

BAY COUNTY DISTRICT SCHOOL BOARD

Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended
June 30, 2010



STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD MEMBERS AND SUPERINTENDENT

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

	<u>District No.</u>
Pat Sabiston	1
Ryan Neves	2
Ginger Littleton, Chair	3
Jerry L. Register	4
Donna Allen, Vice Chair	5

William V. Husfelt, III, Superintendent

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

The audit team leader was Pamela L. Thompson, CPA, and the audit was supervised by Patricia S. Crutchfield, CPA. 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.

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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, this 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: District procedures for reporting information on the financial statements and Schedule of Expenditures of Federal Awards could be improved.

ADDITIONAL MATTERS

Finding No. 2: Required background screenings were not always obtained for contractual personnel.

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

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

Finding No. 5: The District needed to strengthen information technology access controls.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Student Financial Assistance Cluster; Special Education Cluster; Title I, Part A Cluster; Education Technology State Grants Cluster; State Fiscal Stabilization Fund Cluster; and Education for Homeless Children and Youth Cluster programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that were applicable to the major Federal programs tested, with the exception of the Student Financial Assistance Cluster program. We noted noncompliance and control deficiency findings as summarized below.

Federal Awards Finding No. 1: Controls were not adequate over the Federal Pell Program, resulting in \$167,375 of questioned costs.

Federal Awards Finding No. 2: The District needed to enhance procedures over contracted services expenditures.

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. 2010-133.

The scope of this audit included an examination of the District's basic financial statements and the Schedule of Expenditures of Federal Awards as of and for the fiscal year ended June 30, 2010. We obtained an understanding of the District's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements and Federal awards. We also examined various transactions to determine whether they were executed, both in manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

Audit Methodology

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



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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, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the District's charter schools, Tom P. Haney Education Foundation, Inc., and Bay Education Foundation, Inc., which represent 99 percent of the assets, 100 percent of the liabilities, 99 percent of the net assets, 99 percent of the revenues, and 99 percent of the expenses of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the charter schools, Tom P. Haney Education Foundation, Inc., and Bay Education Foundation, Inc., is based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information for the Bay County District School Board as of June 30, 2010, and the respective changes in financial

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

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

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS** (pages 3 through 8) and **OTHER REQUIRED SUPPLEMENTARY INFORMATION** (pages 46 through 49) be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Respectfully submitted,



David W. Martin, CPA
February 23, 2011

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 for 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 2009-10 fiscal year are as follows:

- The District's governmental activities net assets increased by \$7,882,667.58, which represents a 3.17 percent increase from June 30, 2009.
- During the current fiscal year, General Fund revenues and other financing sources exceeded expenditures by \$13,367,885.04. This may be compared to last year's results in which General Fund expenditures exceeded revenues and other financing sources by \$697,499.20.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$19,892,461.40 or 11.87 percent of the General Fund expenditures, compared to the previous fiscal year's unreserved fund balance of \$7,458,225.22 or 4.04 percent of the General Fund expenditures. This increase is mainly due to the District building reserves to help overcome an anticipated revenue shortfall for the 2011-12 fiscal year.

OVERVIEW OF FINANCIAL STATEMENTS

The basic financial statements consist of three components:

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

In addition to the basic financial statements; the MD&A, budgetary comparison schedule, and 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 the following categories:

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

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

- Business-type activities – These activities account for the financial resources of the Beacon Learning Center which provides services predominantly for other districts.
- Component units – The District's foundations (the Bay Education Foundation, Inc., the Tom P. Haney Education Foundation, Inc., and Bay Communications Foundation, Inc.) and charter schools (the Bay Haven Charter Academy, Inc, d/b/a Bay Haven Charter Academy and Bay Haven Charter Academy Middle School.; 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 the broad categories discussed below.

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

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

The governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances provide detailed information about the District's most significant funds. The District's major funds are the General Fund, Special Revenue – 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, 2010, compared to net assets as of June 30, 2009:

	Net Assets, End of Year					
	Governmental Activities		Business-Type Activities		Total	
	6-30-10	6-30-09	6-30-10	6-30-09	6-30-10	6-30-09
Current and Other Assets	\$ 57,117,324.23	\$ 61,751,935.96	\$ 1,875,784.18	\$ 1,683,353.10	\$ 58,993,108.41	\$ 63,435,289.06
Capital Assets	337,727,293.14	331,074,774.09	70,416.83	73,382.30	337,797,709.97	331,148,156.39
Total Assets	394,844,617.37	392,826,710.05	1,946,201.01	1,756,735.40	396,790,818.38	394,583,445.45
Long-Term Liabilities	128,140,009.56	131,812,730.64	160,702.86	116,977.55	128,300,712.42	131,929,708.19
Other Liabilities	10,110,171.90	12,302,211.08	339,642.44	509,309.26	10,449,814.34	12,811,520.34
Total Liabilities	138,250,181.46	144,114,941.72	500,345.30	626,286.81	138,750,526.76	144,741,228.53
Net Assets:						
Invested in Capital Assets -						
Net of Related Debt	235,227,042.53	233,715,803.21	70,416.83	73,382.30	235,297,459.36	233,789,185.51
Restricted	6,717,925.75	14,729,583.26			6,717,925.75	14,729,583.26
Unrestricted	14,649,467.63	266,381.86	1,375,438.88	1,057,066.29	16,024,906.51	1,323,448.15
Total Net Assets	\$ 256,594,435.91	\$ 248,711,768.33	\$ 1,445,855.71	\$ 1,130,448.59	\$ 258,040,291.62	\$ 249,842,216.92

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, 2010, and June 30, 2009, are as follows:

	Operating Results for the Year					
	Governmental Activities		Business-Type Activities		Total	
	6-30-10	6-30-09	6-30-10	6-30-09	6-30-10	6-30-09
Program Revenues:						
Charges for Services	\$ 7,151,570.84	\$ 7,608,518.31	\$ 1,647,972.71	\$ 1,044,005.40	\$ 8,799,543.55	\$ 8,652,523.71
Operating Grants and Contributions	6,994,388.61	11,452,104.34			6,994,388.61	11,452,104.34
Capital Grants and Contributions	1,444,915.41	2,858,157.07			1,444,915.41	2,858,157.07
General Revenues:						
Property Taxes, Levied for Operational Purposes	108,308,086.98	105,303,318.21			108,308,086.98	105,303,318.21
Property Taxes, Levied for Capital Projects	20,001,425.31	18,026,877.32			20,001,425.31	18,026,877.32
Local Sales Taxes		91,534.17				91,534.17
Grants and Contributions Not Restricted to Specific Programs	95,179,174.62	83,261,273.50			95,179,174.62	83,261,273.50
Unrestricted Investment Earnings	1,368,678.63	(663,863.75)	3,363.39	6,172.08	1,372,042.02	(657,691.67)
Miscellaneous	6,065,461.38	3,072,632.16			6,065,461.38	3,072,632.16
Total Revenues	246,513,701.78	231,010,551.33	1,651,336.10	1,050,177.48	248,165,037.88	232,060,728.81
Functions/Program Expenses:						
Instruction	126,819,014.92	130,927,065.78			126,819,014.92	130,927,065.78
Pupil Personnel Services	7,542,916.49	8,007,669.28			7,542,916.49	8,007,669.28
Instructional Media Services	3,101,866.78	3,789,889.73			3,101,866.78	3,789,889.73
Instruction and Curriculum Development Services	5,771,718.62	5,019,632.97			5,771,718.62	5,019,632.97
Instructional Staff Training Services	2,325,743.84	3,387,691.57			2,325,743.84	3,387,691.57
Instruction Related Technology	5,296.85	15,368.58			5,296.85	15,368.58
School Board	1,499,883.88	780,190.85			1,499,883.88	780,190.85
General Administration	1,188,518.41	1,013,507.93			1,188,518.41	1,013,507.93
School Administration	12,700,982.71	13,047,958.80			12,700,982.71	13,047,958.80
Facilities Acquisition and Construction	3,543,351.96	1,686,502.49			3,543,351.96	1,686,502.49
Fiscal Services	1,668,144.67	1,706,415.37			1,668,144.67	1,706,415.37
Food Services	10,151,399.75	11,241,118.02			10,151,399.75	11,241,118.02
Central Services	1,750,431.89	1,411,970.86			1,750,431.89	1,411,970.86
Pupil Transportation Services	8,538,360.81	8,011,087.82			8,538,360.81	8,011,087.82
Operation of Plant	15,380,043.18	13,929,113.57			15,380,043.18	13,929,113.57
Maintenance of Plant	4,566,254.82	4,963,587.84			4,566,254.82	4,963,587.84
Administrative Technology Services	2,857,075.11	3,299,928.14			2,857,075.11	3,299,928.14
Community Services	2,875,504.66	1,890,518.56			2,875,504.66	1,890,518.56
Unallocated Interest on Long-Term Debt	4,964,311.59	5,264,019.98			4,964,311.59	5,264,019.98
Unallocated Depreciation Expense	21,380,213.26	20,381,212.44			21,380,213.26	20,381,212.44
Beacon Learning Center			1,335,928.98	1,433,125.02	1,335,928.98	1,433,125.02
Total Functions/Program Expenses	238,631,034.20	239,774,450.58	1,335,928.98	1,433,125.02	239,966,963.18	241,207,575.60
Increase (Decrease) in Net Assets	\$ 7,882,667.58	\$ (8,763,899.25)	\$ 315,407.12	\$ (382,947.54)	\$ 8,198,074.70	\$ (9,146,846.79)

