

BAY COUNTY DISTRICT SCHOOL BOARD

Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended
June 30, 2009



STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD MEMBERS AND SUPERINTENDENTS

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

	<u>District No.</u>
Pat Sabiston	1
Johnny Brock to 11-17-08	2
Ryan Neves from 11-18-08	2
Ginger Littleton, Chair from 11-18-08	3
Jon McFatter to 11-17-08, Vice Chair	4
Jerry L. Register from 11-18-08	4
Donna Allen, Chair to 11-17-08, Vice Chair from 11-18-08	5
James E. McCalister, Sr., Superintendent to 11-17-08	
William V. Husfelt, III, Superintendent from 11-18-08	

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

The audit team leader was Shelly G. Curti, CPA, and the audit was supervised by Patricia S. Crutchfield, CPA. For the information technology portion of this audit, the audit team leader was Rebecca F. Ferrell, CISA, and the supervisor was Nancy M. Reeder, CPA, CISA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Manager, by e-mail at gregcenters@aud.state.fl.us or by telephone at (850) 487-9039.

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

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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

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

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

SIGNIFICANT DEFICIENCY

Finding No. 1: Improvements are needed in controls over financial reporting to ensure that account balances, transactions, and related note disclosures are properly reported on the financial statements.

ADDITIONAL MATTERS

Finding No. 2: The District's management of access privileges needed improvement.

Finding No. 3: Controls could be enhanced to ensure compliance with Section 119.071(5)(a), Florida Statutes, regarding notifying individuals of the need for and use of social security numbers.

Finding No. 4: Improvements in District procedures are needed to ensure that the required background screenings are obtained for contractual personnel.

Finding No. 5: Improvements are needed to enhance controls over the issuance of high school diplomas.

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

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The WIA Cluster; Title I, Part A Cluster; Special Education Cluster; Improving Teacher Quality; and Hazard Mitigation programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that were applicable to the major Federal programs tested.

Audit Objectives and Scope

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

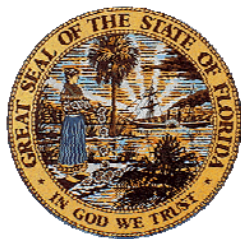
- Presented the District's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements or on a major Federal program;
- Established internal controls that promote and encourage: 1) compliance with applicable laws, rules, regulations, contracts, and grant agreements; 2) the economic and efficient operation of the District; 3) the reliability of records and reports; and 4) the safeguarding of District assets;
- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements, and those applicable to the District's major Federal programs; and

- Taken corrective actions for findings included in our report No. 2009-152.

The scope of this audit included an examination of the District's basic financial statements and the Schedule of Expenditures of Federal Awards as of and for the fiscal year ended June 30, 2009. We obtained an understanding of the District's environment, including its internal control and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements and Federal awards. We also examined various transactions to determine whether they were executed, both in manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

Audit Methodology

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



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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Bay County District School Board, as of and for the fiscal year ended June 30, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the District's three charter schools, and the Bay Education Foundation, Inc., which represent 99 percent of the assets, 100 percent of the liabilities, 97 percent of the net assets, 99 percent of the revenues, and 99 percent of the expenses of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the charter schools and the Bay Education Foundation, Inc., is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Bay Education Foundation, Inc., were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information for the Bay County District School Board as of June 30, 2009, and the respective changes in financial

position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

The **MANAGEMENT'S DISCUSSION AND ANALYSIS** (pages 3 through 8) and the **OTHER REQUIRED SUPPLEMENTARY INFORMATION** (pages 48 through 50) are not required parts of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Respectfully submitted,



David W. Martin, CPA

March 5, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

FINANCIAL HIGHLIGHTS

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

- The District's governmental activities net assets decreased by \$8,763,899.25, which represents a 3 percent decrease from June 30, 2008.
- During the current year, General Fund expenditures exceeded revenues and other financing sources by \$697,499.20. This may be compared to last year's results in which General Fund revenues and other financing sources exceeded expenditures by \$1,696,638.85.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$7,458,225.22 or 4 percent of the General Fund expenditures, compared to the previous year's unreserved fund balance of \$7,199,173.60 or 4 percent of the General Fund expenditures.

OVERVIEW OF FINANCIAL STATEMENTS

The basic financial statements consist of three components:

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

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

Government-wide Financial Statements

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

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

- Governmental activities – This represents most of the District's services, including its educational programs: basic, vocational, adult, and exceptional education. Support functions such as transportation and

administration are also included. Local property taxes and the State's education finance program provide most of the resources that support these activities.

- Business-type activities – These activities account for the financial resources of the Beacon Learning Center, which provides services predominantly for other Districts.
- Component units – The District's foundations (the Bay Education Foundation, Inc.; the Tom P. Haney Education Foundation, Inc.; and the Bay Communications Foundation, Inc.) and charter schools (the Bay Haven Charter Academy, Inc.; the Chautauqua Charter School, Inc., d/b/a Chautauqua Learn and Serve Charter School; and NewPoint Bay, Inc.) are reported as discretely presented component units. Although legally separate organizations, the component units are included in this report because they meet the criteria for inclusion provided by generally accepted accounting principles.

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

Fund Financial Statements

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

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

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

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

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

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

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

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

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

Notes to Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. The following is a summary of the District's net assets as of June 30, 2009, compared to net assets as of June 30, 2008:

	Net Assets, End of Year					
	Governmental Activities		Business-Type Activities		Total	
	6-30-09	6-30-08	6-30-09	6-30-08	6-30-09	6-30-08
Current and Other Assets	\$ 61,751,935.96	\$ 89,598,848.59	\$ 1,683,353.10	\$ 2,228,514.79	\$ 63,435,289.06	\$ 91,827,363.38
Capital Assets	331,074,774.09	318,172,381.28	73,382.30	104,431.44	331,148,156.39	318,276,812.72
Total Assets	392,826,710.05	407,771,229.87	1,756,735.40	2,332,946.23	394,583,445.45	410,104,176.10
Long-Term Liabilities	131,812,730.64	136,718,132.91	116,977.55		131,929,708.19	136,718,132.91
Other Liabilities	12,302,211.08	13,577,429.38	509,309.26	819,550.10	12,811,520.34	14,396,979.48
Total Liabilities	144,114,941.72	150,295,562.29	626,286.81	819,550.10	144,741,228.53	151,115,112.39
Net Assets:						
Invested in Capital Assets -						
Net of Related Debt	233,715,803.21	231,624,405.90	73,382.30	104,431.44	233,789,185.51	231,728,837.34
Restricted	14,729,583.26	27,503,296.82			14,729,583.26	27,503,296.82
Unrestricted (Deficit)	266,381.86	(1,652,035.14)	1,057,066.29	1,408,964.69	1,323,448.15	(243,070.45)
Total Net Assets	\$ 248,711,768.33	\$ 257,475,667.58	\$ 1,130,448.59	\$ 1,513,396.13	\$ 249,842,216.92	\$ 258,989,063.71

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

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

The key elements of the changes in the District's net assets for the fiscal years ended June 30, 2009, and June 30, 2008, are as follows:

Operating Results for the Year					
	Governmental Activities		Business-Type Activities		Total
	6-30-09	6-30-08	6-30-09	6-30-08	
Program Revenues:					
Charges for Services	\$ 7,608,518.31	\$ 7,547,084.44	\$ 1,044,005.40	\$ 901,160.91	\$ 8,652,523.71
Operating Grants and Contributions	11,452,104.34	11,533,387.55			11,452,104.34
Capital Grants and Contributions	2,858,157.07	8,399,867.86			2,858,157.07
General Revenues:					
Property Taxes, Levied for Operational Purposes	105,303,318.21	97,188,288.35			105,303,318.21
Property Taxes, Levied for Capital Projects	18,026,877.32	17,799,550.09			18,026,877.32
Local Sales Taxes	91,534.17	14,413,609.74			91,534.17
Grants and Contributions Not Restricted to Specific Programs	83,261,273.50	101,711,014.49			83,261,273.50
Unrestricted Investment Earnings	(663,863.75)	2,648,315.63	6,172.08		(657,691.67)
Miscellaneous	3,072,632.16	1,264,154.12			3,072,632.16
Total Revenues	231,010,551.33	262,505,272.27	1,050,177.48	901,160.91	232,060,728.81
Functions/Program Expenses:					
Instruction	130,927,065.78	129,973,015.08			130,927,065.78
Pupil Personnel Services	8,007,669.28	8,215,833.88			8,007,669.28
Instructional Media Services	3,789,889.73	3,923,160.23			3,789,889.73
Instruction and Curriculum Development Services	5,019,632.97	5,481,619.46			5,019,632.97
Instructional Staff Training Services	3,387,691.57	3,289,061.24			3,387,691.57
Instruction Related Technology	15,368.58	1,047,400.04			15,368.58
Board of Education	780,190.85	895,228.58			780,190.85
General Administration	1,013,507.93	964,301.14			1,013,507.93
School Administration	13,047,958.80	13,975,853.40			13,047,958.80
Facilities Acquisition and Construction	1,686,502.49	1,651,955.55			1,686,502.49
Fiscal Services	1,706,415.37	1,758,847.98			1,706,415.37
Food Services	11,241,118.02	11,356,089.56			11,241,118.02
Central Services	1,411,970.86	1,480,107.70			1,411,970.86
Pupil Transportation Services	8,011,087.82	9,423,234.88			8,011,087.82
Operation of Plant	13,929,113.57	18,319,998.54			13,929,113.57
Maintenance of Plant	4,963,587.84	5,392,546.82			4,963,587.84
Administrative Technology Services	3,299,928.14	3,333,422.25			3,299,928.14
Community Services	1,890,518.56	1,769,703.92			1,890,518.56
Interest on Long-Term Debt	5,264,019.98	5,883,371.25			5,264,019.98
Unallocated Depreciation Expense	20,381,212.44	17,888,140.92			20,381,212.44
Beacon Learning Center			1,433,125.02	1,388,856.48	1,433,125.02
Total Functions/Program Expenses	239,774,450.58	246,022,892.42	1,433,125.02	1,388,856.48	241,207,575.60
Increase (Decrease) in Net Assets	\$ (8,763,899.25)	\$ 16,482,379.85	\$ (382,947.54)	\$ (487,695.57)	\$ (9,146,846.79)

Instruction expenses represent 55 percent of total governmental expenses in the 2008-09 fiscal year and remained fairly consistent when compared to the prior year. Local sales taxes decreased \$14,322,075.57 due to the end of the half-cent sales tax in the 2007-08 fiscal year. Grants and contributions not restricted to specific programs decreased \$18,449,740.99, mainly due to a Florida Education Finance Program funding decrease caused by declining enrollment and State budget cuts. Pupil transportation services function expenses decreased primarily because of decreased fuel costs and shortened bus routes. In addition, operation of plant expenses decreased mainly because the District did not expense property casualty insurance premiums from this function, as in the past, but transferred tax levy proceeds to pay the premiums to the internal service fund. Instruction related technology expenses declined primarily because

Microsoft settlement funds used in the 2007-08 fiscal year to fund technology expenses were not available for the 2008-09 fiscal year.

