018-2020	7,701,728.50	7,195,000.00	506,728.50
Total Minimum Lease Payments	23,975,235.50	20,400,000.00	3,575,235.50
Plus: Unamortized Premium	205,660.01	205,660.01	
Total Certificates of Participation	$ 24,180,895.51	$ 20,605,660.01	$ 3,575,235.50

7. BONDS PAYABLE

Bonds payable at June 30, 2012, are as follows:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 2005A	$ 445,000.00	5.0	2017
Series 2005B, Refunding	105,000.00	5.0	2018
District Revenue Bonds:			
Series 1998	185,000.00	4.83	2012
Total Bonds Payable	$ 735,000.00		

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.

WALTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

- 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)7.a., Florida Statutes (2001), now Section 212.20(6)(d)6.a., Florida Statutes (2011)). 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, 2012, are as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
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	138,500.00	130,000.00	8,500.00
2017	22,000.00	20,000.00	2,000.00
2018	21,000.00	20,000.00	1,000.00
Total State School Bonds	625,750.00	550,000.00	75,750.00
District Revenue Bonds:			
2013	189,467.75	185,000.00	4,467.75
Total	$ 815,217.75	$ 735,000.00	$ 80,217.75

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	$ 22,785,000.00	$	$ 2,385,000.00	$ 20,400,000.00	$ 2,460,000.00
Unamortized Premium	260,945.84		55,285.83	205,660.01	49,272.50
Total Certificates of Participation Payable	23,045,945.84		2,440,285.83	20,605,660.01	2,509,272.50
Bonds Payable	1,025,000.00		290,000.00	735,000.00	305,000.00
Compensated Absences Payable	4,928,577.97	666,211.60	792,370.32	4,802,419.25	792,370.32
Other Postemployment Benefits Payable	2,893,512.00	728,182.00	297,496.00	3,324,198.00	
Total Governmental Activities	$ 31,893,035.81	$ 1,394,393.60	$ 3,820,152.15	$ 29,467,277.26	$ 3,606,642.82

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, 2012

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	$ 2,451,238.76	$
Capital Projects:		
Local Capital Improvement		5,538,761.00
Nonmajor Governmental	3,202,212.57	114,690.33
Total	$ 5,653,451.33	$ 5,653,451.33

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.

10. FUND BALANCE REPORTING

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

- Nonspendable

  The net current financial resources that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. Generally, not in spendable form means that an item is not expected to be converted to cash.

- Restricted

  The portion of fund balance on which constraints have been placed by creditors, grantors, contributors, laws or regulations of other governments, constitutional provisions, or enabling legislation. Restricted fund balance places the most binding level of constraint on the use of fund balance.

- Unassigned

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

WALTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

11. SCHEDULE OF STATE REVENUE SOURCES

The following is a schedule of the District's State revenue sources for the 2011-12 fiscal year:

Source	Amount
Categorical Educational Program - Class Size Reduction	$ 7,865,391.00
Florida Education Finance Program	3,363,053.00
Voluntary Prekindergarten Program	463,736.68
School Recognition	401,029.00
Workforce Development Program	276,996.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	249,074.44
Charter School Capital Outlay Funds	112,477.76
Discretionary Lottery Funds	22,870.00
Miscellaneous	521,819.23
Total	$ 13,276,447.11

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 2011 tax roll for the 2011-12 fiscal year:

	Millages	Taxes Levied
GENERAL FUND		
Nonvoted School Tax:		
Required Local Effort	2.690	$ 30,154,292.02
Basic Discretionary Local Effort	0.748	8,384,910.94
Voted School Tax:		
Additional Discretionary	0.500	5,604,886.99
CAPITAL PROJECTS FUNDS		
Nonvoted Tax:		
Local Capital Improvements	1.073	12,028,087.49
Total	5.011	$ 56,172,177.44

WALTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

13. FLORIDA RETIREMENT SYSTEM

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

Employees enrolled in the Plan prior to July 1, 2011, vest at six years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at eight years of creditable service. All vested members, enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of service. All members enrolled in the Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 65 or any time after 33 years of creditable service. Members of both Plans may include up to 4 years of credit for military service toward creditable service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost-of-living adjustments.

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

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined-benefit plan. District employees participating in DROP are not eligible to participate in this program. Employer and employee contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The Investment Plan is funded by employer and employee contributions that are based on salary and membership class (Regular Class, Elected County Officers, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Employees in the Investment Plan vest at one year of service.

WALTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

The State of Florida establishes contribution rates for participating employers and employees. Contribution rates during the 2011-12 fiscal year were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	3.00	4.91
Florida Retirement System, Elected County Officers	3.00	11.14
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	4.42
Florida Retirement System, Reemployed Retiree	(B)	(B)

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

The District's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the District. The District's contributions, including employee contributions, for the fiscal years ended June 30, 2010, June 30, 2011, and June 30, 2012, totaled $3,849,347.62, $4,105,509.34, and $2,838,196.99, respectively, which were equal to the required contributions for each fiscal year.