Grants and contributions not restricted to specific programs in governmental activities increased \$11,917,901.12 or 14.31 percent, due mainly to receipt of American Recovery Reinvestment Act (ARRA) Federal funds.

Instruction expenses represent 53.14 percent of total governmental expenses in the 2009-10 fiscal year. Instruction expenses decreased by \$4,108,050.86 or 3.14 percent from the previous fiscal year due mainly to limiting years experience of employees reemployed after returning from the Deferred Retirement Option Program and natural attrition.

Business-type activities charges for services increased \$603,967.31 or 57.85 percent due to the sale of products newly created in the prior year. Expenses decreased \$97,196.04 or 6.78 percent primarily due to a decline in purchased services for curriculum development contracts.

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 \$19,892,461.40, while the total fund balance is \$23,276,377.81. The unreserved fund balance increased by \$12,434,236.18, while the total fund balance increased by \$13,367,885.04 during the fiscal year. This is primarily due to cost-cutting measures, increasing reserves to help overcome an anticipated revenue shortfall for the 2011-12 fiscal year. Cost-cutting measures included reducing salary expenses and overhead costs by limiting salary increases to only the step increases and closing 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 \$5.74.

The Capital Projects – Local Capital Improvement Fund has a total fund balance of \$4,319,372.33. The fund balance decreased \$5,641,954.73, primarily because the fund paid property and casualty insurance premiums and capital outlay expenditures related to renovations at Merritt Brown Middle School. It should be noted that \$3,055,072.55 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 \$440,162.19, which is a decrease of \$12,702,212.54 from the prior fiscal year. The fund balance decreased primarily because of capital outlay expenditures for the completion of the Deer Point Elementary School, construction on the Rutherford High School gymnasium, and construction on Cedar Grove Elementary School. It should be noted that \$368,165.58 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 \$4,836,159.42 at June 30, 2010. These net assets increased by \$1,827,585.77, primarily due to an increase in premium revenues offset partially by an increase in claims expense.

Unrestricted net assets of the Enterprise Fund – Beacon Learning Center total \$1,375,438.88 at June 30, 2010, an increase of \$318,372.59. This increase occurred primarily because of an increase in charges for services coupled with a decline in expenditures.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the course of the 2009-10 fiscal year, the District amended its General Fund budget several times, which resulted in an increase in total budgeted appropriations amounting to \$1,614,208.32, or 0.89 percent. At the same time, final budgeted revenues and other financing sources were more than the original amounts by \$1,436,185.32 or 0.82 percent. Budget revisions were due primarily to changes in estimated State funding levels and corresponding adjustments to planned expenditures to ensure maintenance of an adequate fund balance.

Actual revenues were \$5,142,451.74 more than the final budgeted amounts, while actual expenditures were \$15,092,785.70 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 \$19,222,437.81 due to some significant cost savings and the establishment of reserves designed to help the District offset expected revenue shortfalls in the 2011-12 fiscal year.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets for its governmental and business-type activities as of June 30, 2010, amounts to \$337,727,293.14 and \$70,416.83, 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 16 to the financial statements.

Long-Term Debt

At June 30, 2010, the District has total long-term debt outstanding of \$103,856,717.83. This amount is comprised of \$305,717.83 of installment-purchases payable; \$5,395,000.00 of bonds payable; and \$98,156,000.00 of certificates of participation (COPs) payable.

Additional information on the District's long-term debt can be found in Notes 6 through 9 to the financial statements.

OTHER MATTERS OF SIGNIFICANCE

During the 2009-10 fiscal year, the District opened Rosenwald High School as an alternative high school. The District donated the old Shaw Adult Center building to the city of Springfield after closing it the previous fiscal year. Also, during the 2009-10 fiscal year, the District approved four new charter schools to be opened in the 2010-11 fiscal year. The second school (Deer Point Elementary) financed with the 2007 COPs was opened as a temporary facility for Merritt Brown Middle School while Merritt Brown was being renovated. Deer Point Elementary will open for the 2010-11 fiscal year.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

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

	Primary Government			Component
	Governmental	Business-Type	Total	Units
	Activities	Activities		
ASSETS				
Cash and Cash Equivalents	\$ 50,988,304.58	\$ 1,673,272.08	\$ 52,661,576.66	\$ 3,942,985.00
Investments - Other				450,376.33
Accounts Receivable	25,225.23	202,512.10	227,737.33	425,340.00
Due from Other Agencies	966,117.31		966,117.31	421,880.00
Prepaid Items	1,745,606.11		1,745,606.11	71,621.00
Inventories	1,286,390.40		1,286,390.40	
Investments in Fund B Surplus Funds Trust Fund	2,105,680.60		2,105,680.60	
Other Assets				15,202.00
Capital Assets:				
Nondepreciable Capital Assets	34,302,323.23		34,302,323.23	973,856.00
Depreciable Capital Assets, Net	303,424,969.91	70,416.83	303,495,386.74	15,011,364.00
TOTAL ASSETS	\$ 394,844,617.37	\$ 1,946,201.01	\$ 396,790,818.38	\$ 21,312,624.33
LIABILITIES				
Salaries and Benefits Payable	\$ 5,106.08	\$	\$ 5,106.08	\$ 228,863.00
Payroll Deductions and Withholdings	128,608.07		128,608.07	
Accounts Payable	2,232,681.38	13,468.08	2,246,149.46	331,547.00
Construction Contracts Payable - Retainage	466,818.33		466,818.33	
Due to Other Agencies	1,630,826.77		1,630,826.77	
Matured Bonds Payable	6,657.12		6,657.12	
Matured Certificates of Participation Payable	3,277,000.00		3,277,000.00	
Matured Interest Payable	2,361,761.00		2,361,761.00	
Deferred Revenue	713.15	326,174.36	326,887.51	
Long-Term Liabilities:				
Portion Due Within One Year	8,020,089.55		8,020,089.55	418,733.00
Portion Due After One Year	120,119,920.01	160,702.86	120,280,622.87	11,516,404.00
Total Liabilities	138,250,181.46	500,345.30	138,750,526.76	12,495,547.00
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	235,227,042.53	70,416.83	235,297,459.36	4,050,083.00
Restricted for:				
State Required Carryover Programs	1,404,927.20		1,404,927.20	
Debt Service	153,805.12		153,805.12	
Capital Projects	3,429,333.73		3,429,333.73	
Food Service	1,729,859.70		1,729,859.70	
Other Purposes				81,225.00
Unrestricted	14,649,467.63	1,375,438.88	16,024,906.51	4,685,769.33
Total Net Assets	256,594,435.91	1,445,855.71	258,040,291.62	8,817,077.33
TOTAL LIABILITIES AND NET ASSETS	\$ 394,844,617.37	\$ 1,946,201.01	\$ 396,790,818.38	\$ 21,312,624.33