The net assets of the business-type activities decreased because the Beacon Learning Center incurred expenses while developing new products and services that have not generated revenue. However, because of operating efficiencies, the operating loss for the 2008-09 fiscal year was less than the loss for the 2007-08 fiscal year. The current year's decrease in net assets represents a 21 percent improvement from the previous year.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Major Governmental Funds

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved fund balance is \$7,458,225.22, while the total fund balance is \$9,908,492.77. The unreserved fund balance increased by \$259,051.62, while the total fund balance decreased by \$697,499.20 during the fiscal year. This is primarily due to an overall decrease in State revenue of approximately \$20 million, including a \$19 million decrease in FEFP funding. The District offset these revenue decreases by closing and repurposing several schools.

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

The Debt Service – Other Fund accounts for the payment of principal and interest of the District's Certificates of Participation (COPs) and has a total fund balance of \$5.71. The District issued \$8,768,000 of Refunding COPs, Series 2008, to refund the 1997 COPs. See additional information in Notes 7 and 8 to the financial statements.

The Capital Projects – Local Capital Improvement Fund has a total fund balance of \$9,961,327.06. The fund balance decreased \$2,049,162.40, primarily because the fund paid property casualty insurance premiums that have historically been paid from the General Fund. It should be noted that \$4,177,840.21 of this balance has been encumbered for specific construction projects in progress at fiscal year-end.

The Capital Projects – Other Fund has a total fund balance of \$13,142,374.73, which is restricted for the acquisition, construction, and maintenance of capital assets. The fund balance decreased \$20,230,948.33, primarily because of capital outlay expenditures for the Deer Point Elementary School. It should be noted that \$10,736,050.15 of this balance has been encumbered for specific construction projects in progress at fiscal year-end.

Proprietary Funds

Unrestricted net assets of the internal service fund total \$3,008,573.65 at June 30, 2009. These net assets increased by \$1,815,949.95, primarily because of decreased insurance claims and premium costs.

Unrestricted net assets of the Enterprise Fund – Beacon Learning Center total \$1,057,066.29 at June 30, 2009. Net assets decreased by \$382,947.54 from the prior year due to an operating loss of \$389,119.62. This operating loss represents a 20 percent decrease from the previous year's operating loss of \$487,695.57. The loss occurred primarily because Beacon Learning Center is developing new products and services that have not generated revenue.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the course of the 2008-09 fiscal year, the District amended its General Fund budget several times, which resulted in an decrease in total appropriations amounting to \$1,724,980.56, or 1 percent. At the same time, final budgeted revenues and other financing sources were less than the original budgeted amounts by \$1,614,106.56, or 1 percent. This resulted in a final budgeted ending fund balance of \$1,010,332, or 12 percent more than the ending

fund balance included in the original budget. This was primarily due to an increase in budgeted transfers in from the Capital Projects – Local Capital Improvement Fund for the rental of relocatable classrooms.

Actual revenues were \$1,401,572.66 more than the final budgeted amounts, while actual expenditures were \$7,584,975.04 less than the final budgeted amounts. Positive budget variances occurred in all functions. The ending fund balance exceeded the estimated fund balance contained in the final amended budget by \$8,898,170.77.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets for its governmental and business-type activities as of June 30, 2009, amounts to \$331,074,774.09 and \$73,382.30, respectively (net of accumulated depreciation). This investment in capital assets includes land; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; construction in progress; and audio visual materials and computer software.

Additional information on the District's capital assets can be found in Notes 4 and 17 to the financial statements.

Long-Term Debt

At June 30, 2009, the District has total long-term debt outstanding of \$107,949,854.78. This amount is comprised of \$516,854.78 of installment-purchases payable, \$6,000,000 of bonds payable, and \$101,433,000 of certificates of participation (COPs). The most significant long-term debt event during the fiscal year was the issuance of \$8,768,000 of Refunding COPs, Series 2008, to refund the 1997 COPs.

Additional information on the District's long-term debt can be found in Notes 6 through 10 to the financial statements.

OTHER MATTERS OF SIGNIFICANCE

The first of two new schools (Breakfast Point Academy) opened in August 2008 as a K-6 school, and the District plans to add another grade each year until it reaches K-8 status. However, due to the economic downturn, plans to become a K-8 school have been postponed and, for the 2009-10 school year, Breakfast Point Academy is a K-5 elementary school. The second school (Deer Point Elementary), financed with the 2007 COPs, was still under construction and is scheduled to open during the 2010-11 school year. This was also the first year of the District's newest charter school, NewPoint Bay, Inc.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities	Primary Government Business-Type Activities	Total	Component Units
ASSETS				
Cash and Cash Equivalents	\$ 55,836,457.52	\$ 1,603,228.30	\$ 57,439,685.82	\$ 3,258,245.37
Investments - Other	167,606.62		167,606.62	
Accounts Receivable	9,261.66	124,728.50	133,990.16	140,467.00
Prepaid Items	1,955,921.15		1,955,921.15	982,856.00
Internal Balances		(44,603.70)		
Due from Other Agencies	728,377.23		728,377.23	332,511.00
Inventories	1,342,488.64		1,342,488.64	
Investments in Fund B Surplus Funds Trust Fund	1,667,219.44		1,667,219.44	512,375.32
Other Assets				100,316.00
Capital Assets:				
Nondepreciable Capital Assets	44,089,639.38		44,089,639.38	805,128.00
Depreciable Capital Assets, Net	286,985,134.71	73,382.30	287,058,517.01	15,501,471.00
TOTAL ASSETS	\$ 392,826,710.05	\$ 1,756,735.40	\$ 394,583,445.45	\$ 21,633,369.69
LIABILITIES				
Salaries and Wages Payable	\$ 297,346.12	\$ 140.48	\$ 297,486.60	\$ 57,148.00
Payroll Deductions and Withholdings	1,802,741.85	8,812.67	1,811,554.52	6.00
Accounts Payable	1,686,881.44		1,686,881.44	522,767.00
Construction Contracts Payable	1,304,028.27		1,304,028.27	
Construction Contracts Payable - Retainage	1,780,328.95		1,780,328.95	
Due to Other Agencies	6,657.12		6,657.12	
Matured Bonds Payable	2,950,000.00		2,950,000.00	
Matured Certificates of Participation Payable	2,412,282.25		2,412,282.25	
Matured Interest Payable	61,945.08	500,356.11	562,301.19	112,290.00
Deferred Revenue				
Long-Term Liabilities:				
Portion Due Within One Year	8,088,706.42		8,088,706.42	354,663.00
Portion Due After One Year	123,724,024.22	116,977.55	123,841,001.77	12,053,127.00
Total Liabilities	144,114,941.72	626,286.81	144,741,228.53	13,100,001.00
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	233,715,803.21	73,382.30	233,789,185.51	3,898,809.00
Restricted for:				
State Categorical Programs	957,695.03		957,695.03	
Debt Service	167,606.62		167,606.62	
Capital Projects	12,748,423.73		12,748,423.73	
Food Service	855,857.88		855,857.88	
Other Purposes				127,704.00
Unrestricted	266,381.86	1,057,066.29	1,323,448.15	4,506,855.69
Total Net Assets	248,711,768.33	1,130,448.59	249,842,216.92	8,533,368.69
TOTAL LIABILITIES AND NET ASSETS	\$ 392,826,710.05	\$ 1,756,735.40	\$ 394,583,445.45	\$ 21,633,369.69

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

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

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
Instruction	\$ 130,927,065.78	\$ 2,656,107.13	\$	\$
Pupil Personnel Services	8,007,669.28			
Instructional Media Services	3,789,889.73			
Instruction and Curriculum Development Services	5,019,632.97			
Instructional Staff Training Services	3,387,691.57			
Instruction Related Technology	15,368.58			
Board of Education	780,190.85			
General Administration	1,013,507.93			
School Administration	13,047,958.80			
Facilities Acquisition and Construction	1,686,502.49			2,032,613.66
Fiscal Services	1,706,415.37			
Food Services	11,241,118.02	4,533,890.14	6,748,703.34	
Central Services	1,411,970.86	418,521.04		
Pupil Transportation Services	8,011,087.82		4,703,401.00	
Operation of Plant	13,929,113.57			
Maintenance of Plant	4,963,587.84			
Administrative Technology Services	3,299,928.14			
Community Services	1,890,518.56			
Interest on Long-Term Debt	5,264,019.98			825,543.41
Unallocated Depreciation Expense	20,381,212.44			
Total Governmental Activities	239,774,450.58	7,608,518.31	11,452,104.34	2,858,157.07
Business-Type Activities:				
Beacon Learning Center	1,433,125.02	1,044,005.40		
Total Primary Government	\$ 241,207,575.60	\$ 8,652,523.71	\$ 11,452,104.34	\$ 2,858,157.07
Component Units				
Charter Schools/Foundations	\$ 9,622,554.25	\$ 310,765.00	\$ 735,665.00	\$ 40,239.00
General Revenues:				
Taxes:				
Property Taxes, Levied for Operational Purposes				
Property Taxes, Levied for Capital Projects				
Local Sales Taxes				
Restricted Grants and Contributions				
Grants and Contributions Not Restricted to Specific Programs				
Unrestricted Investment Earnings				
Miscellaneous				
Total General Revenues				
Change in Net Assets				
Net Assets - Beginning				
Net Assets - Ending				

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

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-Type Activities	Total	
\$ (128,270,958.65)	\$	\$ (128,270,958.65)	\$
(8,007,669.28)		(8,007,669.28)	
(3,789,889.73)		(3,789,889.73)	
(5,019,632.97)		(5,019,632.97)	
(3,387,691.57)		(3,387,691.57)	
(15,368.58)		(15,368.58)	
(780,190.85)		(780,190.85)	
(1,013,507.93)		(1,013,507.93)	
(13,047,958.80)		(13,047,958.80)	
346,111.17		346,111.17	
(1,706,415.37)		(1,706,415.37)	
41,475.46		41,475.46	
(993,449.82)		(993,449.82)	
(3,307,686.82)		(3,307,686.82)	
(13,929,113.57)		(13,929,113.57)	
(4,963,587.84)		(4,963,587.84)	
(3,299,928.14)		(3,299,928.14)	
(1,890,518.56)		(1,890,518.56)	
(4,438,476.57)		(4,438,476.57)	
(20,381,212.44)		(20,381,212.44)	
(217,855,670.86)		(217,855,670.86)	
	(389,119.62)	(389,119.62)	
(217,855,670.86)	(389,119.62)	(218,244,790.48)	
			(8,535,885.25)
105,303,318.21		105,303,318.21	
18,026,877.32		18,026,877.32	
91,534.17		91,534.17	
83,261,273.50		83,261,273.50	223,507.00
(663,863.75)	6,172.08	(657,691.67)	9,445,361.54
3,072,632.16		3,072,632.16	1,677.71
209,091,771.61	6,172.08	209,097,943.69	363,450.95
(8,763,899.25)	(382,947.54)	(9,146,846.79)	10,033,997.20
257,475,667.58	1,513,396.13	258,989,063.71	1,498,111.95
\$ 248,711,768.33	\$ 1,130,448.59	\$ 249,842,216.92	7,035,256.74
			\$ 8,533,368.69