There were 117 District participants in the Investment Plan during the 2011-12 fiscal year. The District's contributions, including employee contributions, to the Investment Plan totaled $392,368.44, which was equal to the required contribution for the 2011-12 fiscal year.

Financial statements and other supplementary information of the FRS are included in the State's Comprehensive Annual Financial Report, which is available from the Florida Department of Financial Services. An annual report on the FRS, which includes its financial statements, required supplementary information, actuarial report, and other relevant information, is available from the Florida Department of Management Services, Division of Retirement.

14. OTHER POSTEMPLOYMENT BENEFITS PAYABLE

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

WALTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

OPEB Plan does not issue a stand-alone report and is not included in the report of a public employee retirement system or other entity.

Funding Policy. Plan contribution requirements of the District and OPEB Plan members are established and may be amended through recommendations of the Insurance Committee and action from the Board. The District has not advance-funded or established a funding methodology for the annual OPEB costs or the net OPEB obligation, and the OPEB Plan is financed on a pay-as-you-go basis. For the 2011-12 fiscal year, 73 retirees received other postemployment benefits. The District provided required contributions of $297,496 toward the annual OPEB cost, comprised of payments made on behalf of retirees and net of retiree contributions totaling $435,063, which represents 1.3 percent of covered payroll.

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

Description	Amount
Normal Cost (service cost for one year)	$ 470,723
Amortization of Unfunded Actuarial Accrued Liability	255,974
Annual Required Contribution	726,697
Interest on Net OPEB Obligation	102,720
Adjustment to Annual Required Contribution	(101,235)
Annual OPEB Cost	728,182
Contribution Toward the OPEB Cost	(297,496)
Increase in Net OPEB Obligation	430,686
Net OPEB Obligation, Beginning of Year	2,893,512
Net OPEB Obligation, End of Year	$3,324,198

WALTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the OPEB Plan, and the net OPEB obligation as of June 30, 2012, and the two preceding years, were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009-10	$ 1,696,096	27.7%	$ 2,445,489
2010-11	691,363	35.2%	2,893,512
2011-12	728,182	40.9%	3,324,198

Funded Status and Funding Progress. As of October 1, 2010, the most recent valuation date, the actuarial accrued liability for benefits was $7,185,173, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability of $7,185,173 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was $33,151,003, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 21.7 percent.

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

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

The District's OPEB actuarial valuation as of October 1, 2010, used the entry age normal cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2012, and the District's 2011-12 fiscal year annual required contribution. 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 investment rate of return includes a 3 percent general inflation rate. The actuarial assumptions also included a payroll growth rate of 4 percent per year, and an annual healthcare cost trend rate of 8.5 percent for the 2011-12 fiscal year, reduced by 0.5 percent per fiscal year, to an ultimate rate of 5 percent. The

WALTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

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, 2012, was 26 years.

15. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

Encumbrances. Appropriations in governmental funds are encumbered upon issuance of purchase orders for goods and services. Even though appropriations lapse at the end of the fiscal year, unfilled purchase orders of the current fiscal year are carried forward and the next year's appropriations are likewise encumbered. At June 30, 2012, encumbrances in the Capital Projects – Local Capital Improvement Fund totaled $1,689,166.22.

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

Project	Contract Amount	Completed to Date	Balance Committed
West DeFuniak Elementary School	$ 342,600.00	$	$ 342,600.00
Emerald Coast Middle School Eight Classroom Addition	1,666,480.32	928,675.91	737,804.41
Total	$ 2,009,080.32	$ 928,675.91	$ 1,080,404.41

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 (Consortium) under which several district school boards have established a combined limited self-insurance program for property protection, general liability, automobile liability, workers' compensation, employee dishonesty, 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.