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, 2010**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
Instruction	\$ 126,819,014.92	\$ 3,046,811.69	\$	\$
Pupil Personnel Services	7,542,916.49			
Instructional Media Services	3,101,866.78			
Instruction and Curriculum Development Services	5,771,718.62			
Instructional Staff Training Services	2,325,743.84			
Instruction Related Technology	5,296.85			
School Board	1,499,883.88			
General Administration	1,188,518.41			
School Administration	12,700,982.71			
Facilities Acquisition and Construction	3,543,351.96			620,251.81
Fiscal Services	1,668,144.67			
Food Services	10,151,399.75	3,748,523.57	6,994,388.61	
Central Services	1,750,431.89			
Pupil Transportation Services	8,538,360.81	356,235.58		
Operation of Plant	15,380,043.18			
Maintenance of Plant	4,566,254.82			
Administrative Technology Services	2,857,075.11			
Community Services	2,875,504.66			
Unallocated Interest on Long-Term Debt	4,964,311.59			824,663.60
Unallocated Depreciation Expense*	21,380,213.26			
Total Governmental Activities	238,631,034.20	7,151,570.84	6,994,388.61	1,444,915.41
Business-Type Activities:				
Beacon Learning Center	1,335,928.98	1,647,972.71		
Total Primary Government	\$ 239,966,963.18	\$ 8,799,543.55	\$ 6,994,388.61	\$ 1,444,915.41
Component Units				
Charter Schools/Foundations	\$ 10,987,204.50	\$ 238,248.00	\$ 703,786.00	\$ 80,002.00

General Revenues:

Taxes:

Property Taxes, Levied for Operational Purposes

Property Taxes, Levied for Capital Projects

Grants and Contributions Not Restricted to Specific Programs

Unrestricted Investment Earnings

Miscellaneous

Total General Revenues

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

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

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

Net (Expense) Revenue and Changes in Net Assets			
Governmental Activities	Primary Government		Component Units
	Business-Type Activities	Total	
\$ (123,772,203.23)	\$	\$ (123,772,203.23)	\$
(7,542,916.49)		(7,542,916.49)	
(3,101,866.78)		(3,101,866.78)	
(5,771,718.62)		(5,771,718.62)	
(2,325,743.84)		(2,325,743.84)	
(5,296.85)		(5,296.85)	
(1,499,883.88)		(1,499,883.88)	
(1,188,518.41)		(1,188,518.41)	
(12,700,982.71)		(12,700,982.71)	
(2,923,100.15)		(2,923,100.15)	
(1,668,144.67)		(1,668,144.67)	
591,512.43		591,512.43	
(1,750,431.89)		(1,750,431.89)	
(8,182,125.23)		(8,182,125.23)	
(15,380,043.18)		(15,380,043.18)	
(4,566,254.82)		(4,566,254.82)	
(2,857,075.11)		(2,857,075.11)	
(2,875,504.66)		(2,875,504.66)	
(4,139,647.99)		(4,139,647.99)	
(21,380,213.26)		(21,380,213.26)	
(223,040,159.34)		(223,040,159.34)	
	312,043.73	312,043.73	
(223,040,159.34)	312,043.73	(222,728,115.61)	
			(9,965,168.50)
108,308,086.98		108,308,086.98	
20,001,425.31		20,001,425.31	
95,179,174.62		95,179,174.62	9,632,884.00
1,368,678.63	3,363.39	1,372,042.02	5,887.47
6,065,461.38		6,065,461.38	610,105.67
230,922,826.92	3,363.39	230,926,190.31	10,248,877.14
7,882,667.58	315,407.12	8,198,074.70	283,708.64
248,711,768.33	1,130,448.59	249,842,216.92	8,533,368.69
\$ 256,594,435.91	\$ 1,445,855.71	\$ 258,040,291.62	\$ 8,817,077.33

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

	General Fund	Special Revenue - ARRA Economic Stimulus Fund	Debt Service - Other Fund
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and Cash Equivalents	\$ 27,284,982.76	\$ 42,417.85	\$ 5,638,766.74
Accounts Receivable	25,021.73		
Due from Other Funds	631,150.94	300,906.26	
Due from Other Agencies	257,941.27	203,179.32	
Inventories	1,065,222.06		
Investments in SBA Fund B Surplus Funds Trust Fund	539,329.52		
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u><u>\$ 29,803,648.28</u></u>	<u><u>\$ 546,503.43</u></u>	<u><u>\$ 5,638,766.74</u></u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Salaries and Benefits Payable	\$ 5,106.08	\$	\$
Payroll Deductions and Withholdings	126,359.75	1,575.90	
Accounts Payable	1,347,260.65	134,030.89	
Construction Contracts Payable - Retainage			
Due to Other Funds	3,423,959.09	410,896.64	
Due to Other Agencies	1,623,871.75		
Matured Bonds Payable			
Matured Certificates of Participation Payable			3,277,000.00
Matured Interest Payable			2,361,761.00
Deferred Revenue	713.15		
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>6,527,270.47</u>	<u>546,503.43</u>	<u>5,638,761.00</u>
Fund Balances:			
Reserved for State Required Carryover Programs	1,404,927.20		
Reserved for Encumbrances	913,767.15		
Reserved for Inventories	1,065,222.06		
Reserved for Debt Service			
Unreserved, Reported in:			
General Fund	19,892,461.40		
Special Revenue Funds			
Debt Service Funds			5.74
Capital Projects Funds			
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>23,276,377.81</u>	<u> </u>	<u>5.74</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 29,803,648.28</u></u>	<u><u>\$ 546,503.43</u></u>	<u><u>\$ 5,638,766.74</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
\$ 3,787,687.10	\$ 465,645.19	\$ 1,922,334.98	\$ 39,141,834.62
		203.50	25,225.23
710,849.83		323,959.09	1,966,866.12
19,688.65	36,397.56	448,910.51	966,117.31
		221,168.34	1,286,390.40
230,151.09	1,198,139.58		1,967,620.19
<u>\$ 4,748,376.67</u>	<u>\$ 1,700,182.33</u>	<u>\$ 2,916,576.42</u>	<u>\$ 45,354,053.87</u>
\$	\$	\$	\$ 5,106.08
		672.42	128,608.07
82,259.76	437,806.91	226,523.11	2,227,881.32
346,744.58	109,135.02	10,938.73	466,818.33
	713,078.21	518,932.18	5,066,866.12
		6,955.02	1,630,826.77
		6,657.12	6,657.12
			3,277,000.00
			2,361,761.00
			713.15
429,004.34	1,260,020.14	770,678.58	15,172,237.96
			1,404,927.20
3,055,072.55	368,165.58	50,682.36	4,387,687.64
		221,168.34	1,286,390.40
		153,805.12	153,805.12
			19,892,461.40
		1,483,296.26	1,483,296.26
		235,966.59	235,972.33
1,264,299.78	71,996.61	979.17	1,337,275.56
<u>4,319,372.33</u>	<u>440,162.19</u>	<u>2,145,897.84</u>	<u>30,181,815.91</u>
<u>\$ 4,748,376.67</u>	<u>\$ 1,700,182.33</u>	<u>\$ 2,916,576.42</u>	<u>\$ 45,354,053.87</u>