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

	General Fund	Special Revenue - ARRA Economic Stimulus Fund	Debt Service - Other Fund
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and Cash Equivalents	\$ 10,302,974.35	\$	\$ 5,362,287.96
Investments - Other			
Accounts Receivable	4,836.11		
Due from Other Funds	966,050.58	13,778.62	
Due from Other Agencies	212,248.50	2,878.79	
Inventories	1,035,594.40		
Investments in Fund B Surplus Funds Trust Fund	357,203.85		
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u><u>\$ 12,878,907.79</u></u>	<u><u>\$ 16,657.41</u></u>	<u><u>\$ 5,362,287.96</u></u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Payroll Deductions and Withholdings	\$ 287,241.69	\$	\$
Accounts Payable	722,216.42	2,450.62	
Construction Contracts Payable			
Construction Contracts Payable - Retainage			
Due to Other Funds	177,688.32	14,206.79	
Due to Other Agencies	1,721,323.51		
Matured Bonds Payable			
Matured Certificates of Participation Payable			2,950,000.00
Matured Interest Payable			2,412,282.25
Deferred Revenue	61,945.08		
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>2,970,415.02</u>	<u>16,657.41</u>	<u>5,362,282.25</u>
Fund Balances:			
Reserved for State Categorical Programs	957,695.03		
Reserved for Encumbrances	456,978.12		
Reserved for Inventories	1,035,594.40		
Reserved for Debt Service			
Unreserved, Reported in:			
General Fund	7,458,225.22		
Special Revenue Funds			
Debt Service Funds			5.71
Capital Projects Funds			
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>9,908,492.77</u>	<u> </u>	<u>5.71</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 12,878,907.79</u></u>	<u><u>\$ 16,657.41</u></u>	<u><u>\$ 5,362,287.96</u></u>

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

Capital Projects - Local Capital Improvement Fund	Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
\$ 7,992,278.52	\$ 17,792,667.89	\$ 1,484,597.76	\$ 42,934,806.48
		167,606.62	167,606.62
		4,425.55	9,261.66
2,438,413.65		177,881.81	3,596,124.66
11,595.40		501,654.54	728,377.23
		306,894.24	1,342,488.64
152,431.60	1,066,145.06		1,575,780.51
<u>\$ 10,594,719.17</u>	<u>\$ 18,858,812.95</u>	<u>\$ 2,643,060.52</u>	<u>\$ 50,354,445.80</u>

\$	\$	\$	\$
100,610.72	744,331.86	9,951.57	297,193.26
47,835.00	1,413,716.92	218,962.11	1,788,571.73
210,921.08	1,093,107.19	225,329.52	1,686,881.44
274,025.31	2,465,282.25	620,280.79	1,304,028.27
		59,005.44	3,551,483.46
		6,657.12	1,780,328.95
			6,657.12
			2,950,000.00
			2,412,282.25
			61,945.08
<u>633,392.11</u>	<u>5,716,438.22</u>	<u>1,140,186.55</u>	<u>15,839,371.56</u>

			957,695.03
4,177,840.21	10,736,050.15	183,309.06	15,554,177.54
		306,894.24	1,342,488.64
		167,606.62	167,606.62
			7,458,225.22
		548,963.64	548,963.64
		235,816.98	235,822.69
5,783,486.85	2,406,324.58	60,283.43	8,250,094.86
<u>9,961,327.06</u>	<u>13,142,374.73</u>	<u>1,502,873.97</u>	<u>34,515,074.24</u>
<u>\$ 10,594,719.17</u>	<u>\$ 18,858,812.95</u>	<u>\$ 2,643,060.52</u>	<u>\$ 50,354,445.80</u>

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

Total Fund Balances - Governmental Funds	\$	34,515,074.24
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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.		331,074,774.09
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Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		3,008,573.65
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consist of:

Installment-Purchase Payable	\$	516,854.78	
Bonds Payable		6,000,000.00	
Certificates of Participation Payable		101,433,000.00	
Compensated Absences Payable		11,789,905.87	
Other Postemployment Benefits Payable		146,893.00	(119,886,653.65)
		146,893.00	(119,886,653.65)

Total Net Assets - Governmental Activities	\$	<u><u>248,711,768.33</u></u>
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The accompanying notes to financial statements are an integral part of this statement.

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

	General Fund	Special Revenue - ARRA Economic Stimulus Fund	Debt Service - Other Fund
Revenues			
Intergovernmental:			
Federal Direct	\$ 682,537.21	\$	\$
Federal Through State and Local	983,487.33	19,866.33	
State	69,319,851.37		
Local:			
Property Taxes	105,303,318.21		
Local Sales Taxes			
Charges for Services - Food Service			
Miscellaneous	4,473,528.98		1,187.03
Total Revenues	<u>180,762,723.10</u>	<u>19,866.33</u>	<u>1,187.03</u>
Expenditures			
Current - Education:			
Instruction	121,755,922.25	3,787.71	
Pupil Personnel Services	6,819,436.96	283.80	
Instructional Media Services	3,662,670.76		
Instruction and Curriculum Development Services	2,059,647.19	4,615.12	
Instructional Staff Training Services	755,214.63	10,535.99	
Instruction Related Technology	15,368.58		
Board of Education	762,827.42		
General Administration	591,800.50	643.71	
School Administration	13,046,697.65		
Facilities Acquisition and Construction	469,812.22		
Fiscal Services	1,704,678.57		
Food Services	82,701.38		
Central Services	1,417,960.51		
Pupil Transportation Services	7,408,791.98		
Operation of Plant	13,876,211.28		
Maintenance of Plant	4,902,836.39		
Administrative Technology Services	3,304,968.23		
Community Services	1,483,414.66		
Fixed Capital Outlay:			
Facilities Acquisition and Construction			
Other Capital Outlay	295,919.71		
Debt Service:			
Principal	30,412.40		2,950,000.00
Interest and Fiscal Charges	7,503.13		4,786,971.73
Total Expenditures	<u>184,454,796.40</u>	<u>19,866.33</u>	<u>7,736,971.73</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(3,692,073.30)</u>		<u>(7,735,784.70)</u>
Other Financing Sources (Uses)			
Transfers In	2,994,574.10		7,735,779.70
Inception of Installment-Purchase			
Proceeds from Refunding Certificates of Participation Issued			8,630,000.00
Transfers Out			
Payments to Refunding Certificates of Participation Escrow Agent			(8,630,000.00)
Total Other Financing Sources (Uses)	<u>2,994,574.10</u>		<u>7,735,779.70</u>
Net Change in Fund Balances	(697,499.20)		(5.00)
Fund Balances, Beginning	10,605,991.97		10.71
Fund Balances, Ending	<u>\$ 9,908,492.77</u>	<u>\$ 0.00</u>	<u>\$ 5.71</u>

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

Capital Projects - Local Capital Improvement Fund	Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
\$	\$	\$	\$
		411,787.32	1,094,324.53
		22,878,037.02	23,881,390.68
22,161.55		3,665,594.10	73,007,607.02
18,026,877.32			123,330,195.53
	91,534.17		91,534.17
		4,533,890.14	4,533,890.14
(7,662.08)	(753,418.30)	244,950.13	3,958,585.76
18,041,376.79	(661,884.13)	31,734,258.71	229,897,527.83
		8,401,859.62	130,161,569.58
		1,203,569.86	8,023,290.62
		133,370.35	3,796,041.11
		2,964,711.45	5,028,973.76
		2,627,317.77	3,393,068.39
			15,368.58
		17,500.00	780,327.42
		421,445.75	1,013,889.96
		24,330.98	13,071,028.63
1,046,773.36	117,294.17	53,640.75	1,687,520.50
		5,000.00	1,709,678.57
		11,166,616.44	11,249,317.82
		208.01	1,418,168.52
		92,650.33	7,501,442.31
		16,242.13	13,892,453.41
		455.43	4,903,291.82
			3,304,968.23
		409,093.52	1,892,508.18
7,508,650.98	19,259,300.84	4,888,868.59	31,656,820.41
1,139,180.91		330,480.92	1,765,581.54
97,472.36		520,000.00	3,597,884.76
10,111.69	134,577.28	324,856.15	5,264,019.98
9,802,189.30	19,511,172.29	33,602,218.05	255,127,214.10
8,239,187.49	(20,173,056.42)	(1,867,959.34)	(25,229,686.27)
			10,730,353.80
599,385.00			599,385.00
	138,000.00		8,768,000.00
(10,887,734.89)	(195,891.91)	(1,945,727.00)	(13,029,353.80)
			(8,630,000.00)
(10,288,349.89)	(57,891.91)	(1,945,727.00)	(1,561,615.00)
(2,049,162.40)	(20,230,948.33)	(3,813,686.34)	(26,791,301.27)
12,010,489.46	33,373,323.06	5,316,560.31	61,306,375.51
\$ 9,961,327.06	\$ 13,142,374.73	\$ 1,502,873.97	\$ 34,515,074.24

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

Net Change in Fund Balances - Governmental Funds \$ (26,791,301.27)

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

Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital outlays in excess of depreciation expense in the current period. 12,902,392.81

Long-term debt proceeds provide current financial resources of the governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which repayments exceeded proceeds in the current period.

Inception of Installment-Purchase	\$ (599,385.00)	
Certificates of Participation Issued	(8,768,000.00)	
Repayment of Installment-Purchase Principal	127,884.76	
Repayment of Bonds Principal	520,000.00	
Repayment of Certificates of Participation Principal	11,580,000.00	2,860,499.76

In the statement of activities, the cost of compensated absences is measured by the amounts earned during the year, while in the governmental funds expenditures are recognized based on the amounts actually paid for compensated absences. This is the amount of compensated absences paid in excess of the amount earned in the current period. 500,688.50

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. (52,129.00)

Internal service funds are used by management to charge the cost of certain activities, such as insurance, to individual funds. The net revenue of internal service funds is reported with governmental activities. 1,815,949.95

Change in Net Assets - Governmental Activities **\$ (8,763,899.25)**

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

**BAY COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET ASSETS -
PROPRIETARY FUNDS
June 30, 2009**

	Business-Type Activities - Beacon Learning Center Enterprise Fund	Governmental Activities - Internal Service Fund
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 1,603,228.30	\$ 12,901,651.04
Accounts Receivable	124,728.50	
Prepaid Items		1,955,921.15
Total Current Assets	1,727,956.80	14,857,572.19
Noncurrent Assets:		
Investments in Fund B Surplus Funds Trust Fund		91,438.93
Furniture, Fixtures, and Equipment, Net	65,945.14	
Motor Vehicles, Net	7,437.16	
Total Noncurrent Assets	73,382.30	91,438.93
TOTAL ASSETS	\$ 1,801,339.10	\$ 14,949,011.12
LIABILITIES		
Current Liabilities:		
Payroll Deductions and Withholdings	\$ 140.48	\$ 152.86
Accounts Payable	8,812.67	14,170.12
Due to Other Funds	44,603.70	37.50
Deferred Revenue	500,356.11	
Estimated Insurance Claims Payable		2,850,500.00
Total Current Liabilities	553,912.96	2,864,860.48
Noncurrent Liabilities:		
Compensated Absences Payable	116,977.55	
Estimated Insurance Claims Payable		9,075,576.99
Total Noncurrent Liabilities	116,977.55	9,075,576.99
Total Liabilities	670,890.51	11,940,437.47
NET ASSETS		
Invested in Capital Assets	73,382.30	
Unrestricted	1,057,066.29	3,008,573.65
Total Net Assets	1,130,448.59	3,008,573.65
TOTAL LIABILITIES AND NET ASSETS	\$ 1,801,339.10	\$ 14,949,011.12