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, 2012

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	$ 200,000.00	$ 200,000.00	$ 288,059.94	$ 88,059.94
Federal Through State and Local	203,000.00	203,000.00	171,910.74	(31,089.26)
State	11,698,932.00	12,300,179.97	12,648,131.54	347,951.57
Local:				
Property Taxes	42,386,026.00	42,386,026.00	42,888,557.28	502,531.28
Miscellaneous	1,554,389.00	1,759,627.12	1,316,888.03	(442,739.09)
Total Local Revenues	43,940,415.00	44,145,653.12	44,205,445.31	59,792.19
Total Revenues	56,042,347.00	56,848,833.09	57,313,547.53	464,714.44
Expenditures				
Current - Education:				
Instruction	37,288,048.65	37,530,937.80	37,327,501.20	203,436.60
Pupil Personnel Services	2,009,290.81	2,080,269.93	2,078,608.14	1,661.79
Instructional Media Services	911,350.76	996,496.30	995,229.30	1,267.00
Instruction and Curriculum Development Services	718,168.73	732,169.64	706,341.42	25,828.22
Instructional Staff Training Services	323,002.88	462,039.22	350,559.59	111,479.63
Instruction Related Technology	995,081.07	924,351.61	738,354.96	185,996.65
School Board	292,058.46	334,000.00	333,291.86	708.14
General Administration	204,761.90	203,511.90	200,032.75	3,479.15
School Administration	4,375,991.52	4,548,679.53	4,530,972.64	17,706.89
Facilities Acquisition and Construction		56,434.89	56,434.89	
Fiscal Services	341,394.55	411,294.55	408,535.26	2,759.29
Food Services	16,990.83	38,830.13	36,751.95	2,078.18
Central Services	889,929.93	834,644.93	715,788.70	118,856.23
Pupil Transportation Services	3,491,580.02	4,211,180.92	4,063,799.31	147,381.61
Operation of Plant	7,898,530.21	8,078,785.68	7,762,098.01	316,687.67
Maintenance of Plant	1,444,508.45	1,534,097.97	1,485,517.46	48,580.51
Administrative Technology Services	296,937.92	305,000.00	304,389.73	610.27
Community Services	335,811.77	336,811.77	336,744.31	67.46
Fixed Capital Outlay:				
Other Capital Outlay		293,876.51	293,876.51	
Debt Service:				
Interest and Fiscal Charges	125,000.00	119,000.00	99,992.50	19,007.50
Total Expenditures	61,958,438.46	64,032,413.28	62,824,820.49	1,207,592.79
Deficiency of Revenues Under Expenditures	(5,916,091.46)	(7,183,580.19)	(5,511,272.96)	(1,672,307.23)
Other Financing Sources				
Transfers In	2,345,000.00	2,689,698.00	2,451,238.76	(238,459.24)
Insurance Loss Recoveries			2,236.46	2,236.46
Total Other Financing Sources	2,345,000.00	2,689,698.00	2,453,475.22	(236,222.78)
Net Change in Fund Balances	(3,571,091.46)	(4,493,882.19)	(3,057,797.74)	1,436,084.45
Fund Balances, Beginning	5,797,242.36	5,797,242.36	5,797,242.36	
Fund Balances, Ending	$ 2,226,150.90	$ 1,303,360.17	$ 2,739,444.62	$ 1,436,084.45

Special Revenue - Federal Economic Stimulus Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
$ 466,763.12	$ 509,650.99	$ 417,326.64	$ (92,324.35)
466,763.12	509,650.99	417,326.64	(92,324.35)
207,689.77	241,721.42	206,088.33	35,633.09
10,797.83	3,690.58	3,320.50	370.08
46,072.05	128,337.68	118,784.97	9,552.71
119,087.69	108,505.11	62,003.39	46,501.72
2,543.36	545.43	545.43	
55,572.42	4,835.57	4,568.82	266.75
25,000.00	8,749.00	8,749.00	
	13,266.20	13,266.20	
466,763.12	509,650.99	417,326.64	92,324.35
$ 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) (1) (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%
October 1, 2010	0	7,185,173	7,185,173	0.0%	33,151,003	21.7%

Note: (1) The District's OPEB actuarial valuation used the entry age normal cost method to estimate the actuarial accrued liability.

WALTON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2012

1. BUDGETARY BASIS OF ACCOUNTING

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

2. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS

The October 1, 2010, unfunded actuarial accrued liability of $7,185,173 was significantly lower than the October 1, 2007, liability of $18,881,231 as a result of benefit changes and other changes in liabilities and costs as discussed below:

- The number of enrolled retirees was expected to increase slightly; however, enrolled retirees decreased from 125 in the October 1, 2007, valuation to 57 in the October 1, 2010, valuation. Similarly, the increase in the number of active employees eligible for future postemployment benefits was more modest than projected, increasing from 880 on the October 1, 2007, valuation to 884 on the October 1, 2010, valuation. These changes significantly decreased the cost and liability on the October 1, 2010, valuation.
- The total cost of coverage increased from $492 per employee per month (as expected for the October 1, 2007, valuation) to $594 per employee for the October 1, 2010, valuation. This is lower than the $635 per employee projected for the year, causing the cost and liability to decrease.
- After the introduction of the Medicare Advantage Plan, many retirees becoming eligible for Medicare benefits chose to change coverage to that plan. Since these retirees are considered lapsing coverage for purposes of the valuation, the assumption pertaining to lapsing coverage by future retirees was revised. The new assumption is that 90 percent of retirees attaining age 65 will discontinue their District coverage, which is significantly greater than the 40 percent used in the October 1, 2007, valuation. This change in assumption also significantly decreased the cost and liability.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