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

Total Fund Balances - Governmental Funds \$ 30,181,815.91

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. 337,727,293.14

Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. 4,836,159.42

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	\$ 305,717.83	
Bonds Payable	5,395,000.00	
Certificates of Participation Payable	98,156,000.00	
Compensated Absences Payable	12,192,029.73	
Other Postemployment Benefits Payable	102,085.00	
	(116,150,832.56)	

Total Net Assets - Governmental Activities \$ 256,594,435.91

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, 2010**

	General Fund	Special Revenue - ARRA Economic Stimulus Fund	Debt Service - Other Fund
Revenues			
Intergovernmental:			
Federal Direct	\$ 584,578.46	\$	\$
Federal Through State and Local	888,914.25	14,351,200.01	
State	61,337,527.22		
Local:			
Property Taxes	108,308,086.98		
Charges for Services - Food Service			
Miscellaneous	7,872,919.15		0.03
Total Revenues	178,992,026.06	14,351,200.01	0.03
Expenditures			
Current - Education:			
Instruction	107,693,853.08	10,716,359.99	
Pupil Personnel Services	6,196,005.25	476,515.85	
Instructional Media Services	2,924,360.90	70,373.35	
Instruction and Curriculum Development Services	1,735,807.64	265,324.50	
Instructional Staff Training Services	527,145.45	557,673.09	
Instruction Related Technology	5,296.85		
School Board	1,012,353.20		
General Administration	634,863.60	131,893.64	
School Administration	12,489,610.16	175,352.04	
Facilities Acquisition and Construction	432,347.06		
Fiscal Services	1,659,433.46		
Food Services	51,392.45	136.95	
Central Services	1,265,840.18	275.57	
Pupil Transportation Services	7,811,981.99	5,120.32	
Operation of Plant	15,279,908.90		
Maintenance of Plant	4,558,513.05		
Administrative Technology Services	1,468,167.01	1,383,308.55	
Community Services	1,460,901.38	3,353.20	
Fixed Capital Outlay:			
Facilities Acquisition and Construction			
Other Capital Outlay	326,505.51	565,512.96	
Debt Service:			
Principal			3,277,000.00
Interest and Fiscal Charges	6,937.50		4,723,522.00
Total Expenditures	167,541,224.62	14,351,200.01	8,000,522.00
Excess (Deficiency) of Revenues Over Expenditures	11,450,801.44		(8,000,521.97)
Other Financing Sources (Uses)			
Transfers In	1,917,083.60		8,000,522.00
Refunding Bonds Issued			
Premium on Refunding Bonds			
Payments to Refunded Bond Escrow Agent			
Transfers Out			
Total Other Financing Sources (Uses)	1,917,083.60		8,000,522.00
Net Change in Fund Balances	13,367,885.04		0.03
Fund Balances, Beginning	9,908,492.77		5.71
Fund Balances, Ending	\$ 23,276,377.81	\$ 0.00	\$ 5.74

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
\$	\$	\$	\$
	475,096.00	1,408,305.88	1,992,884.34
24,957.80	138,894.76	22,233,135.64	37,948,345.90
		2,175,868.62	63,677,248.40
20,001,425.31			128,309,512.29
		3,748,523.57	3,748,523.57
173,500.76	631,859.80	235,364.57	8,913,644.31
20,199,883.87	1,245,850.56	29,801,198.28	244,590,158.81
		8,139,966.90	126,550,179.97
		852,148.71	7,524,669.81
		100,167.63	3,094,901.88
		3,757,093.28	5,758,225.42
		1,238,402.89	2,323,221.43
			5,296.85
		486,855.30	1,499,208.50
		420,486.39	1,187,243.63
		5,859.59	12,670,821.79
1,882,295.97	1,213,603.84	14,038.50	3,542,285.37
		5,000.00	1,664,433.46
		10,088,665.04	10,140,194.44
			1,266,115.75
		78,165.12	7,895,267.43
		17,849.13	15,297,758.03
		44.19	4,558,557.24
			2,851,475.56
		1,408,305.88	2,872,560.46
10,696,342.88	12,384,071.84	364,251.74	23,444,666.46
1,970,144.51	347,887.42	301,166.08	3,511,216.48
196,194.81		545,000.00	4,018,194.81
14,846.19		293,948.04	5,039,253.73
14,759,824.36	13,945,563.10	28,117,414.41	246,715,748.50
5,440,059.51	(12,699,712.54)	1,683,783.87	(2,125,589.69)
			9,917,605.60
		380,000.00	380,000.00
		31,901.95	31,901.95
		(411,901.95)	(411,901.95)
(11,082,014.24)	(2,500.00)	(1,040,760.00)	(12,125,274.24)
(11,082,014.24)	(2,500.00)	(1,040,760.00)	(2,207,668.64)
(5,641,954.73)	(12,702,212.54)	643,023.87	(4,333,258.33)
9,961,327.06	13,142,374.73	1,502,873.97	34,515,074.24
\$ 4,319,372.33	\$ 440,162.19	\$ 2,145,897.84	\$ 30,181,815.91

**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, 2010**

Net Change in Fund Balances - Governmental Funds **\$ (4,333,258.33)**

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. 6,652,519.05

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

Bond Refunding	\$	(380,000.00)	
Repayment of Installment-Purchase Principal		211,136.95	
Repayment of Bonds Principal		985,000.00	
Repayment of Certificates of Participation Principal		<u>3,277,000.00</u>	4,093,136.95

In the statement of activities, the cost of compensated absences is measured by the amounts earned during the year, while in the governmental funds expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences earned in excess of the amount paid in the current period. (402,123.86)

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 decrease in the other postemployment benefits liability for the current fiscal year. 44,808.00

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. 1,827,585.77

Change in Net Assets - Governmental Activities **\$ 7,882,667.58**

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, 2010**

	Business-Type Activities - Beacon Learning Center Enterprise Fund	Governmental Activities - Internal Service Fund
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 1,673,272.08	\$ 11,846,469.96
Accounts Receivable	202,512.10	
Due From Other Funds		3,100,000.00
Prepaid Items		1,745,606.11
Total Current Assets	1,875,784.18	16,692,076.07
Noncurrent Assets:		
Investments in SBA Fund B Surplus Funds Trust Fund		138,060.41
Furniture, Fixtures, and Equipment, Net	60,039.97	
Motor Vehicles, Net	5,204.70	
Computer Software, Net	5,172.16	
Total Noncurrent Assets	70,416.83	138,060.41
TOTAL ASSETS	\$ 1,946,201.01	\$ 16,830,136.48
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 13,468.08	\$ 4,800.06
Deferred Revenue	326,174.36	
Estimated Insurance Claims Payable		2,850,500.00
Total Current Liabilities	339,642.44	2,855,300.06
Noncurrent Liabilities:		
Compensated Absences Payable	160,702.86	
Estimated Insurance Claims Payable		9,138,677.00
Total Noncurrent Liabilities	160,702.86	9,138,677.00
Total Liabilities	500,345.30	11,993,977.06
NET ASSETS		
Invested in Capital Assets	70,416.83	
Unrestricted	1,375,438.88	4,836,159.42
Total Net Assets	1,445,855.71	4,836,159.42
TOTAL LIABILITIES AND NET ASSETS	\$ 1,946,201.01	\$ 16,830,136.48