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

BAY COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2009

	Business-Type Activities - Beacon Learning Center Enterprise Fund	Governmental Activities - Internal Service Fund
OPERATING REVENUES		
Charges for Services	\$ 1,044,005.40	\$ 4,043,082.19
Other Operating Revenues		71,231.88
Total Operating Revenues	<u>1,044,005.40</u>	<u>4,114,314.07</u>
OPERATING EXPENSES		
Salaries	826,662.24	632,881.08
Employee Benefits	208,575.17	264,374.89
Purchased Services	291,223.22	271,850.95
Energy Services	506.46	
Materials and Supplies	18,210.48	6,649.83
Capital Outlay	1,362.93	479.85
Insurance Claims		1,340,738.63
Insurance Premiums		2,686,744.77
Other Expenses	55,535.38	18,237.42
Depreciation	31,049.14	
Total Operating Expenses	<u>1,433,125.02</u>	<u>5,221,957.42</u>
Operating Loss	<u>(389,119.62)</u>	<u>(1,107,643.35)</u>
NONOPERATING REVENUES		
Interest	6,172.08	14,604.76
Other Nonoperating Revenues		609,988.54
Total Nonoperating Revenues	<u>6,172.08</u>	<u>624,593.30</u>
Loss Before Transfers	(382,947.54)	(483,050.05)
Transfers In		2,300,000.00
Transfers Out		(1,000.00)
Change in Net Assets	(382,947.54)	1,815,949.95
Total Net Assets - Beginning	<u>1,513,396.13</u>	<u>1,192,623.70</u>
Total Net Assets - Ending	<u>\$ 1,130,448.59</u>	<u>\$ 3,008,573.65</u>

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

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

	Business-Type Activities - Beacon Learning Center Enterprise Fund	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Services	\$ 1,053,243.04	\$ 4,043,082.19
Cash Received from Board Funds and Participants		(3,036,078.57)
Cash Payments to Suppliers for Goods and Services	(328,193.95)	(897,103.11)
Cash Payments to Employees for Services	(918,579.66)	(2,937,081.64)
Cash Payments for Insurance Claims		71,231.88
Other Operating Receipts		
Net Cash Used by Operating Activities	<u>(193,530.57)</u>	<u>(2,755,949.25)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Other Nonoperating Revenues		609,988.54
Transfer from Other Funds, Net		2,299,000.00
Net Cash Provided by Noncapital Financing Activities		<u>2,908,988.54</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of Investments	1,790,586.79	5,627,597.84
Interest Income	6,172.08	14,604.76
Net Cash Provided by Investing Activities	<u>1,796,758.87</u>	<u>5,642,202.60</u>
Net Increase in Cash and Cash Equivalents	1,603,228.30	5,795,241.89
Cash and Cash Equivalents, Beginning		7,106,409.15
Cash and Cash Equivalents, Ending	<u>\$ 1,603,228.30</u>	<u>\$ 12,901,651.04</u>

Reconciliation of Operating Loss to Net Cash Used by Operating Activities:

Operating Loss	\$ (389,119.62)	\$ (1,107,643.35)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation	31,049.14	
Changes in Assets and Liabilities:		
Decrease in Accounts Receivable	313,199.50	
Decrease in Due From Other Funds		710.00
Increase in Prepaid Items		(21,674.70)
Increase (Decrease) in Accounts Payable	4,373.74	(21,296.32)
Increase in Compensated Absences Payable	116,977.55	
Increase (Decrease) in Payroll Deductions and Withholdings	(319.80)	152.86
Increase (Decrease) in Due To Other Funds	44,603.70	(9,854.73)
Decrease in Due To Other Agencies	(10,332.92)	
Decrease in Deferred Revenue	(303,961.86)	
Decrease in Estimated Insurance Claims Payable		(1,596,343.01)
Total Adjustments	<u>195,589.05</u>	<u>(1,648,305.90)</u>
Net Cash Used by Operating Activities	<u>\$ (193,530.57)</u>	<u>\$ (2,755,949.25)</u>

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

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

	Agency Funds
ASSETS	
Cash and Cash Equivalents	\$ 2,299,721.36
Accounts Receivable	57,949.38
Inventories	50,439.85
TOTAL ASSETS	\$ 2,408,110.59
LIABILITIES	
Accounts Payable	\$ 127,001.78
Internal Accounts Payable	2,281,108.81
TOTAL LIABILITIES	\$ 2,408,110.59

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

➤ **Reporting Entity**

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

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

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

- **Blended Component Unit.** The Bay County Educational Facilities Finance Corporation (Corporation) was formed to facilitate financing for the acquisition of facilities and equipment as further discussed in Note 7. Due to the substantive economic relationship between the Bay County District School Board and the Corporation, the financial activities of the Corporation are included in the accompanying basic financial statements. Separate financial statements for the Corporation are not published.
- **Discretely Presented Component Units.** The component unit columns in the government-wide financial statements include the financial data of the District's three foundations and three charter schools. The foundations are Bay Education Foundation, Inc., the Tom P. Haney Education Foundation, Inc., and the Bay Communications Foundation, Inc. The charter schools are the Bay Haven Charter Academy, Inc., the Chautauqua Learn and Serve Charter School, Inc., and NewPoint Bay, Inc.

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

The Bay Haven Charter Academy, Inc., was organized in April 2001, as a Florida nonprofit corporation, and was granted a charter, expiring in 2019, to serve grades kindergarten through 8. The Chautauqua Charter School, Inc., d/b/a Chautauqua Learn and Serve Charter School, was organized in July 2005, as a Florida nonprofit corporation, and was granted a charter, expiring June 2010, to operate a special needs school for disabled adults within the District. NewPoint Bay, Inc., was organized in May 2008, as a Florida nonprofit corporation, and was granted a charter, expiring June 2013, to serve grades 9 through 12. The District may choose not to renew the charters as specified in the charters, but the District must notify the charter schools in writing at least 90 days prior to the charter's expiration. Pursuant to Section 1002.33(8)(e), Florida

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

Statutes, in the event a school is dissolved or terminated, any encumbered funds and all school property purchased with public funds shall automatically revert to the District. During the term of the charter, the District may also terminate the charter if good cause is shown. The charter schools are considered component units of the District since they are fiscally dependent on the District to levy taxes for their support.

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

➤ **Basis of Presentation**

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

Government-wide financial statements are prepared using the economic resources measurement focus. The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities and for each segment of the business-type activities. Direct expenses are those that are specifically associated with a service, program, or department and are thereby clearly identifiable to a particular function. Depreciation expense associated with the pupil transportation services, central services, and operation of plant functions is allocated to those functions, with remaining depreciation expense reported as unallocated.

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

The effects of interfund activity have been eliminated from the government-wide financial statements, except for interfund services provided and used and the net residual amounts between governmental and business-type activities.

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

The District reports the following major governmental funds:

- General Fund – to account for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.
- Special Revenue – ARRA Economic Stimulus Fund – to account for certain Federal grant program resources related to the American Recovery and Reinvestment Act (ARRA).

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

- Debt Service – Other Fund – to account for the accumulation of resources for, and the payment of, debt principal, interest, and related costs for the District’s certificates of participation.
- Capital Projects – Local Capital Improvement Fund – to account for the financial resources generated by the local capital improvement tax levy to be used for educational capital outlay needs, including new construction and renovation and remodeling projects.
- Capital Projects – Other Fund – to account for the financial resources generated by the issuance of certificates of participation and the discretionary sales surtax to be used for educational outlay needs, including new construction and renovation and remodeling projects.

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

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

➤ **Basis of Accounting**

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

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

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

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

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

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

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

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

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

➤ **Deposits and Investments**

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

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

Investments consist of amounts placed in SBA Debt Service accounts for investment of debt service moneys; amounts placed with SBA for participation in LGIP and the Fund B Surplus Funds Trust Fund (Fund B) investment pools created by Sections 218.405 and 218.417, Florida Statutes; those held by a trustee pursuant to a trust agreement entered into and restricted as part of the financing agreement for the Certificates of Participation, Series 1999, Series 2004, Series 2007, and Series 2008; and those made locally. The investment pools operate under investment guidelines established by Section 215.47, Florida Statutes.

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

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

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

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

The investments held by the trustee are reported at fair value. The investments made locally consist of certificates of deposit, which are reported at cost. Types and amounts of investments held at fiscal year-end are described in a subsequent note on investments.

➤ **Inventories**

Inventories consist of expendable supplies held for consumption in the course of District operations. Inventories are stated at average cost, except that United States Department of Agriculture surplus commodities are stated at their fair value as determined at the time of donation to the District's food service program by the Florida Department of Agriculture and Consumer Services, Bureau of Food Distribution. Although the costs of inventories are recorded as expenditures when used rather than purchased, a fund balance reserve is established at fiscal year-end to indicate that inventories do not constitute available expendable resources even though inventories are a component of current assets.

➤ **Capital Assets**

Expenditures for capital assets acquired or constructed for general District purposes are reported in the governmental fund that financed the acquisition or construction. The capital assets so acquired are reported at cost in the government-wide statement of net assets but are not reported in the governmental fund financial statements. Capital assets are defined by the District as those costing more than \$1,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at fair value at the date of donation.

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

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

<u>Description</u>	<u>Estimated Lives</u>
Improvements Other than Buildings	9 - 37.5 years
Buildings and Fixed Equipment	10 - 50 years
Furniture, Fixtures, and Equipment	3 - 15 years
Motor Vehicles	5 - 10 years
Audio Visual Materials and Computer Software	4 - 5 years

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

➤ **Long-Term Liabilities**

Long-term obligations that will be financed from resources to be received in the future by governmental funds are reported as liabilities in the government-wide statement of net assets.

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

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

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

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

➤ **State Revenue Sources**

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

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

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

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

➤ **District Property Taxes**

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

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

The School Board adopted the 2008 tax levy on September 8, 2008. Tax bills are mailed in October and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to 4 percent for early payment.

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

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

procedures result in the collection of essentially all taxes prior to June 30 of the year following the year of assessment.

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

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

➤ **Federal Revenue Sources**

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

2. BUDGETARY COMPLIANCE AND ACCOUNTABILITY

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

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

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

3. INVESTMENTS

As of June 30, 2009, the District has the following investments and maturities:

Investments	Maturities	Fair Value
State Board of Administration (SBA):		
Local Government Surplus Funds Trust		
Fund Investment Pool (LGIP) (1) (3)	46 Day Average	\$ 3,430,197.90
Fund B Surplus Funds Trust Fund (Fund B) (4)	6.87 Year Average	1,667,219.44
Debt Service Accounts	6 Months	167,606.62
Ridgeworth Institutional United States Government		
Securities Money Market Fund (1) (2)	51 Day Average	31,951,791.82
Dreyfus Institutional Reserves Treasury Prime Fund (1) (5)	46 Day Average	9,632,771.11
Columbia Treasury Reserves Money Market Fund (1) (6)	26 Day Average	1,486,192.81
Certificates of Deposit (1)	August 2009 to October 2010	255,522.26
Total Investments		<u>\$ 48,591,301.96</u>

Notes:

- (1) Investments reported as cash equivalents.
- (2) The Ridgeworth Institutional United States Government Securities Money Market Fund invests exclusively in United States Treasury obligations, obligations issued or guaranteed as to the principal and interest by agencies or instrumentalities of the United States Government, repurchase agreements involving these securities, and shares of registered money market funds.
- (3) SBA LGIP investments, totaling \$3,214,305.95, are held under trust agreements pursuant to financing arrangements for the Certificates of Participation, Series 2004 and 2007.
- (4) SBA Fund B investments, totaling \$834,824.48, are held under trust agreements pursuant to financing arrangements for the Certificates of Participation, Series 2004 and 2007.
- (5) The Dreyfus Institutional Reserves Treasury Prime Fund invests exclusively in United States Treasury securities backed by the full faith and credit of the United States government. Investments are held under trust agreements pursuant to financing arrangements for the Certificates of Participation, Series 2004, 2007, and Refunding Certificates of Participation, Series 1999.
- (6) The Columbia Treasury Reserves Money Market Fund invests in United States Treasury obligations and repurchase agreements secured by such obligations. Investments are held under trust agreements pursuant to financing arrangements for the Certificates of Participation, Series 1999.