WALTON COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2012

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	$ 247,859.04	$
National School Lunch Program	10.555	300	816,911.66	
Summer Food Service Program for Children	10.559	323	3,897.63	
Florida Department of Agriculture and Consumer Services:				
School Breakfast Program	10.553	321	256,677.99	
National School Lunch Program	10.555 (2)(A)	300	1,072,424.02	
Summer Food Service Program for Children	10.559	323	5,365.17	
Total Child Nutrition Cluster			2,403,135.51	
Florida Department of Financial Services:				
Schools and Roads - Grants to States	10.665	None	150.76	
Total United States Department of Agriculture			2,403,286.27	
United States Department of Energy:				
Indirect:				
University of Central Florida:				
ARRA - Sate Energy Program	81.041 (2)(B)	None	83,144.63	
United States Department of Education:				
Direct:				
Impact Aid	84.041 (3)	N/A	224,317.00	
Federal Pell Grant Program	84.063	N/A	284,055.57	
Total Direct			508,372.57	
Indirect:				
Florida Department of Education:				
Title I, Part A Cluster:				
Title I Grants to Local Educational Agencies	84.010	212, 222, 223, 226, 228	2,042,459.65	80,383.59
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	212, 226	94,379.43	
Total Title I, Part A Cluster			2,136,839.08	80,383.59
Special Education Cluster:				
Special Education - Grants to States	84.027	263	1,797,222.51	
Special Education - Preschool Grants	84.173	267	46,897.96	
ARRA - Special Education - Grants to States, Recovery Act	84.391	263	43,448.36	
Total Special Education Cluster			1,887,568.83	
Career and Technical Education - Basic Grants to States	84.048	161	138,009.28	
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	4,882.01	
Educational Technology State Grants	84.318	122	29,701.42	
Transition to Teaching	84.350	227	56,596.76	
Rural Education	84.358	110	197,416.58	
English Language Acquisition State Grants	84.365	102	7,841.08	
Improving Teacher Quality State Grants	84.367	224	309,052.09	
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	RL111, RD211	258,624.85	
Education Jobs Fund	84.410	541	20,874.00	621.00
Florida State University:				
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	None	49,500.00	
Total Indirect			5,096,905.98	81,004.59
Total United States Department of Education			5,605,278.55	81,004.59
United States Department of Homeland Security:				
Indirect:				
Florida Department of Education:				
Homeland Security Grant Program	97.004	532	63,394.80	
United States Department of Defense:				
Direct:				
Air Force Junior Reserve Officers Training Corps	None	N/A	63,742.94	
Total Expenditures of Federal Awards			$ 8,218,847.19	$ 81,004.59

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

(2) Noncash Assistance:
(A) National School Lunch Program - Includes $203,600.23 for donated food received during the fiscal year. Donated foods are valued at fair value as determined at the time of donation.
(B) State Energy Program - Includes $83,144.63 representing the Federally-paid portion of solar panels and related site preparation and installation costs.

(3) Impact Aid. Expenditures include $118,953.00 for grant number/program year S041A-2009-1272 and $105,364.00 for grant number/program year S041A-2012-1272.

AUDITOR GENERAL
STATE OF FLORIDA

DAVID W. MARTIN, CPA
AUDITOR GENERAL

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

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

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

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

We have audited the financial statements of the governmental activities, the 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, 2012, 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 includes 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 the aggregate discretely presented component units, as described in our report on the Walton County District School Board's financial statements. For the school internal funds and the aggregate discretely presented component units, 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 in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis.

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

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.

Our **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*** is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, Federal and other granting agencies, and applicable management and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



David W. Martin, CPA
February 12, 2013

AUDITOR GENERAL
STATE OF FLORIDA
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450

DAVID W. MARTIN, CPA
AUDITOR GENERAL

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

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

INDEPENDENT AUDITOR'S REPORT ON 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 *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, 2012. The District's major Federal programs are identified in the **SUMMARY OF AUDITOR'S RESULTS** section of the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of District management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

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 fiscal year ended June 30, 2012. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding No. 1.

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. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding No. 1. A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

Restricted Purpose Relating to Testing of Internal Control Over Compliance

The purpose of the provisions of this report addressing internal control over compliance is solely to describe the scope of our testing of internal control over compliance with the requirements that could have a direct and material effect on a major Federal program, and the results of that testing, and not to provide an opinion on the effectiveness of internal control over compliance. These provisions of our report are an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Circular A-133 in considering the entity's internal control over compliance. Accordingly, these provisions of our report are not suitable for any other purpose.

Respectfully submitted,



David W. Martin, CPA
February 12, 2013

WALTON COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

SUMMARY OF AUDITOR'S RESULTS

Financial Statements	
Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be a material weakness(es)?	None reported
Noncompliance material to financial statements noted?	No
Federal Awards	
Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be a material weakness(es)?	Yes
Type of report the auditor issued on compliance for major programs:	Unqualified for all major programs
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	Yes
Identification of major programs:	Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559); Federal Pell Grant Program (CFDA No. 84.063); and ARRA – State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act (CFDA No. 84.395 - ARRA)
Dollar threshold used to distinguish between Type A and Type B programs:	$300,000
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, 2012

ADDITIONAL MATTERS

Finding No. 1: Compensation and Salary Schedules

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

The 2011-12 fiscal year salary schedule and union contract for instructional personnel provided pay levels based on various factors such as job classification, years of experience, level of education, and other factors. The instructional personnel salary schedule and union contract provided salary supplements for additional responsibilities beyond the standard workday, such as supplements for coaching athletic activities 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 contract evidenced consideration of differentiated pay based on school demographics, level of job performance difficulties, and critical shortage areas for instructional personnel, contrary to Section 1012.22(1)(c)4.b., Florida Statutes.