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, 2010

	Business-Type Activities - Beacon Learning Center Enterprise Fund	Governmental Activities - Internal Service Fund
OPERATING REVENUES		
Charges for Services	\$ 1,647,972.71	\$ 6,182,799.71
Other Operating Revenues		116,099.67
Total Operating Revenues	1,647,972.71	6,298,899.38
OPERATING EXPENSES		
Salaries	786,994.01	521,868.35
Employee Benefits	211,610.12	216,743.49
Purchased Services	220,182.05	386,388.86
Energy Services	111.53	
Materials and Supplies	24,676.18	8,112.48
Capital Outlay	20,822.95	23,431.24
Insurance Claims		2,921,562.89
Insurance Premiums		2,686,247.07
Other Expenses	47,778.71	9,564.20
Depreciation	23,753.43	
Total Operating Expenses	1,335,928.98	6,773,918.58
Operating Income (Loss)	312,043.73	(475,019.20)
NONOPERATING REVENUES		
Interest Revenue	3,363.39	94,936.33
Total Nonoperating Revenues	3,363.39	94,936.33
Income Before Transfers		
Transfers In		2,207,668.64
Change in Net Assets	315,407.12	1,827,585.77
Total Net Assets - Beginning	1,130,448.59	3,008,573.65
Total Net Assets - Ending	\$ 1,445,855.71	\$ 4,836,159.42

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, 2010**

	Business-Type Activities - Beacon Learning Center Enterprise Fund	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Services	\$ 1,396,007.36	\$ 3,082,799.71
Cash Received from Board Funds and Participants		(2,912,836.37)
Cash Payments to Suppliers for Goods and Services	(353,519.71)	(738,764.70)
Cash Payments to Employees for Services	(955,019.30)	(2,858,462.88)
Cash Payments for Insurance Claims		116,099.67
Other Operating Receipts		
Net Cash Provided (Used) by Operating Activities	<u>87,468.35</u>	<u>(3,311,164.57)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfer from Other Funds		2,207,668.64
Net Cash Provided by Noncapital Financing Activities		<u>2,207,668.64</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and Construction of Capital Assets	(20,787.96)	
Net Cash Used by Capital and Related Financing Activities	<u>(20,787.96)</u>	
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments, Net		(46,621.48)
Interest Income	3,363.39	94,936.33
Net Cash Provided by Investing Activities	<u>3,363.39</u>	<u>48,314.85</u>
Net Increase (Decrease) in Cash and Cash Equivalents	70,043.78	(1,055,181.08)
Cash and Cash Equivalents, Beginning	1,603,228.30	12,901,651.04
Cash and Cash Equivalents, Ending	<u>\$ 1,673,272.08</u>	<u>\$ 11,846,469.96</u>

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

Operating Income (Loss)	\$ 312,043.73	\$ (475,019.20)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided		
Used by Operating Activities:		
Depreciation	23,753.43	
Changes in Assets and Liabilities:		
Increase in Accounts Receivable	(77,783.60)	
Increase in Due From Other Funds		(3,100,000.00)
Decrease in Prepaid Items		210,315.04
Decrease in Payroll Deductions and Withholdings	(140.48)	(152.86)
Increase (Decrease) in Accounts Payable	4,655.41	(9,370.06)
Decrease in Due to Other Funds	(44,603.70)	(37.50)
Decrease in Deferred Revenue	(174,181.75)	
Increase in Compensated Absences Payable	43,725.31	
Increase in Estimated Insurance Claims Payable		63,100.01
Total Adjustments	<u>(224,575.38)</u>	<u>(2,836,145.37)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 87,468.35</u>	<u>\$ (3,311,164.57)</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, 2010**

	Agency Funds
ASSETS	
Cash and Cash Equivalents	\$ 2,362,328.13
Accounts Receivable	93,440.34
Inventories	91,977.38
TOTAL ASSETS	\$ 2,547,745.85
LIABILITIES	
Accounts Payable	\$ 288,997.26
Internal Accounts Payable	2,258,748.59
Total Liabilities	\$ 2,547,745.85

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

➤ **Reporting Entity**

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

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

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

- **Blended Component Unit.** The Bay County Educational Facilities Finance Corporation (Corporation), was formed to facilitate financing for the acquisition of facilities and equipment as further discussed in Note 7. Due to the substantive economic relationship between the District and the Corporation, the financial activities of the Corporation are included in the accompanying basic financial statements. Separate financial statements for the Corporation are not published.
- **Discretely Presented Component Units.** The component unit columns in the government-wide financial statements include the financial data of the District's three foundations and four charter schools.

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

The charter schools are Bay Haven Charter Academy, Inc. d/b/a Bay Haven Charter Academy and Bay Haven Charter Academy Middle School; The Chautauqua Charter School, Inc. d/b/a Chautauqua Learn and Serve Charter School; and NewPoint Bay, Inc. The charter schools are not-for-profit corporations organized pursuant to Chapter 617, Florida Statutes, the Florida Not For Profit Corporation Act, and Section 1002.33, Florida Statutes. The District may choose not to renew the charters as specified in the charters, but the District must notify the charter schools in writing at least 90 days prior to the charter's expiration. During the term of the charter, the District may also terminate the charter if good cause is shown. Pursuant to Section 1002.33(8)(e), Florida Statutes, in the event a school is dissolved or terminated, any encumbered funds and all school property purchased

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

with public funds shall automatically revert to the District. The charter schools are considered component units of the District since they are fiscally dependent on the District to levy taxes for their support.

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

➤ **Basis of Presentation**

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

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

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

- 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.

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

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

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

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

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) in Florida PRIME, formerly known as the Local Government Surplus Funds Trust Fund Investment Pool; Ridgeworth Institutional United States Government Securities Money Market Fund; Hancock Horizon Government Money Market Fund Trust; 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 with SBA for participation in the Florida PRIME and Fund B Surplus Funds Trust Fund (Fund B) investment pools created by Sections 218.405 and 218.417, Florida Statutes, those held by a trustee pursuant to a trust agreement entered into and restricted as part of the financing agreement for the Certificates of Participation, Series 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 Florida PRIME, which SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, as of June 30, 2010, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. These investments are reported at fair value, which is amortized cost.

The District's investments in Fund B are accounted for as a fluctuating net asset value pool, with a fair value factor of 0.67353149 at June 30, 2010. Fund B is not subject to participant withdrawal requests. Distributions from Fund B, as determined by SBA, are effected by transferring eligible cash or securities to Florida PRIME, consistent with the pro rata allocation of pool shareholders of record at the creation date of Fund B. One hundred percent of such distributions from Fund B are liquid and are available within Florida PRIME.

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

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

➤ **Inventories**

Inventories consist of expendable supplies held for consumption in the course of District operations. Inventories are stated at average cost, except that United States Department of Agriculture donated foods are stated at their fair value as determined at the time of donation to the District's food service program by the Florida Department of Agriculture and Consumer Services, Bureau of Food Distribution. 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, 2010**

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

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

➤ **State Revenue Sources**

Significant revenues from State sources for current operations include the Florida Education Finance Program administered by the Florida Department of Education (Department) under the provisions of Section 1011.62, Florida Statutes. In accordance with this law, the District determines and reports the number of full-time equivalent (FTE) students and related data to the Department. The Department performs certain edit checks on the reported number of FTE and related data, and calculates the allocation of funds to the District. The District is permitted to amend its original reporting for a period of five months following the date of the original reporting. 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 educational programs. State Board of Education rules require that revenue earmarked for certain programs be expended only for the program for which the money is provided, and require that the money not expended as of the close of the fiscal year be carried forward into the following year to be expended for the same educational programs. The Department generally requires that these educational program revenues be accounted for in the General Fund. A portion of the fund balance of the General Fund is reserved in the governmental fund financial statements for the unencumbered balance of categorical and earmarked educational program resources.