Interest Rate Risk

- Section 218.415(17), Florida Statutes, limits investment maturities to provide sufficient liquidity to pay obligations as they come due. The District's investment policy limits the length of investments as follows: (1) investments of short-term funds shall have maturities of no longer than twelve months, and (2) investments of bond reserves, construction funds, and other nonoperating funds shall have a term appropriate for the need for funds and in accordance with debt covenants, but in no event shall exceed five years. Investments of construction funds that are proceeds of tax-exempt debt issues shall have maturities of no longer than three years.
- LGIP had a weighted average days to maturity (WAM) of 46 days at June 30, 2009. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating rate

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

instruments. WAM measures the sensitivity of the portfolio to interest rate changes. Fund B had a weighted average life (WAL) of 6.87 years. A portfolio's WAL is the dollar weighted average length of time until securities held reach maturity. WAL, which also measures the sensitivity of the portfolio to interest rate changes, is based on legal final maturity dates for Fund B as of June 30, 2009. However, because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the WAL.

Credit Risk

- Section 218.415(17), Florida Statutes, limits investments to SBA LGIP, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Section 163.01, Florida Statutes; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits in qualified public depositories, as defined in Section 280.02, Florida Statutes; and direct obligations of the United States Treasury. The District's investment policy limits investments to those prescribed by Florida Statutes.
- The District's investments in SBA Debt Service accounts are to provide for debt service payments on bond debt issued by the State Board of Education for the benefit of the District. The District relies on policies developed by SBA for managing credit risk for this account.
- As of June 30, 2009, the District's investment in LGIP is rated AAAm by Standard & Poor's. Fund B is unrated.
- The District's investments in the Ridgeworth Institutional United States Government Securities Money Market Fund, the Dreyfus Institutional Reserves Treasury Prime Fund and the Columbia Treasury Reserves Money Market Fund are rated AAA by Standard & Poor's and Aaa by Moody's Investors Service.
- The District's certificates of deposit are in qualified public depositories.

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

4. CHANGES IN CAPITAL ASSETS

Changes in capital assets are presented in the table below.

	Balance 7-1-08	Additions	Deletions	Balance 6-30-09
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	\$ 16,200,821.80	\$	\$	\$ 16,200,821.80
Construction in Progress	68,817,068.52	25,047,248.12	65,975,499.06	27,888,817.58
Total Capital Assets Not Being Depreciated	85,017,890.32	25,047,248.12	65,975,499.06	44,089,639.38
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	7,092,914.55	347,546.95	11,017.50	7,429,444.00
Buildings and Fixed Equipment	369,145,120.23	72,494,086.52	160,848.62	441,478,358.13
Furniture, Fixtures, and Equipment	31,160,184.46	1,786,125.31	1,876,889.21	31,069,420.56
Motor Vehicles	12,970,663.43	14,300.00		12,984,963.43
Audio Visual Materials and Computer Software	1,728,961.63	197,024.30		1,925,985.93
Total Capital Assets Being Depreciated	422,097,844.30	74,839,083.08	2,048,755.33	494,888,172.05
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	3,064,894.00	329,317.06	11,017.50	3,383,193.56
Buildings and Fixed Equipment	151,206,426.63	17,156,390.17	160,848.62	168,201,968.18
Furniture, Fixtures, and Equipment	23,066,130.78	2,547,604.98	1,876,889.21	23,736,846.55
Motor Vehicles	10,522,751.71	627,226.90		11,149,978.61
Audio Visual Materials and Computer Software	1,083,150.22	347,900.22		1,431,050.44
Total Accumulated Depreciation	188,943,353.34	21,008,439.33	2,048,755.33	207,903,037.34
Total Capital Assets Being Depreciated, Net	233,154,490.96	53,830,643.75		286,985,134.71
Governmental Activities Capital Assets, Net	\$ 318,172,381.28	\$ 78,877,891.87	\$ 65,975,499.06	\$ 331,074,774.09

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	Balance 7-1-08	Additions	Deletions	Balance 6-30-09
BUSINESS-TYPE ACTIVITIES				
Capital Assets Being Depreciated:				
Furniture, Fixtures, and Equipment	\$ 341,232.29	\$	\$ 101,494.42	\$ 239,737.87
Motor Vehicles	16,367.00			16,367.00
Audio Visual Materials and Computer Software	61,596.54			61,596.54
Total Capital Assets Being Depreciated	419,195.83		101,494.42	317,701.41
Less Accumulated Depreciation for:				
Furniture, Fixtures, and Equipment	247,282.74	28,004.41	101,494.42	173,792.73
Motor Vehicles	6,697.38	2,232.46		8,929.84
Audio Visual Materials and Computer Software	60,784.27	812.27		61,596.54
Total Accumulated Depreciation	314,764.39	31,049.14	101,494.42	244,319.11
Total Capital Assets Being Depreciated, Net	104,431.44	(31,049.14)		73,382.30
Business-Type Activities Capital Assets, Net	<u>\$ 104,431.44</u>	<u>\$ (31,049.14)</u>	<u>\$ 0.00</u>	<u>\$ 73,382.30</u>

Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Pupil Transportation Services	\$ 519,492.63
Operation of Plant	40,858.78
Central Services	66,875.48
Unallocated	20,381,212.44
Total Depreciation Expense - Governmental Activities	<u><u>\$ 21,008,439.33</u></u>
BUSINESS-TYPE ACTIVITIES	
Beacon Learning Center	<u><u>\$ 31,049.14</u></u>

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

5. CHANGES IN SHORT-TERM DEBT

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

	Balance 7-1-08	Additions	Deletions	Balance 6-30-09
GOVERNMENTAL ACTIVITIES				
Tax Anticipation Note	\$	\$ 4,000,000	\$ 4,000,000	\$

In November 2008, the District acquired \$4,000,000 by issuing a tax anticipation note to meet current operating needs pending receipt of ad valorem (property) tax proceeds. The note was repaid in the same month at par plus interest of \$7,388.89.

6. INSTALLMENT-PURCHASES PAYABLE

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

	Asset Balance
Computer Equipment	\$ 897,929.64

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

Fiscal Year Ending June 30	Total	Principal	Interest
2010	\$ 225,983.86	\$ 211,136.97	\$ 14,846.89
2011	211,041.39	203,346.72	7,694.67
2012	103,456.98	102,371.09	1,085.89
Total	\$ 540,482.23	\$ 516,854.78	\$ 23,627.45

The stated interest rate ranges from 3.0 to 4.9 percent.

7. CERTIFICATES OF PARTICIPATION

The District entered into a financing arrangement on November 1, 1994, which was characterized as a master lease-purchase agreement, with the Bay County Educational Facilities Finance Corporation (Corporation) whereby the District secured financing of various educational facilities in the total amount of \$23,715,000. The financing was accomplished through the issuance of Certificates of Participation, Series 1994, to be repaid from the proceeds of rents paid by the District. On October 15, 1997, the District issued

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Refunding Certificates of Participation, Series 1997, in the amount of \$15,130,000 and placed the proceeds of the refunding and other resources into an irrevocable trust fund for future payments on a portion of the Certificates of Participation, Series 1994. As noted below and in Note 8 – Defeased Debt, the District issued certificates of participation, to refund the outstanding Refunding Certificates of Participation, Series 1997.

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

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

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

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

As a condition of these financing arrangements, the District has given a ground lease on District property to the Corporation, with a rental fee of \$10 per year. The initial term of the lease commenced on November 1, 1994, and ends on the earlier of (a) payment of the outstanding 1999 Certificates, 2004 Certificates, 2007 Certificates, and 2008 Certificates, or (b) June 30, 2034. The properties covered by the ground lease are, together with the improvements constructed thereon from the financing proceeds, leased back to the District. If the District fails to renew the lease and to provide for the rent payments through to term, the District may be required to surrender the sites included under the Ground Lease Agreement for the benefit of the securers of the certificates for a period of time specified by the arrangement, which may be through June 30, 2034.

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

The Certificates of Participation, Series 1999, include outstanding serial certificates maturing from 2010 through 2023. These lease payments are payable by the District, semiannually, on July 1 and January 1 at interest rates ranging from 4.25 to 5.0 percent.

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The Certificates of Participation, Series 2004, include outstanding serial certificates maturing from 2010 through 2024. These payments are payable by the District, semiannually, on July 1 and January 1 at interest rates ranging from 3.5 to 5.0 percent.

The Certificates of Participation, Series 2007, include outstanding serial certificates maturing from 2010 through 2029. These payments are payable by the District, semiannually, on July 1 and January 1 at interest rates ranging from 3.6 to 5.0 percent.

The Refunding Certificates of Participation, Series 2008, include outstanding serial certificates maturing from 2010 through 2013. These payments are payable by the District, semiannually, on July 1 and January 1 at an interest rate of 3.15 percent.

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

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 8,000,522.00	\$ 3,277,000.00	\$ 4,723,522.00
2011	8,006,846.50	3,397,000.00	4,609,846.50
2012	7,998,921.00	3,508,000.00	4,490,921.00
2013	8,002,416.50	3,636,000.00	4,366,416.50
2014	8,025,682.50	3,790,000.00	4,235,682.50
2015-2019	40,129,812.50	21,680,000.00	18,449,812.50
2020-2024	40,128,837.50	27,335,000.00	12,793,837.50
2025-2029	40,128,025.00	34,810,000.00	5,318,025.00
Total Minimum Lease Payments	<u>\$ 160,421,063.50</u>	<u>\$ 101,433,000.00</u>	<u>\$ 58,988,063.50</u>

8. DEFEASED DEBT

On August 20, 2008, the Board issued \$8,768,000 in Refunding Certificates of Participation, Series 2008, with an interest rate of 3.15 percent to refund the District's Refunding Certificates of Participation, Series 1997. The net proceeds of \$8,688,789.79 (after payment of \$79,210.21 in attorney fees and other issuance costs) were deposited with the trustee. On August 20, 2008, the District called the Refunding Certificates of Participation, Series 1997, totaling \$8,630,000, at 100 percent.