District personnel indicated that the salary schedule revisions to comply with the statutory differentiated pay requirements were delayed pending completion of the negotiations with the teachers' union. Without a Board-established documented process for identifying the basis for differentiated pay, the District may be limited in its ability to demonstrate that differentiated pay factors are consistently considered and applied. Similar findings were noted in our report Nos. 2011-066 and 2012-127.

Recommendation: The Board should establish a documented process for ensuring that differentiated pay of instructional personnel is appropriately identified on salary schedules, consistent with Section 1012.22(1)(c)4.b., Florida Statutes.

Finding No. 2: Ad Valorem Taxation

Section 1011.71, Florida Statutes, allows the District to levy ad valorem taxes for capital outlay purposes within specified millage rates subject to certain precedent conditions. Allowable uses of ad valorem tax levy proceeds include, among other things, funding new construction and remodeling projects; school bus purchases; purchases of new and replacement equipment; and payment for motor vehicles subject to certain conditions and limitations.

The conditions precedent to the levy of such taxes have been narrowly construed by the courts (e.g., Wilson vs. School Board of Marion County, 424 So.2d 16 [Fla. 5th DCA 1983]), and failure to fully comply with such conditions may serve to invalidate the levies. Among the specific conditions imposed by Section 200.065(10)(a), Florida Statutes, are requirements to advertise, in advance of the adoption of a budget authorizing the expenditure of such tax levy proceeds, the purposes for which the Board intends to spend the proceeds of each such tax levy and to specify in the required notice of tax levy the projects to be funded by the assessment of such taxes. Further, Section 200.065(10)(b), Florida Statutes, establishes requirements for amending a list of capital outlay projects previously advertised and adopted.

The District separately accounts for each fiscal year's ad valorem tax levy within the Capital Projects – Local Capital Improvement (LCI) Fund. For the 2011-12 fiscal year, the District had LCI Fund expenditures totaling $5.7 million and transfers totaling $5.5 million to other funds. We tested LCI Fund expenditures totaling $223,046 and LCI Fund transfers totaling $4.9 million for propriety. Our review disclosed that the District purchased a motor vehicle for $12,179 from 2010-11 fiscal year ad valorem tax levy proceeds; however, the public notice of tax for the 2010-11 fiscal year did not identify that proposed use, contrary to Section 200.065(10)(a), Florida Statutes. District personnel indicated that the error occurred because they used the older funding source and were unaware that the advertisement did not authorize that purchase. Although Section 200.065(10)(b), Florida Statutes, allows a school district to publish an advertisement to announce the school district's proposal to use remaining ad valorem tax proceeds for other purposes, the District did not publish such an announcement. In the absence of the required advertisement of the proposed uses of funds, the $12,179 expenditure for the motor vehicle was not allowable.

In addition, our review of other LCI Fund expenditures disclosed $61,146 of LCI Fund expenditures made from 2011-12 fiscal year ad valorem tax levy proceeds that did not appear to be for purposes authorized by Section 1011.71, Florida Statutes, as follows:

Description	Questioned Costs
Noncapital Software (1)	$ 51,589
Miscellaneous (2)	9,557
Total	$ 61,146

Notes:

(1) These costs included items such as software for various instructional applications and gift cards that District personnel indicated would be used to purchase the application of books for instructional classroom use; however, as these items are not enterprise resource software applications, District records did not evidence the basis for using ad valorem tax levy proceeds for these purchases.

(2) These costs included items such as truck detailing and parts for motor vehicles and buses. District records did not evidence the basis for using ad valorem tax levy proceeds for these purchases.

These expenditures totaling $73,325 (including the $12,179 motor vehicle expenditure) represent questioned costs of the ad valorem tax levy proceeds. Without adequate controls to ensure that ad valorem tax levy proceeds are expended for authorized capital outlay purposes, the risk is increased that the District will violate applicable expenditure restrictions.

Recommendation: The District should enhance its procedures to ensure that ad valorem tax levy proceeds are used for advertised purposes as required. The District should also document to the Florida Department of Education the allowability of the $73,325 of questioned costs or restore this amount to the LCI Fund.

Finding No. 3: Charter Schools Monitoring

Section 1002.33(5)(b)1.b., Florida Statutes, requires that the District monitor the revenues and expenditures of District-sponsored charter schools. In addition to providing for an annual financial audit pursuant to Section 218.39, Florida Statutes, each charter school, pursuant to Section 1002.33(9)(g), Florida Statutes, must provide monthly[1] financial statements to its sponsor. Pursuant to Section 1002.345(1)(a), Florida Statutes, a charter school is subject to an expedited review by its sponsor if any one of four specified conditions occurs, whereby the sponsor is required to take the following actions:

- Pursuant to Section 1002.345(1)(b), Florida Statutes, the sponsor must notify the charter school governing board within 7 business days after the condition occurs.
- Pursuant to Section 1002.345(1)(c), Florida Statutes, the sponsor, with the charter school governing board, must develop a corrective action plan and file the plan with the Florida Department of Education within 30 business days after the notification pursuant to Section 1002.345(1)(b), Florida Statutes.