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

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

➤ **District Property Taxes**

The 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 Board adopted the 2009 tax levy on September 9, 2009. Tax bills are mailed in October and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to 4 percent for early payment.

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

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

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.
- 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, 2010**

3. INVESTMENTS

As of June 30, 2010, the District has the following investments and maturities:

Investments	Maturities	Fair Value
State Board of Administration (SBA):		
Florida PRIME (1)(3)	46 Day Average	\$ 548,495.18
Fund B Surplus Funds Trust Fund (Fund B) (4)	8.05 Year Average	2,105,680.60
Hancock Horizon Government Money Market Fund (1)(5)	56 Day Average	5,642,351.56
Ridgeworth Institutional United States Government Securities Money Market Fund (1)(2)	24 Day Average	28,435,997.01
Certificates of Deposit (1)	July 2010 through March 2015	313,715.22
Total Investments		<u>\$ 37,046,239.57</u>

Notes: (1) Investments reported as cash equivalents for financial statement reporting purposes.

- (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 that invest in the foregoing.
- (3) Florida PRIME investments, totaling \$507,564.62, are held under trust agreements pursuant to financing arrangements for the Certificates of Participation, Series 2004 and 2007.
- (4) SBA Fund B investments, totaling \$848,903.27 are held under trust agreements pursuant to financing arrangements for the Certificates of Participation, Series 2004 and 2007.
- (5) The Hancock Horizon Government Money Market Fund invests exclusively in obligations issued or guaranteed as to principal and interest by the United States Government or its agencies or instrumentalities, and repurchase agreements secured by such instruments. Shares in this fund are held as investments in the accounts governed by the trust agreements pursuant to Bay County School District's issues of Certificates of Participation, Series 1999, 2004, 2007, and 2008.

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. The District's participation in Fund B is involuntary.
- Florida PRIME had a weighted average days to maturity (WAM) of 46 days at June 30, 2010. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the portfolio to interest rate changes. Fund B had a weighted average life (WAL) of 8.05 years. A portfolio's WAL is the dollar weighted average length of time until securities held reach maturity. WAL, which also measures the sensitivity of the portfolio to interest rate changes, is based on legal final maturity dates for Fund B as of June 30, 2010. However, because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the WAL.

Credit Risk

- Section 218.415(17), Florida Statutes, limits investments to the SBA Local Government Surplus Funds Trust Fund Investment Pool, which effective July 1, 2009, is known as Florida PRIME, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Section 163.01, Florida Statutes; Securities and Exchange Commission (SEC) registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits in qualified public depositories, as defined in Section 280.02, Florida

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

Statutes; and direct obligations of the United States Treasury. The District's investment policy limits investments to those prescribed by Florida Statutes.

- As of June 30, 2010, the District's investment in Florida PRIME is rated AAAm by Standard & Poor's. Fund B is unrated.
- The District's investment in the Ridgeworth Institutional United States Government Securities Money Market Fund are rated AAAm by Standard & Poor's and Aaa by Moody's Investors Service. The District's investments with Hancock Horizon Government Money Market Fund are rated AAAm by Standard & Poor's.
- The District's investments in certificates of deposit are in qualified public depositories.

4. CHANGES IN CAPITAL ASSETS

Changes in capital assets are presented in the table below.

	Beginning Balance	Additions	Deletions	Reclassification Entries (1)	Ending Balance
GOVERNMENTAL ACTIVITIES					
Capital Assets Not Being Depreciated:					
Land	\$ 16,200,821.80	\$ 12,492.40	\$ 14,585.00	\$	\$ 16,198,729.20
Construction in Progress	27,888,817.58	18,321,750.25	28,106,973.80		18,103,594.03
Total Capital Assets Not Being Depreciated	44,089,639.38	18,334,242.65	28,121,558.80		34,302,323.23
Capital Assets Being Depreciated:					
Improvements Other Than Buildings	7,429,444.00	532,555.42			7,961,999.42
Buildings and Fixed Equipment	441,478,358.13	34,302,332.56	1,261,439.12		474,519,251.57
Furniture, Fixtures, and Equipment	31,069,420.56	2,008,955.72	2,256,211.01	(2,347,443.10)	28,474,722.17
Motor Vehicles	12,984,963.43	1,306,642.00	551,967.76		13,739,637.67
Audio Visual Materials and Computer Software	1,925,985.93	421,320.03		2,347,443.10	4,694,749.06
Total Capital Assets Being Depreciated	494,888,172.05	38,571,805.73	4,069,617.89		529,390,359.89
Less Accumulated Depreciation for:					
Improvements Other Than Buildings	3,383,193.56	350,287.37			3,733,480.93
Buildings and Fixed Equipment	168,201,968.18	18,578,347.29	1,261,439.12		185,518,876.35
Furniture, Fixtures, and Equipment	23,736,846.55	2,202,270.01	2,256,211.01	(2,347,443.10)	21,335,462.45
Motor Vehicles	11,149,978.61	751,757.27	551,967.76		11,349,768.12
Audio Visual Materials and Computer Software	1,431,050.44	249,308.59		2,347,443.10	4,027,802.13
Total Accumulated Depreciation	207,903,037.34	22,131,970.53	4,069,617.89		225,965,389.98
Total Capital Assets Being Depreciated, Net	286,985,134.71	16,439,835.20			303,424,969.91
Governmental Activities Capital Assets, Net	\$ 331,074,774.09	\$ 34,774,077.85	\$ 28,121,558.80	\$ 0.00	\$ 337,727,293.14

(1) Reclassification entries were made to bring the control account into agreement with the subsidiary ledgers.

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

	Beginning Balance	Additions	Deletions	Ending Balance
BUSINESS-TYPE ACTIVITIES				
Capital Assets Being Depreciated:				
Furniture, Fixtures, and Equipment	\$ 239,737.87	\$ 14,322.76	\$ 15,803.00	\$ 238,257.63
Motor Vehicles	16,367.00			16,367.00
Audio Visual Materials and Computer Software	61,596.54	6,465.20		68,061.74
Total Capital Assets Being Depreciated	317,701.41	20,787.96	15,803.00	322,686.37
Less Accumulated Depreciation for:				
Furniture, Fixtures, and Equipment	173,792.73	20,227.93	15,803.00	178,217.66
Motor Vehicles	8,929.84	2,232.46		11,162.30
Audio Visual Materials and Computer Software	61,596.54	1,293.04		62,889.58
Total Accumulated Depreciation	244,319.11	23,753.43	15,803.00	252,269.54
Total Capital Assets Being Depreciated, Net	73,382.30	(2,965.47)		70,416.83
Business-Type Activities Capital Assets, Net	<u>\$ 73,382.30</u>	<u>\$ (2,965.47)</u>	<u>\$ 0.00</u>	<u>\$ 70,416.83</u>

Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Pupil Transportation Services	\$ 632,125.38
Operation of Plant	44,469.15
Central Services	75,162.74
Unallocated	21,380,213.26
Total Depreciation Expense - Governmental Activities	\$ 22,131,970.53
BUSINESS-TYPE ACTIVITIES	
Beacon Learning Center	<u>\$ 23,753.43</u>

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

5. CHANGES IN SHORT-TERM DEBT

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

	Beginning Balance	Additions	Deductions	Ending Balance
GOVERNMENTAL ACTIVITIES	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Tax Anticipation Note	\$ <u> </u>	\$ 5,000,000 <u> </u>	\$ 5,000,000 <u> </u>	\$ <u> </u>

In November 2009, the District acquired \$5,000,000 by issuing a tax anticipation note to meet current operating needs pending receipt of ad valorem (property) tax proceeds. The note was repaid in December 2009 at par plus interest of \$6,937.50.