The refunding of the Refunding Certificates of Participation, Series 1997, resulted in a decrease in future debt service payments of \$386,347.30 and an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$372,922.27.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

9. BONDS PAYABLE

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

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 1999A	\$ 440,000	4.375 - 4.750	2019
Series 2005B, Refunding	5,560,000	5.0	2018
Total Bonds Payable	<u>\$ 6,000,000</u>		

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

➤ **State School Bonds**

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

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

Fiscal Year Ending June 30	Total	Principal	Interest
2010	\$ 843,268.75	\$ 545,000.00	\$ 298,268.75
2011	841,393.75	570,000.00	271,393.75
2012	843,168.75	600,000.00	243,168.75
2013	843,443.75	630,000.00	213,443.75
2014	842,150.00	660,000.00	182,150.00
2015-2019	<u>3,379,437.50</u>	<u>2,995,000.00</u>	<u>384,437.50</u>
Total	<u>\$7,592,862.50</u>	<u>\$6,000,000.00</u>	<u>\$1,592,862.50</u>

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

10. CHANGES IN LONG-TERM LIABILITIES

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

Description	Balance 7-1-08	Additions	Deductions	Balance 6-30-09	Due in One Year
GOVERNMENTAL ACTIVITIES					
Installment-Purchases Payable	\$ 45,354.54	\$ 599,385.00	\$ 127,884.76	\$ 516,854.78	\$ 211,136.97
Bonds Payable	6,520,000.00		520,000.00	6,000,000.00	545,000.00
Certificates of Participation Payable	104,245,000.00	8,768,000.00	11,580,000.00	101,433,000.00	3,277,000.00
Estimated Insurance Claims Payable	13,522,420.00	1,340,738.63	2,937,081.64	11,926,076.99	2,850,500.00
Compensated Absences Payable	12,290,594.37	704,380.95	1,205,069.45	11,789,905.87	1,205,069.45
Other Postemployment Benefits Payable	94,764.00	556,171.00	504,042.00	146,893.00	
Total Governmental Activities	\$ 136,718,132.91	\$ 11,968,675.58	\$ 16,874,077.85	\$ 131,812,730.64	\$ 8,088,706.42
BUSINESS-TYPE ACTIVITIES					
Compensated Absences Payable	\$ 0.00	\$ 116,977.55	\$ 0.00	\$ 116,977.55	\$ 0.00

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

11. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

Funds	Interfund	
	Receivables	Payables
Major:		
General	\$ 966,050.58	\$ 177,688.32
Special Revenue:		
ARRA Economic Stimulus	13,778.62	14,206.79
Capital Projects:		
Local Capital Improvement	2,438,413.65	274,025.31
Other		2,465,282.25
Nonmajor Governmental	177,881.81	620,280.79
Internal Service		37.50
Enterprise:		
Beacon Learning Center		44,603.70
Total	\$ 3,596,124.66	\$ 3,596,124.66

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

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	\$ 2,994,574.10	\$
Debt Service:		
Other	7,735,779.70	
Capital Projects:		
Local Capital Improvement		10,887,734.89
Other		195,891.91
Nonmajor Governmental		1,945,727.00
Internal Service	2,300,000.00	1,000.00
Total	<u>\$ 13,030,353.80</u>	<u>\$ 13,030,353.80</u>

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

12. RESERVE FOR ENCUMBRANCES

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

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

Because revenues of grants accounted for in the Special Revenue – ARRA Economic Stimulus Fund are not recognized until expenditures are incurred, these grant funds generally do not accumulate fund balances. Accordingly, no reserve for encumbrances is reported for grant funds. However, purchase orders outstanding for grants accounted for in the Special Revenue – ARRA Economic Stimulus Fund total \$4,557.30 at June 30, 2009.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

13. SCHEDULE OF STATE REVENUE SOURCES

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

<u>Source</u>	<u>Amount</u>
Florida Education Finance Program	\$ 27,366,893.00
Categorical Educational Programs:	
Class Size Reduction	25,146,893.00
Transportation	4,703,401.00
Instructional Materials	2,520,068.00
Voluntary Prekindergarten	1,867,620.32
School Recognition	1,648,109.00
Excellent Teaching	823,299.96
Florida Teachers Lead	354,628.00
Workforce Development Program	3,342,151.00
Gross Receipts Tax (Public Education Capital Outlay)	1,888,926.00
Capital Outlay and Debt Service Distributed	944,250.08
Charter School Capital Outlay	650,769.00
Discretionary Lottery Funds	607,102.00
School Lunch Supplement	90,464.00
School Breakfast Supplement	66,125.00
State License Tax	55,319.61
Workforce Education Performance Incentive	50,166.00
Adults with Disabilities	30,537.87
Miscellaneous	850,884.18
Total	<u>\$ 73,007,607.02</u>

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

14. PROPERTY TAXES

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

<u>GENERAL FUND</u>	<u>Millages</u>	<u>Taxes Levied</u>
Nonvoted School Tax:		
Required Local Effort	5.141	\$ 97,314,964.39
Basic Discretionary Local Effort	0.498	9,426,736.49
Supplemental Discretionary Local Effort	0.137	2,593,299.00
 <u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	0.987	18,683,110.26
Total	<u>6.763</u>	<u>\$ 128,018,110.14</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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15. FLORIDA RETIREMENT SYSTEM

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

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

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

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in PEORP in lieu of the Plan. District employees participating in DROP are not eligible to participate in PEORP. Employer contributions are defined by law; however, the ultimate benefit depends in part on the performance of investment funds. PEORP is funded by employer contributions that are based on salary and membership class (Regular, Special Risk, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Employees in PEORP vest after one year of service. There were 328 District participants during the 2008-09 fiscal year. Required contributions made to PEORP totaled \$1,024,076.32.

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FRS Retirement Contribution Rates

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

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	9.85
Florida Retirement System, Elected County Officers	0.00	16.53
Florida Retirement System, Special Risk	0.00	20.92
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	10.91
Florida Retirement System, Reemployed Retiree	(B)	(B)

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

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

The District's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the District. The District's contributions for the fiscal years ended June 30, 2007, June 30, 2008, and June 30, 2009, totaled \$11,975,897.80, \$11,769,894.68, and \$11,362,478.36, respectively, which were equal to the required contributions for each fiscal year.

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

16. OTHER POSTEMPLOYMENT BENEFITS

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

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Funding Policy. Contribution requirements of the District and plan members are established and may be amended through recommendations of the Insurance Committee and action from the Board. The District has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2008-09 fiscal year, 348 retirees received other postemployment benefits. The District provided required contributions of \$504,042 toward the annual OPEB cost. Plan members receiving benefits contributed \$2,361,766 through their required contributions of \$6,648 per year for retiree-only coverage and \$18,874 for family coverage.

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

<u>Description</u>	<u>Amount</u>
Normal Cost (service cost for one year)	\$ 341,652
Amortization of Unfunded Actuarial Accrued Liability	201,624
Interest on Normal Cost and Amortization	<u>12,089</u>
Annual Required Contribution	555,365
Interest on Net OPEB Obligation	4,264
Adjustment to Annual Required Contribution	<u>(3,458)</u>
Annual OPEB Cost (Expense)	556,171
Contribution Toward the OPEB Cost	<u>(504,042)</u>
Increase in Net OPEB Obligation	52,129
Net OPEB Obligation, Beginning of Year	<u>94,764</u>
Net OPEB Obligation, End of Year	<u><u>\$ 146,893</u></u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2009 and the preceding years, were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Beginning Balance, 7-1-07	\$		\$ 0
2007-08	561,470	83.0%	94,764
2008-09	556,171	90.6%	146,893

Funded Status and Funding Progress. As of July 1, 2008, the most recent valuation date, the actuarial accrued liability for benefits was \$5,518,519, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$5,518,519 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$91,603,952 for the 2008-09 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 6 percent.

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

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

The District's initial OPEB actuarial valuation as of July 1, 2008, used the entry age normal cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2009, and the 2008-09 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4.5 percent rate of return on invested assets, which is the District's long-term expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 4 percent per year, and an annual healthcare cost trend rate of 10 percent initially for the 2007-08 fiscal year, reduced by 1 percent per year, to an ultimate rate of 5 percent after five years. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2009, was 28 years.

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17. CONSTRUCTION CONTRACT COMMITMENTS

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

Project	Contract Amount	Completed to Date	Balance Committed
Cedar Grove Elementary School:			
Architect	324,300.00	259,440.00	64,860.00
Contractor	2,710,000.00	60,958.00	2,649,042.00
Deer Point Elementary School:			
Architect	932,000.00	859,510.90	72,489.10
Contractor	12,294,432.51	9,108,979.71	3,185,452.80
Direct Purchase Orders	6,303,690.81	4,931,928.50	1,371,762.31
Hiland Park Elementary School:			
Architect	30,000.00	24,000.00	6,000.00
Contractor	363,054.74	97,390.00	265,664.74
Mow at Middle School:			
Architect	379,270.00	320,103.88	59,166.12
Contractor	2,960,456.16	1,320,708.60	1,639,747.56
Direct Purchase Orders	1,023,976.24	489,075.96	534,900.28
Northside Elementary School:			
Architect	50,000.00	37,500.00	12,500.00
Contractor	449,900.00	73,127.63	376,772.37
Rutherford High School:			
Classrooms:			
Engineer	7,500.00	6,000.00	1,500.00
Architect	285,150.00	22,576.24	262,573.76
Contractor	1,491,800.00	194,786.72	1,297,013.28
Direct Purchase Orders	255,665.80	64,130.98	191,534.82
Gymnasium:			
Engineer	18,500.00		18,500.00
Architect	449,500.00	386,570.00	62,930.00
Contractor	4,930,467.98	2,257,559.66	2,672,908.32
Direct Purchase Orders	1,732,902.24	931,879.97	801,022.27
Total	<u>\$ 36,992,566.48</u>	<u>\$ 21,446,226.75</u>	<u>\$ 15,546,339.73</u>

18. RISK MANAGEMENT PROGRAMS

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Workers' compensation, automobile liability, and general liability coverage are being provided on a self insured basis up to specified limits. The District has entered into agreements with various insurance companies to provide specific excess coverage of claim amounts above the stated amount on an individual claim basis. The District has contracted with an insurance administrator to administer these self-insurance programs, including the processing, investigating, and payment of claims.

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

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

A liability in the amount of \$11,926,076.99 was actuarially determined to cover estimated incurred, but not reported, insurance claims payable at June 30, 2009. The loss estimates include legal and certain other expenses associated with claims settlements (allocated loss adjustment expenses). These estimates do not include provisions for unallocated loss adjustment expenses, such as fees for the claim administrators or other miscellaneous costs associated with claims settlements. Liabilities for unpaid workers' compensation claims and claims adjustment expenses were discounted and reported at their present value using an investment yield rate of 4 percent.