One of the conditions specified in Section 1002.345(1)(a), Florida Statutes, is failure of the charter school to provide for the audit required by Section 218.39, Florida Statutes, while another condition is failure to file monthly financial statements prepared pursuant to Section 1002.33(9)(g), Florida Statutes.

The District sponsored the Chautauqua Learn and Serve at the Arc of Walton County Inc. (Charter School), and required the Charter School, pursuant to contract, to provide the District monthly financial statements no later than 30 days after the end of each month and an annual financial audit report within three months of the Charter School's June 30, 2012, fiscal year-end (September 30, 2012). Although the Charter School began activities in October 2011, the Charter School did not timely submit its monthly financial statements for the 2011-12 fiscal year or 2011-12 fiscal year financial audit report to the District. Further, the District did not notify the Charter School's governing board within 7 business days regarding noncompliance with these reporting requirements, contrary to Section 1002.345(1)(b), Florida Statutes.

Subsequent to our inquiry, the Charter School submitted its October 2011 to June 2012 monthly financial statements to the District on November 6, 2012, and submitted its 2011-12 fiscal year annual financial audit report, dated December 6, 2012, to the District on December 10, 2012, or 71 days after the September 30, 2012, deadline. Appropriate and timely monitoring of the Charter School's financial activities provides the District additional assurance that the Charter School will be able to provide instructional services at the desired level while still meeting its financial obligations.

[1] If the charter school is designated as a high-performing charter school pursuant to Section 1002.331, Florida Statutes, the high-performing charter school may provide quarterly financial statements.

Recommendation: The District should improve its charter school monitoring procedures to ensure timely receipt of charter school financial statements and audit reports, and notification to a charter school's governing body when required by Section 1002.345(1)(b), Florida Statutes.

Finding No. 4: Contractual Services

The District is required, pursuant to State Board of Education (SBE) Rule 6A-1.012, Florida Administrative Code (FAC), to request bids or proposals from three or more sources for certain purchases exceeding $50,000. Pursuant to SBE Rule 6A-1.012(6), FAC, in lieu of requesting three bids or proposals, the District may make purchases at or below the unit prices in contracts awarded by another school board when the vendor awarded the contract will permit purchases by the District at the same terms, conditions, and unit prices awarded in the contract, and the purchases are to the District's economic advantage. For sole source purchases pursuant to SBE Rule 6A-1.012(12)(d), FAC, the District must publicly post a description of the purchase sought for a period of at least seven business days, and document that the purchase is available only from a sole source.

The Board routinely enters into contracts for services, and internal controls have been designed and implemented to ensure payments are generally consistent with contract terms and conditions. To determine the propriety of payments for contractual services, we tested 22 payments totaling $2 million for 18 purchase orders and contracts and noted controls could be enhanced, as follows:

- In July 2011, the Board approved a four-year contract with a company to provide energy education training and monitoring services for a monthly fee of $26,900 for 48 consecutive months, or a total of $1,291,200. Additional expenditures related to this contract included software costs of $6,650 per year for the first three years and $2,593 per year thereafter, and energy educational specialist salary and travel expenditures. The District did not select the company using a competitive selection process as, according to District personnel, the company was a sole source vendor; however, the District did not publicly post a description of the purchase sought for a period of at least seven business days, and document that the purchase was available only from a sole source, contrary to SBE Rule 6A-1.012(12)(d), FAC.

  In addition, the contract included a provision allowing the District to terminate the contract, but the provision required the District to pay significant termination penalties to the company, depending on the termination date. For example, the contract requires payment of $403,500 if termination was before or at the end of the first year; $322,800 if during or at the end of the second year; and $290,520 if during or at the end of the third year. District records did not evidence the basis upon which the District determined the reasonableness of the termination penalties.

- In August 2011, District personnel approved four separate purchase orders with one company to provide fire alarm and intercom upgrades totaling $80,282 based on request for proposals from other school boards. While District personnel obtained bid and contract documentation from the other school boards and some of the items on the company's invoices agreed with bid and contract documentation, the invoices for 3 purchase orders totaling $55,737 were for lump-sum amounts that did not itemize the equipment installed and related prices in the same manner as the bid and contract documents. As a result, District records did not evidence that the District received the same terms, conditions, and prices awarded to the other school boards.

Without procedures to ensure compliance with requirements related to sole source purchases and documentation to evidence the reasonableness of termination penalties and confirm the competitive selection process of other school boards, there is an increased risk that services will not be acquired at the lowest and best price consistent with desired quality.

Recommendation: The District should enhance its procedures to ensure that sole source purchases are appropriately documented, contract termination penalties are reasonably determined, and payments are based on competitive bids as required.

Finding No. 5: Information Technology – Security Incident Response Plan

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

Although the District had a written plan documenting procedures for reporting, analyzing, and responding to computer security incidents, the employees designated as the District's security incident response team had not received training related to these procedures. In addition, the District had not distributed procedures to end users for recording and reporting computer security incidents. Should an event occur that involves the potential or actual compromise, loss, or destruction of District data or information technology (IT) resources, lack of a team trained in computer security incident response and failure to distribute to end users procedures for recording and reporting computer security incidents could result in the District's failure to take appropriate and timely actions to prevent further loss or damage to the District's data and IT resources. A similar finding was noted in our report No. 2012-127.