6. INSTALLMENT-PURCHASE PAYABLE

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

	Asset Balance
	<u> </u>
Computer Equipment	\$ 599,385.00 <u> </u>

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
	<u> </u>	<u> </u>	<u> </u>
2011	\$ 211,041.41	\$ 203,346.74	\$ 7,694.67
2012	103,456.98	102,371.09	1,085.89
Total	\$ 314,498.39 <u> </u>	\$ 305,717.83 <u> </u>	\$ 8,780.56 <u> </u>

The stated interest rate ranges from 3.0 to 4.9 percent.

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

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

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

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

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.

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>
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	8,028,507.50	3,960,000.00	4,068,507.50
2016-2020	40,126,455.00	22,680,000.00	17,446,455.00
2021-2025	40,128,912.50	28,675,000.00	11,453,912.50
2026-2029	32,102,800.00	28,510,000.00	3,592,800.00
Total Minimum Lease Payments	<u>\$ 152,420,541.50</u>	<u>\$ 98,156,000.00</u>	<u>\$ 54,264,541.50</u>

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

8. BONDS PAYABLE

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

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 2005B, Refunding	\$ 5,075,000	5.0	2018
Series 2009A, Refunding	320,000	3.0 - 5.0	2019
Total Bonds Payable	<u>\$ 5,395,000</u>		

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

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

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2011	\$ 827,950.00	\$ 560,000.00	\$ 267,950.00
2012	830,850.00	590,000.00	240,850.00
2013	831,800.00	620,000.00	211,800.00
2014	831,250.00	650,000.00	181,250.00
2015	833,750.00	685,000.00	148,750.00
2016-2019	<u>2,524,250.00</u>	<u>2,290,000.00</u>	<u>234,250.00</u>
Total	<u>\$ 6,679,850.00</u>	<u>\$ 5,395,000.00</u>	<u>\$ 1,284,850.00</u>

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

9. CHANGES IN LONG-TERM LIABILITIES

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

Description	Beginning Balance	Additions	Deductions	Ending Balance	Due In One Year
GOVERNMENTAL ACTIVITIES					
Installment-Purchase Payable	\$ 516,854.78	\$	\$ 211,136.95	\$ 305,717.83	\$ 203,346.74
Bonds Payable	6,000,000.00	380,000.00	985,000.00	5,395,000.00	560,000.00
Certificates of Participation Payable	101,433,000.00		3,277,000.00	98,156,000.00	3,397,000.00
Estimated Insurance Claims Payable	11,926,076.99	2,921,562.89	2,858,462.88	11,989,177.00	2,850,500.00
Compensated Absences Payable	11,789,905.87	1,404,489.15	1,002,365.29	12,192,029.73	1,009,242.81
Other Postemployment Benefits Payable	146,893.00	516,573.00	561,381.00	102,085.00	
Total Governmental Activities	<u>\$ 131,812,730.64</u>	<u>\$ 5,222,625.04</u>	<u>\$ 8,895,346.12</u>	<u>\$ 128,140,009.56</u>	<u>\$ 8,020,089.55</u>
BUSINESS-TYPE ACTIVITIES					
Compensated Absences Payable	<u>\$ 116,977.55</u>	<u>\$ 50,602.83</u>	<u>\$ 6,877.52</u>	<u>\$ 160,702.86</u>	<u>\$</u>

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

10. 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	\$ 631,150.94	\$ 3,423,959.09
Special Revenue:		
ARRA Economic Stimulus	300,906.26	410,896.64
Capital Projects:		
Local Capital Improvement	710,849.83	
Other		713,078.21
Nonmajor Governmental	323,959.09	518,932.18
Internal Service	3,100,000.00	
Total	<u>\$ 5,066,866.12</u>	<u>\$ 5,066,866.12</u>

Interfund receivables and payables are primarily to reimburse the General Fund for expenditures paid on behalf of other funds, to reimburse the Capital Projects – Local Capital Improvement Fund for expenditures paid on behalf of the Capital Projects – Other Fund, and to reimburse the Internal Service Fund for moneys deposited in the General Fund in error.

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

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	\$ 1,917,083.60	\$
Debt Service:		
Other	8,000,522.00	
Capital Projects:		
Local Capital Improvement		11,082,014.24
Other		2,500.00
Nonmajor Governmental		1,040,760.00
Internal Service	2,207,668.64	
Total	<u>\$ 12,125,274.24</u>	<u>\$ 12,125,274.24</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 and casualty insurance premiums.

11. 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 2010-11 fiscal year budget as a result of purchase orders outstanding at June 30, 2010.

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 \$89,708.47 at June 30, 2010.

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

12. SCHEDULE OF STATE REVENUE SOURCES

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

Source	Amount
Florida Education Finance Program	\$ 28,110,852.00
Categorical Educational Program - Class Size Reduction	26,496,267.00
Workforce Development Program	3,070,762.00
Voluntary Prekindergarten	1,671,755.75
School Recognition	1,003,962.00
Motor Vehicle License Tax	839,387.57
Charter School Capital Outlay	588,745.00
Gross Receipts Tax (Public Education Capital Outlay)	452,015.00
Food Service Supplement	154,219.00
Capital Outlay and Debt Service Distributed	142,690.92
Discretionary Lottery Funds	68,632.00
State License Tax	48,248.05
Excellent Teaching Program	3,388.00
Miscellaneous	1,026,324.11
Total	\$ 63,677,248.40

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

13. PROPERTY TAXES

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

	Millages	Taxes Levied
GENERAL FUND		
Nonvoted School Tax:		
Required Local Effort	5.452	\$ 94,283,155.48
Basic Discretionary Local Effort	0.748	12,935,399.91
Critical Needs	0.250	4,323,328.85
CAPITAL PROJECTS FUNDS		
Nonvoted Tax:		
Local Capital Improvements	1.173	20,285,058.95
Total	7.623	\$ 131,826,943.19

14. 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

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

Administrative Code, wherein eligibility, contributions, and benefits are defined and described in detail. Essentially all regular employees of participating employers are eligible and must enroll as members of FRS. FRS is a single retirement system administered by the Florida Department of Management Services, Division of Retirement, and consists of two cost-sharing, multiple-employer retirement plans and other nonintegrated programs. These include a defined benefit pension plan (Plan), a Deferred Retirement Option Program (DROP), and a defined contribution plan, referred to as the Public Employee Optional Retirement Program (PEORP).

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

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

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

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

FRS Retirement Contribution Rates

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

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	9.85
Florida Retirement System, Elected County Officers	0.00	16.53
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 to the Plan for the fiscal years ended June 30, 2008, June 30, 2009, and June 30, 2010, totaled \$11,769,894.68, \$11,362,478.36, and \$10,969,923.76, respectively, which were equal to the required contributions for each fiscal year. There were 337 PEORP participants during the 2009-10 fiscal year. Required contributions made to PEORP totaled \$998,986.31.

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.

15. OTHER POSTEMPLOYMENT BENEFITS PAYABLE

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

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

are eligible. The Plan does not issue a stand-alone report, and is not included in the report of a Public Employee Retirement System or another entity.

Funding Policy. Plan contribution requirements of the District and Plan members are established and may be amended through recommendations of the Insurance Committee and action from the Board. The District has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2009-10 fiscal year, 393 retirees received other postemployment benefits. The District provided required contributions of \$561,381 toward the annual OPEB cost, net of retiree contributions totaling \$2,477,858, which represents 2.8 percent of covered payroll.