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

	Beginning-of- Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-End
2007-08	\$ 14,002,202.00	\$ 2,321,097.98	\$ (2,800,879.98)	\$13,522,420.00
2008-09	13,522,420.00	1,340,738.63	(2,937,081.64)	11,926,076.99

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

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OTHER REQUIRED SUPPLEMENTARY INFORMATION

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

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	\$ 610,879.00	\$ 640,188.77	\$ 682,537.21	\$ 42,348.44
Federal Through State and Local	375,000.00	845,640.75	983,487.33	137,846.58
State	71,588,480.00	69,272,293.02	69,319,851.37	47,558.35
Local:				
Property Taxes	106,575,756.00	104,208,144.00	105,303,318.21	1,095,174.21
Miscellaneous	2,661,014.00	4,394,883.90	4,473,528.98	78,645.08
Total Revenues	181,811,129.00	179,361,150.44	180,762,723.10	1,401,572.66
Expenditures				
Current - Education:				
Instruction	127,984,123.00	125,129,351.57	121,755,922.25	3,373,429.32
Pupil Personnel Services	6,944,202.00	6,983,221.27	6,819,436.96	163,784.31
Instructional Media Services	3,796,053.00	3,890,912.70	3,662,670.76	228,241.94
Instruction and Curriculum Development Services	2,602,484.00	2,233,643.71	2,059,647.19	173,996.52
Instructional Staff Training Services	698,284.00	802,694.71	755,214.63	47,480.08
Instruction Related Technology	22,365.00	29,230.72	15,368.58	13,862.14
Board of Education	765,496.00	778,966.00	762,827.42	16,138.58
General Administration	606,044.00	731,308.12	591,800.50	139,507.62
School Administration	12,942,791.00	13,361,863.53	13,046,697.65	315,165.88
Facilities Acquisition and Construction	484,913.00	484,913.00	469,812.22	15,100.78
Fiscal Services	2,692,384.00	3,006,559.99	1,704,678.57	1,301,881.42
Food Services		83,492.10	82,701.38	790.72
Central Services	1,453,057.00	1,488,706.39	1,417,960.51	70,745.88
Pupil Transportation Services	7,750,202.00	7,563,319.95	7,408,791.98	154,527.97
Operation of Plant	14,288,231.00	14,859,771.77	13,876,211.28	983,560.49
Maintenance of Plant	5,152,865.00	5,170,925.31	4,902,836.39	268,088.92
Administrative Technology Services	3,642,085.00	3,374,734.01	3,304,968.23	69,765.78
Community Services	1,479,813.00	1,568,709.00	1,483,414.66	85,294.34
Fixed Capital Outlay:				
Other Capital Outlay	459,350.00	459,522.06	295,919.71	163,602.35
Debt Service:				
Principal		30,412.40	30,412.40	
Interest & Fiscal Charges		7,503.13	7,503.13	
Total Expenditures	193,764,742.00	192,039,761.44	184,454,796.40	7,584,965.04
Deficiency of Revenues Under Expenditures	(11,953,613.00)	(12,678,611.00)	(3,692,073.30)	8,986,537.70
Other Financing Sources				
Transfers In	2,247,079.00	3,082,951.00	2,994,574.10	(88,376.90)
Net Change in Fund Balances	(9,706,534.00)	(9,595,660.00)	(697,499.20)	8,898,160.80
Fund Balances, Beginning	10,605,992.00	10,605,992.00	10,605,991.97	(0.03)
Fund Balances, Ending	\$ 899,458.00	\$ 1,010,332.00	\$ 9,908,492.77	\$ 8,898,160.77

Special Revenue - ARRA Economic Stimulus Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
\$	\$	\$	\$
	5,098,186.00	19,866.33	(5,078,319.67)
	5,098,186.00	19,866.33	(5,078,319.67)
	2,969,524.00	3,787.71	2,965,736.29
	360,296.52	283.80	360,012.72
	307,290.00	4,615.12	302,674.88
	380,112.00	10,535.99	369,576.01
	140,318.48	643.71	139,674.77
	51,645.00		51,645.00
	889,000.00		889,000.00
	5,098,186.00	19,866.33	5,078,319.67
\$	\$	\$	\$
0.00	0.00	0.00	0.00

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

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

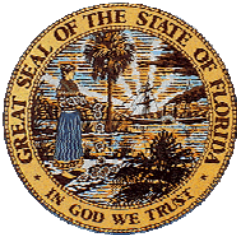
BAY COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2009

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)	Amount Provided to Subrecipients
United States Department of Agriculture:				
Indirect:				
Child Nutrition Cluster:				
Florida Department of Education:				
School Breakfast Program	10.553	321	\$ 1,237,430.70	\$
National School Lunch Program	10.555	300, 350	4,602,023.52	
Summer Food Service Program for Children	10.559	323, 325	154,894.04	
Florida Department of Agriculture and Consumer Services:				
National School Lunch Program	10.555 (2)(A)	None	597,766.08	
Total United States Department of Agriculture			6,592,114.34	
United States Department of Labor:				
Indirect:				
WIA Cluster:				
Gulf Coast Workforce Development Board, Inc.:				
WIA Adult Program	17.258	None	38,124.81	
WIA Youth Activities	17.259	None	64,503.82	
ARRA - WIA Youth Activities, Recovery Act	17.259	None	4,728.58	
WIA Dislocated Workers	17.260	None	12,787.47	
Total WIA Cluster			120,144.68	
Florida's Great Northwest, Inc.:				
WIA Pilots, Demonstrations, and Research Projects	17.261	None	52,282.46	
Total United States Department of Labor			172,427.14	
United States Department of Education:				
Direct:				
Impact Aid	84.041 (3)	N/A	472,458.20	
Federal Pell Grant Program	84.063	N/A	409,093.52	
Magnet Schools Assistance	84.165	N/A	2,693.80	
Total Direct			884,245.52	
Indirect:				
Title I, Part A Cluster:				
Florida Department of Education:				
Title I Grants to Local Educational Agencies	84.010	212, 222, 223, 226, 228	6,390,722.88	
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	212	10,915.29	
Total Title I, Part A Cluster			6,401,638.17	
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027	263	5,796,909.32	
Special Education - Preschool Grants	84.173	267	210,217.34	
ARRA - Special Education Grants to States, Recovery Act	84.391	263	8,898.08	
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	267	52.96	
Washington County District School Board:				
Special Education - Grants to States	84.027	None	8,586.60	
Total Special Education Cluster			6,024,664.30	
Florida Department of Education:				
Adult Education - Basic Grants to States	84.002	191	312,874.18	
Career and Technical Education - Basic Grants to States	84.048	151, 161	409,535.30	
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	108,916.77	
Education for Homeless Children and Youth	84.196	127	136,916.34	
Tech-Prep Education	84.243	157	1,064.05	
Charter Schools	84.282	298	621,128.00	621,128.00
Twenty-First Century Community Learning Centers	84.287	244	268,590.67	
State Grants for Innovative Programs	84.298	113	34,122.46	
Education Technology State Grants	84.318	121	46,893.94	
English Language Acquisition Grants	84.365	102	326,703.24	
Improving Teacher Quality State Grants	84.367	224	1,314,235.66	
School Improvement Grants	84.377	126	143,916.33	
Washington County District School Board:				
Reading First State Grants	84.357	None	11,175.00	
Total Indirect			16,162,374.41	621,128.00
Total United States Department of Education			17,046,619.93	621,128.00
United States Department of Health and Human Services:				
Indirect:				
Gulf Coast Workforce Development Board, Inc.:				
Temporary Assistance for Needy Families	93.558	None	58,226.49	
Corporation for National and Community Service:				
Indirect:				
Florida Department of Education:				
Learn and Serve America - School and Community Based Programs	94.004	234	15,490.36	

**BAY COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
For the Fiscal Year Ended June 30, 2009**

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)	Amount Provided to Subrecipients
United States Department of Homeland Security:				
Indirect:				
Florida Department of Community Affairs:				
Hazard Mitigation Grant	97.039 (2)(B)	None	\$ 1,959,719.33	\$
Florida Department of Education:				
Homeland Security Grant Program	97.067	532	124,816.45	
Total United States Department of Homeland Security			<u>2,084,535.78</u>	
United States Department of Defense:				
Direct:				
Marine Corps Junior Reserve Officers Training Corps	None	N/A	27,938.32	
Navy Junior Reserve Officers Training Corps	None	N/A	55,116.47	
Air Force Junior Reserve Officers Training Corps	None	N/A	127,024.22	
Total United States Department of Defense			<u>210,079.01</u>	
Total Expenditures of Federal Awards			<u>\$ 26,179,493.05</u>	<u>\$ 621,128.00</u>

- 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 - Represents the amount of donated food valued at \$548,609.34 and cash-in-lieu of donated foods of \$49,156.74 received during the 2008-09 fiscal year. Commodities are valued at fair value as determined at the time of donation.
- (B) Hazard Mitigation Grant - Represents the Federally-paid portion of emergency shelter generators and installation totaling \$1,959,719.33.
- (3) Impact Aid. Expenditures include \$401,711.98 for grant number/program year S041B-2009-1234/2009 and \$70,746.22 for grant number/program year S041B-2006-1234/2006.



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

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Bay County District School Board as of and for the fiscal year ended June 30, 2009, which collectively comprise the District's basic financial statements, and have issued our report thereon under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the basic financial statements was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the charter schools and the Bay Education Foundation, Inc., reported as discretely presented component units, as described in our report on the Bay County District School Board's financial statements. For the charter schools, this report does not include the results of the auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Bay Education Foundation, Inc., were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted

accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider Financial Statement Finding No. 1, which is described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report, to be a significant deficiency in internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report is not a material weakness.

Compliance and Other Matters

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

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

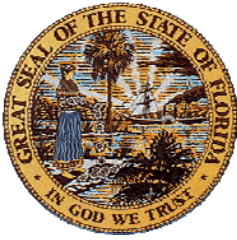
Management's response to the findings described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report is included as Exhibit A. We did not audit management's response and, accordingly, we express no opinion on it.

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

Respectfully submitted,



David W. Martin, CPA
March 5, 2010



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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB *CIRCULAR A-133*

Compliance

We have audited the Bay County District School Board's compliance with the types of compliance requirements described in the United States Office of Management and Budget's (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the fiscal year ended June 30, 2009. The District's major Federal programs are identified in the **SUMMARY OF AUDITOR'S RESULTS** section of the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of the District's major Federal programs is the responsibility of District management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

District management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct

and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *control deficiency* in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the District's internal control.

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

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

Respectfully submitted,



David W. Martin, CPA
March 5, 2010

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

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? No

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

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? No

Significant deficiency(ies) identified that are not considered to be material weakness(es)? None reported

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

Any audit findings disclosed that are required to be reported in accordance with Section __.510(a) of OMB *Circular A-133*? No

Identification of major programs: WIA Cluster (CFDA Nos. 17.258, 17.259, and 17.260); Title I, Part A Cluster (CFDA Nos. 84.010 and 84.389); Special Education Cluster (CFDA Nos. 84.027, 84.173, 84.391, and 84.392); Improving Teacher Quality (CFDA No. 84.367); and Hazard Mitigation (CFDA No. 97.039)

Dollar threshold used to distinguish between Type A and Type B programs: \$785,384

Auditee qualified as low-risk auditee? Yes

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

FINANCIAL STATEMENT FINDING

SIGNIFICANT DEFICIENCY

Finding No. 1: Financial Reporting

Our review of the District's 2008-09 fiscal year annual financial report, as presented for audit, disclosed certain financial reporting errors, as discussed in the examples below:

- The District placed moneys with the State Board of Administration (SBA) for investment. During the 2008-09 fiscal year, the District was notified by the SBA of losses, totaling approximately \$1 million, based on a reduction in value of these investments. However, District personnel did not identify and record the loss, resulting in overstatements of investments and local revenues, each by this amount, in the Capital Projects – Other Fund. District personnel indicated that this happened because losses on investments had been insignificant in the past, and therefore were inadvertently not recorded for the 2008-09 fiscal year. Properly reported investment losses may help financial statement users understand the performance of the District's investments.
- To lower the interest costs of its debt, the District issued certificates of participation (COPS) in August 2008, to refund outstanding COPS issued in 1997. However, District personnel did not properly record the proceeds of the COPS issued, or the payments to the escrow agent in the Debt Service – Other Fund, resulting in understatements of other financing sources and uses of approximately \$8.6 million each. This error occurred because District personnel mistakenly netted these transactions for financial reporting. Financing sources and uses accurately reported on the financial statements may provide helpful information of the District's debt activities.
- In the government-wide financial statements, paid absences for employee vacation leave and sick leave are accrued as compensated absences liabilities to the extent that it is probable that the benefits will result in termination payments. The District is required to report these liabilities as governmental activities, business-type activities, and in the proprietary funds, as appropriate. However, District personnel did not perform the calculation necessary to determine the amount related to the Beacon Learning Center and recorded the entire compensated absences payable in governmental activities, instead of allocating a portion to business-type activities, on the government-wide financial statements. Further, District personnel omitted this information from the proprietary fund statements. As a result, the District overstated by \$117,000 the governmental activities expense and compensated absences liability, and understated, by the same amount, the related expenses and liabilities of the business-type activities and proprietary fund financial statements. Without allocating the compensated absences expenses and liability to the appropriate activities or fund type, financial statement users may not properly assess the costs of personnel services.