Recommendation: The District should enhance its procedures by training security incident response team members and distributing procedures for the reporting of incidents to end users.

Finding No. 6: Information Technology – Security Controls – Data Loss Prevention

Security controls are intended to protect the confidentiality, integrity, and availability of data and IT resources. Our audit disclosed certain District security controls related to data loss prevention 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 data loss prevention, the risk is increased that the confidentiality, integrity, and availability of District data and IT resources may be compromised. A similar finding was noted in our report No. 2012-127.

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

FEDERAL AWARDS FINDING AND QUESTIONED COSTS

Federal Awards Finding No. 1:
Federal Agency: United States Department of Education
Award Number: P063P116670
Program: Federal Pell Grant Program (CFDA No. 84.063)
Finding Type: Noncompliance and Significant Deficiency
Questioned Costs: $8,719

Special Tests and Provisions – Administrative Capability. During the 2011-12 fiscal year, the District administered the Federal Pell Grant Program (Program) at the Walton Career Development Center, and Program expenditures totaled approximately $284,000, representing a 15.6 percent increase over the prior fiscal year. To continue participation in the Program, Federal regulations require the District to demonstrate to the United States Department of Education (ED) that it is capable of adequately administering the Program under various standards established in Title 34, Section 668.16, Code of Federal Regulations (CFR). These administrative capability standards include requirements such as:

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

As discussed below, our audit disclosed Program questioned costs totaling $8,719, control deficiencies, and noncompliance with Federal regulations, including Program overawards of $6,161 and Program returns of $2,558. These questioned costs, control deficiencies, and noncompliance are likely attributable, in whole or in part, to inadequate administrative capability.

Special Tests and Provisions – Institutional Eligibility. Title 34, Section 668.16, CFR, requires the District to establish, publish, and apply reasonable standards for measuring whether an otherwise eligible student is maintaining satisfactory academic progress (SAP) in his or her educational program. These standards must include a qualitative measure, such as grades or work projects completed, and a quantitative measure such as a maximum timeframe in which the student must complete his or her educational program. For an undergraduate program, the timeframe must not be longer than 150 percent of the published length of the educational program for a full-time student, and the timeframe must be divided into increments of equal size. The District must make appropriate determinations at the end of each increment whether the student has successfully completed the appropriate percentage or the established schedule.

Our review of the District's financial aid policies and procedures relating to SAP disclosed that the policies and procedures lacked certain provisions necessary for effective administration of the SAP policy. For example:

- The SAP policy did not specify the pace at which students must progress through their educational program to ensure completion of the program within the maximum time frame established by Title 34, Section 668.34, CFR. To be effective for each program of study, the policy could identify the minimum number of hours or percentage of hours that must be completed within institution established calendar time frames.

- The SAP policy did not describe how a student's grade-point average (GPA) and pace of completion are affected by course incompletes, withdrawals, or transfers of credit from other institutions. To ensure consistent application, the policy could define how GPA and pace of completion are calculated when a student does not complete a course, withdraws, or transfers credit from other institutions.
- Although the SAP policy provided for student academic probation for one semester to resolve unsatisfactory progress, the policy did not include specific language describing both the warning and probation statuses and the appeal process established by Title 34, Section 668.34, CFR. To effectively communicate such information, the policy could define the conditions that would place a student in academic warning and probation status, the conditions the student must meet to be removed from academic or probation status, specific procedures for students to follow for financial aid appeals, and policies and procedures for financial aid personnel to follow for consistent evaluations of financial aid appeals.

Special Tests and Provisions – Disbursements. During our test of Program disbursements, totaling $23,075, to 10 students, we noted the following:

- Pursuant to Title 34, Section 668.164(f), CFR, the District may not disburse or credit a student's account more than 10 days before the first day of classes of the payment period for which the disbursement is intended, or the day the student completed the previous payment period. The District disbursed Program funds, totaling $6,161, to 3 students between 11 and 334 days before the students were eligible to receive the funds.
- Due to calculation errors made by District personnel, the District overawarded 3 students a total of $6,161 in Program funds, which represent questioned costs subject to disallowance to the grantor.

Special Tests and Provisions – Return of Program Funds. Title 34, Section 668.22, CFR, requires the District to determine the amount of Program funds that a student earned as of the student's withdrawal date. Based on this determination, Title 34, Section 668.22(j)(1), CFR, requires the District to return any unearned funds to ED within 45 days after the student's withdrawal date as determined by the District. Our test of 5 students who withdrew during the 2011-12 fiscal year disclosed that the District did not accurately determine the amount of Program funds that 2 students earned as of their withdrawal dates. As a result, the District did not return $2,558 in unearned funds to ED as required, resulting in questioned costs subject to disallowance by the grantor.

Recommendation: The District should make appropriate changes to meet the Federal administrative capability requirements of the Program; revise its SAP policy to comply with Federal regulations; and establish adequate procedures over the Program to ensure that Program disbursements and the return of unearned Program funds are consistent with Federal regulations. Also, the District should review Program disbursements and returns of all recipients for the 2011-12 award year to determine the propriety of these payments. In addition, the District should document to the grantor (ED) the allowability of the $8,719 of questioned costs, and any other questioned costs disclosed by District review procedures, or restore these moneys to the Program.

District Contact Person: Michael Davis, Principal, Walton Career Development Center

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the District had taken corrective actions for findings included in our report No. 2012-127. The following table provides information on the District's recurring audit findings:

Current Fiscal Year Finding Numbers	2010-11 Fiscal Year Audit Report and Finding Numbers	2009-10 Fiscal Year Audit Report and Finding Numbers
1	Audit Report No. 2012-127, Finding No. 2	Audit Report No. 2011-066, Finding No. 3
5	Audit Report No. 2012-127, Finding No. 5	NA
6	Audit Report No. 2012-127, Finding No. 6	NA

NA – Not Applicable

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, 2012

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
2012-127 (1)	Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559) - Allowable Costs/Cost Principles	Required documentation to support personnel charges for three employees was not maintained, contrary to Federal regulations.	Corrected.	The District is now maintaining records required by Federal regulations.

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

February 12, 2013

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, 2012, I submit the following explanations and corrective actions:

Finding No. 1: Compensation and Salary Schedules
The District has established a timeline for the establishment and implementation of a documented process for ensuring that differentiated pay of instructional personnel is appropriately identified on salary schedules. A consultant is providing assistance to district personnel for the development of the statutory pay requirements that demonstrate the differentiated pay factors are consistently considered and applied.

Finding No. 2: Ad Valorem Taxation
We will improve our procedures to ensure that ad valorem tax levy proceeds are used for advertised purposes as required. The District will also work with the Florida Department of Education in determining the allowability of the $73,325 of questioned costs or restore this amount to the LCI Fund.

Finding No. 3: Charter Schools Monitoring
We have developed the following procedures to ensure that charter schools submit timely monthly financial statements and annual reports. This procedure will remind the charter schools and the district personnel to verify the receipt of the required reports. A reminder will be sent electronically to each charter school and district personnel responsible for these reports four days prior to the deadline. To ensure district personnel apprise the governing board within seven days of the school's failure to submit the required reports, each reminder includes the following statement, "Pursuant to Section 1002.345 (1) (b), Florida Statutes, the sponsor must notify the charter school governing board within seven business days of the schools' failure to submit the required financial reports."

Finding No. 4: Contractual Service
The district will enhance its procedures to ensure that sole source purchases are appropriately documented, contract termination penalties are reasonably determined and that payments are based on competitive bids as required.

Finding No. 5: Information Technology-Security Incident Response Plan
The District is in the process of training the security incident response team members and will distribute the procedures for the reporting of incidents to the end users.

"Making All Decisions in the Best Interest of Students"

Gail Smith	Faye Leddon	Sharon Roberts	Mark D. Davis	Dennis Wallace
District 1	District 2	District 3	District 4	District 5

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

David W. Martin, CPA, Auditor General
February 12, 2013

Finding No. 6: Information Technology – Security Controls-Data Loss Prevention
The continued confidentiality, integrity, and availability of District data and IT resources are of paramount importance to the District. We will continue to review this matter with our technical personnel in an effort to improve security controls related to data loss prevention.

Federal Awards Finding and Questioned Costs

Finding No. 1:-Special Tests and Provisions and Program Compliance
The District has made the following operational and procedural changes to correct the deficiencies:

- Until current staff deficits can be addressed, the district is reassigning duties among existing staff to make sure that the internal control system for financial aid is continuously in place and sufficiently robust to ensure separation of the functions of authorization and subsequent crediting of student financial accounts.
- As the number and amount of financial aid awards increase along with the increase in postsecondary enrollment, the district will continue to pursue development or purchase of automated systems that will help ensure timely processing and monitoring of student financial aid awards. Along with these systems, the district will continue to provide for adequate staff training to ensure compliance with federal rules and regulations related to financial aid.
- The financial aid policy and procedure manual is being revised to provide additional information and policy and procedural guidance related to topics including pace of program completion, grade point average (GPA), incompletes, withdrawals, course transfers from other educational institutions, and more specific information related to academic probation. At a minimum, the financial policy and procedure manual will be reviewed and revised on an annual basis. Staff involved in the administration of financial aid will be provided professional development and training on the financial aid policy and procedure manual.
- The district implemented new attendance-keeping software during the 2011-2012 program year. This was a factor in miscalculation of awards due to delays in communication regarding student absences and withdrawals. Staff have been provided additional training in managing attendance through the new software and the financial aid department has implemented a new checkpoint form to ensure that students are making satisfactory academic progress prior to disbursement of financial aid awards. A program of regular focused review of student financial aid files has been initiated and the financial aid administrator will continue this process to ensure that student disbursements have been correctly timed, calculated, and reported. This should contribute to earlier identification and correction of errors.
- The financial aid administrator is completing return of funds to USDOE through the Common Origination and Disbursement System to correct the identified miscalculation of student awards and address program questioned costs in the amount of $8,719.

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