- The basic financial statements are required to include notes to financial statements to describe and explain financial statement presentations, and make other required disclosures relating to the District's activity; however, we noted instances in which the District misreported and omitted disclosures. For example, in the investment note, the District incorrectly listed approximately \$23.5 million as investments with a bank that should have been reported as a money market mutual fund totaling approximately \$32 million. Additionally, the District omitted two other money market mutual funds, totaling approximately \$11.1 million, from the disclosure. As a result, the District understated the disclosure total by approximately \$19.6 million. Investment note disclosures, accurately reported, would provide financial statement users with information regarding investment balances, maturities, and risks associated with such assets.

Our review disclosed that District staff had not established effective procedures to properly report certain amounts and disclosures on the financial statements, and review procedures were not in place to detect and correct reporting errors. We extended our audit procedures to determine the necessary adjustments, and District personnel accepted these adjustments to properly report these amounts on the financial statements. A similar finding was noted in our report No. 2009-152.

Recommendation: To facilitate necessary financial reporting, the District should improve procedures to properly report account balances, transactions, and related note disclosures on the financial statements.

ADDITIONAL MATTERS

Finding No. 2: Information Technology – Management of Access Privileges

Access controls are intended to protect data and information technology (IT) resources from unauthorized disclosure, modification, or destruction. Effective access controls provide employees access to IT resources based on a demonstrated need to view, change, or delete data. Further, effective access controls provide employees access privileges that restrict employees from performing incompatible functions or functions outside of their area of responsibility.

We reviewed selected access privileges to the payroll and finance applications to determine the appropriateness of access privileges. As similarly noted in our report No. 2009-152, our audit disclosed various employees whose profiles allowed them inappropriate or unnecessary access privileges for their job functions. Specifically:

- One employee from the finance department had the capability to add a new vendor, input vendor invoices, and record journal entries. Three employees from various departments had the capability to add or change application users' profiles, input journal entries, and pay vendor invoices. These access privileges permitted the employees to perform incompatible duties or were unnecessary for their job duties.
- Three employees from the finance department had the capability to record journal entries and to wire transfer funds, and our tests disclosed no evidence of independent review for 22 of 25 journal entries tested. These access privileges, combined with their other job duties, and lack of independent review of journal entries, permitted the employees to perform incompatible duties.

The District did have compensating controls in place, such as bank reconciliations performed by independent personnel and budgetary monitoring at the departmental level to mitigate the impact of the control deficiencies mentioned above. However, inappropriate or unnecessary access privileges and lack of supervisory approval of journal entries increased the risk of unauthorized disclosure, modification, or destruction of District data and IT resources.

Recommendation: The District should improve its review of the appropriateness of access privileges to ensure that access is commensurate with employees' job duties. The District should also timely remove or adjust any inappropriate or unnecessary access privileges as detected to minimize the risk that the access privileges could be used to compromise District data or IT resources. Additionally, the District should enhance control procedures over the transaction process to document independent approval of journal entries.

Finding No. 3: Collection of Social Security Numbers

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

Section 119.071(5)(a), Florida Statutes, provides that the District may not collect an individual's SSN unless the District has stated in writing the purpose for its collection and unless it is specifically authorized by law to do so or it is imperative for the performance of the District's duties and responsibilities as prescribed by law. Additionally, this section of law requires that the District provide the individual with a written statement indicating the purpose for collecting the individual's SSN. Further, this section provides that SSNs collected by the District may not be used by the District for any other purpose than the purpose provided in that statement.

District personnel indicated that SSNs were obtained for various purposes such as for retirement contributions, withholding taxes, and background checks. District personnel further stated that they initiated efforts to comply with the requirements above by reviewing the reasons to obtain SSNs and discontinuing unnecessary collection of such numbers. The District adopted a written statement stating the purpose for the collection of SSNs, posted the statement on the District's Web site, and included it in employee application packets. However, because of an oversight, the District did not provide written statements indicating the purpose for collecting SSNs on student, registration, vendor registration, and vendor fingerprinting forms. The District revised the 2009-10 fiscal year student registration form to include the purpose for collecting SSNs. Subsequent to our discussions, in December 2009, the District began reevaluating its SSN collection process, and is developing procedures to clarify the purpose for obtaining SSNs on vendor registration and fingerprinting forms. A similar finding was noted in our report No. 2009-152.

Recommendation: The District should continue its efforts to comply with Section 119.071(5)(a), Florida Statutes, and properly notify individuals of the need for and use of social security numbers.

Finding No. 4: Fingerprinting Requirements

Sections 1012.465, 1012.467, and 1012.468, Florida Statutes, provides, in part, that contractual personnel who are permitted access to school grounds when students are present or who have direct contact with students must undergo certain background checks and fingerprinting requirements, unless the contractual personnel are under the direct supervision of District personnel. As part of our tests, we initially reviewed District screening procedures and records for 19 individuals who had direct contact with students, and the individuals worked for 9 contractors; however, the District could not provide evidence that the required background checks and fingerprints were obtained for 4

individuals who worked for 1 contractor. We expanded our testing to review records for 18 additional individuals who worked for this contractor, and District records did not evidence that these individuals underwent the required background check process. These 22 individuals provided instructional and special education services (i.e., speech, occupational, and physical therapies) to pre-kindergarten children with disabilities at both district and non-district sites. In addition, District records did not evidence that these individuals were under the direct supervision of District personnel.

Discussions with the Assistant Superintendent indicated that the District's agreement delegated the responsibility to the contractor to obtain and review background screenings for individuals that provided services under the agreement. The agreement further provided that the contractor would notify the District within 48 hours of receiving information that an employee of the contractor was arrested or convicted of a disqualifying offense; however, the agreement did not require the contractor to provide evidence of background screenings to the District. When contracted personnel have direct contact with students, are not under the direct supervision of District staff, and are not required to provide background screening to the District, there is an increased risk of using contracted personnel that have backgrounds that are inappropriate in the school environment. A similar finding was noted in our previous reports, most recently in report No. 2009-152.

Recommendation: **The District should enhance procedures to ensure that background screenings are obtained for contractual personnel, as required.**

Finding No. 5: High School Diplomas

As similarly noted in our report No. 2009-152, improvements could be made in District control procedures over the issuance of high school diplomas. For the 2008-09 fiscal year, the District had approximately 1,500 graduates that received diplomas. At each school, the guidance counselor was responsible for determining which students were eligible to graduate and preparing a list of graduates for whom diplomas were needed. Our review of student graduation and diploma processing at Mosley High (467 graduates), Rutherford High (301 graduates), and Bay High Schools (229 graduates) disclosed the following:

- There were no written agreements with the printing companies specifying the procedures to be followed for diploma orders and the District employees authorized to submit orders. Written agreements may establish District expectations and staff responsible for diploma orders, and reduce misunderstandings related to such orders.
- District personnel indicated that an independent review of the list of graduates was performed to ensure that diploma recipients met the eligibility requirements for graduation; however, District records did not evidence this review. Without adequate procedures to verify the accuracy of the list of graduates or diplomas, the risk increases for the District to issue invalid diplomas and for fraud to occur.
- The school registrar, senior sponsor, or guidance counselor submitted diploma orders to the printing company, but the orders were not subject to review and approval by other District personnel. While the schools issued purchase orders for some orders, they generally only documented the total number of diplomas ordered by type, as did the invoices received from the printing company, and excluded the individual student names. Absent proper approval of diploma orders, the risk increases for unauthorized diplomas to be issued.

- There was an inadequate separation of duties over the ordering and receipt of diplomas at Mosley High School. The registrar submitted orders, received the completed diplomas, and distributed them directly to the students or to other District personnel for distribution. No one independently verified that the diplomas were properly received and distributed to the students. In this circumstance, one employee had control over the ordering and receipt of high school diplomas such that errors or irregularities, should they occur, might not be detected in a timely manner.

District personnel stated that while they were aware of these control deficiencies from the prior audit, they were unable to implement new procedures for the 2009 graduation due to time constraints. The District plans to implement new diploma procedures for the 2010 graduation.

Recommendation: The District should strengthen internal controls over diploma processing to ensure that diplomas are only prepared for and distributed to those who meet the eligibility requirements for graduation.

Finding No. 6: Information Technology – User Authentication

Security controls are intended to protect the confidentiality, integrity, and availability of data and IT resources. As similarly noted in our report No. 2009-152, our audit disclosed security controls related to user authentication that needed improvement. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising District data and IT resources. However, we have notified appropriate District management of the specific issues. Without adequate security controls, the confidentiality, integrity, and availability of data and IT resources may be compromised, increasing the risk that District data and IT resources may be subject to improper disclosure, modification, or destruction.

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

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

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

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the District had taken corrective actions for findings included in our report No. 2009-152.

MANAGEMENT’S RESPONSE

Management’s response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

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

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

Audit Report No. and Federal Awards Finding No.	Program/Area	Brief Description	Status	Comments
2009-152		No prior Federal audit findings.		

EXHIBIT A
MANAGEMENT'S RESPONSE



March 02, 2010

WILLIAM V. HUSFELY, III
SUPERINTENDENT

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Ryan Neves

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Ginger Littleton

District 3

Jerry Register

District 4

Dorina Allen

District 5

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

Dear Mr. Martin:

Pursuant to your letter of February 05, 2010, concerning Preliminary and Tentative Audit Findings resulting from your audit of the Bay County School Board for the fiscal year ending June 30, 2009, I am providing below my explanation concerning the findings and the actions we have taken to correct the deficiencies.

Financial Reporting

In the past, the District hasn't recorded "unrealized loss" since the loss could potentially be offset with future gains before it is "realized". In the past, the loss was immaterial. The District made net entries since it was a refunding of existing Certificates of Participation (COPs). If COPs are refunded in the future, the District will record both sources and uses of funds. The District inadvertently neglected to move the applicable portion of the compensated absences to the proprietary fund. In the future, the account balances will be recorded correctly. In the future, the District will work harder to meet all requirements of note disclosure for cash and investments.

Information Technology – Management of Access Privileges

The District has changed the access of the employees in question in order to comply with the audit request. The District will be working with audit staff in an effort to find a solution that will not reduce the department's efficiencies and still meet separation of duty requirements.

Collection of Social Security Numbers

The District feels that it has corrected all forms by including proper disclosure statements on the forms that still require us to collect Social Security numbers from individuals.

Fingerprinting Requirements

The District is in the process of changing the contracts with the contractors noted in the finding and will strive to correct any deficiencies in collecting fingerprints.

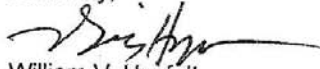
High School Diplomas

The District will work to strengthen its controls in regard to the preparation and distribution of diplomas.

Information Technology -- User Authentication

The District is evaluating new software and procedures and will strive to implement compensating controls that will ensure confidentiality, integrity and availability of the Districts data.

Sincerely,

A handwritten signature in black ink, appearing to read "W. Husfelt", with a long horizontal flourish extending to the right.

William V. Husfelt
District Superintendent