Annual OPEB Cost and Net OPEB Obligation. The District's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), 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:

<u>Description</u>	<u>Amount</u>
Normal Cost (service cost for one year)	\$ 292,711
Amortization of Unfunded Actuarial Accrued Liability	211,562
Interest on Normal Cost and Amortization	<u>11,221</u>
Annual Required Contribution	515,494
Interest on Net OPEB Obligation	6,610
Adjustment to Annual Required Contribution	<u>(5,531)</u>
Annual OPEB Cost (Expense)	516,573
Contribution Toward the OPEB Cost	<u>(561,381)</u>
Decrease in Net OPEB Obligation	(44,808)
Net OPEB Obligation, Beginning of Year	<u>146,893</u>
Net OPEB Obligation, End of Year	<u><u>\$ 102,085</u></u>

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

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation as of June 30, 2010 and the preceding years, were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Beginning Balance, July 1, 2007	\$ 0	0.0%	\$ 0
2007-08	561,470	83.0%	94,764
2008-09	556,171	90.6%	146,893
2009-10	516,573	108.7%	102,085

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

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

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

The District's OPEB actuarial valuation as of July 1, 2010, used the entry age normal cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2010, and the 2009-10 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4.5 percent rate of return on invested assets, which is the District's long-term expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 4 percent per year, and an annual healthcare cost trend rate of 8 percent for the 2009-10 fiscal year, uniformly to an ultimate rate of 5 percent after six 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, 2010, was 27 years.

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

16. 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
Merritt Brown Middle School:			
Architect	\$ 480,970.00	\$ 440,568.52	\$ 40,401.48
Construction Manager	4,429,893.16	3,871,467.08	558,426.08
Direct Purchase Orders	1,537,937.84	1,494,052.02	43,885.82
Total	<u>\$ 6,448,801.00</u>	<u>\$ 5,806,087.62</u>	<u>\$ 642,713.38</u>

17. RISK MANAGEMENT PROGRAMS

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

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

A liability in the amount of \$11,989,177 was actuarially determined to cover estimated incurred, but not reported, insurance claims payable at June 30, 2010. The loss estimates include legal and certain other expenses associated with claims settlements (allocated loss adjustment expenses). These estimates do not include provisions for unallocated loss adjustment expenses, such as fees for the claim administrators or other miscellaneous costs associated with claims settlements. Liabilities for unpaid workers' compensation claims and claims adjustment expenses were discounted and reported at their present value using an investment yield rate of 4 percent.

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

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

	Fiscal-Year Liability	Claims and Changes in Estimates	Payments	Fiscal Year-End
2008-09	\$ 13,522,420.00	\$ 1,340,738.63	\$ (2,937,081.64)	\$ 11,926,076.99
2009-10	11,926,076.99	2,921,562.89	(2,858,462.88)	11,989,177.00

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

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, 2010**

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	\$ 539,521.00	\$ 568,770.32	\$ 584,578.46	\$ 15,808.14
Federal Through State and Local	325,000.00	656,333.75	888,914.25	232,580.50
State	62,663,231.00	61,748,375.79	61,337,527.22	(410,848.57)
Local:				
Property Taxes	107,259,986.00	107,259,986.00	108,308,086.98	1,048,100.98
Miscellaneous	2,216,896.00	3,616,108.46	7,872,919.15	4,256,810.69
Total Revenues	173,004,634.00	173,849,574.32	178,992,026.06	5,142,451.74
Expenditures				
Current - Education:				
Instruction	115,424,982.00	112,298,586.40	107,693,853.08	4,604,733.32
Pupil Personnel Services	6,694,429.00	6,506,931.26	6,196,005.25	310,926.01
Instructional Media Services	2,999,038.00	3,044,365.68	2,924,360.90	120,004.78
Instruction and Curriculum Development Services	1,744,260.00	2,015,904.11	1,735,807.64	280,096.47
Instructional Staff Training Services	457,128.00	614,721.57	527,145.45	87,576.12
Instruction Related Technology	66,403.00	14,163.14	5,296.85	8,866.29
School Board	846,708.00	1,124,908.00	1,012,353.20	112,554.80
General Administration	775,826.00	667,356.79	634,863.60	32,493.19
School Administration	11,937,781.00	12,609,216.31	12,489,610.16	119,606.15
Facilities Acquisition and Construction	443,638.00	447,713.00	432,347.06	15,365.94
Fiscal Services	7,619,357.00	9,502,434.37	1,659,433.46	7,843,000.91
Food Services		51,392.45	51,392.45	
Central Services	1,342,115.00	1,369,714.33	1,265,840.18	103,874.15
Pupil Transportation Services	7,633,339.00	7,927,776.54	7,811,981.99	115,794.55
Operation of Plant	14,980,306.00	15,952,092.79	15,279,908.90	672,183.89
Maintenance of Plant	4,612,648.00	4,652,868.80	4,558,513.05	94,355.75
Administrative Technology Services	1,605,137.00	1,561,063.08	1,468,167.01	92,896.07
Community Services	1,553,942.00	1,586,679.00	1,460,901.38	125,777.62
Fixed Capital Outlay:				
Other Capital Outlay	282,765.00	679,185.20	326,505.51	352,679.69
Debt Service:				
Interest and Fiscal Charges		6,937.50	6,937.50	
Total Expenditures	181,019,802.00	182,634,010.32	167,541,224.62	15,092,785.70
Excess (Deficiency) of Revenues Over Expenditures	(8,015,168.00)	(8,784,436.00)	11,450,801.44	20,235,237.44
Other Financing Sources				
Transfers In	2,000,500.00	2,591,745.00	1,917,083.60	(674,661.40)
Net Change in Fund Balances	(6,014,668.00)	(6,192,691.00)	13,367,885.04	19,560,576.04
Fund Balances, Beginning	10,246,631.00	10,246,631.00	9,908,492.77	(338,138.23)
Fund Balances, Ending	\$ 4,231,963.00	\$ 4,053,940.00	\$ 23,276,377.81	\$ 19,222,437.81

Special Revenue - ARRA Economic Stimulus Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
\$ 13,674,805.00	\$ 19,872,871.97	\$ 14,351,200.01	\$ (5,521,671.96)
13,674,805.00	19,872,871.97	14,351,200.01	(5,521,671.96)
9,686,642.00	14,546,291.30	10,716,359.99	3,829,931.31
546,428.00	680,410.98	476,515.85	203,895.13
70,273.00	70,373.35	70,373.35	
352,226.00	625,518.85	265,324.50	360,194.35
362,044.00	1,078,780.86	557,673.09	521,107.77
139,936.00	234,737.33	131,893.64	102,843.69
189,733.00	175,352.04	175,352.04	
51,645.00	136.95	136.95	
	275.57	275.57	
	20,834.00	5,120.32	15,713.68
1,386,878.00	1,383,308.55	1,383,308.55	
	3,353.20	3,353.20	
889,000.00	1,053,498.99	565,512.96	487,986.03
13,674,805.00	19,872,871.97	14,351,200.01	5,521,671.96
\$ 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%
July 1, 2010	0	5,551,029	5,551,029	0.0%	87,549,540	6.3%

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

1. BUDGETARY BASIS OF ACCOUNTING

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)	Amount Provided to Subrecipients
United States Department of Agriculture:				
Indirect:				
Child Nutrition Cluster:				
Florida Department of Education:				
School Breakfast Program	10.553	321	\$ 1,300,687.08	\$
National School Lunch Program	10.555	300, 350	4,949,524.65	
Summer Food Service Program for Children	10.559	323, 325	109,161.19	
Florida Department of Agriculture and Consumer Services:				
National School Lunch Program	10.555 (2)(A)	None	480,796.17	
Total Child Nutrition Cluster			6,840,169.09	
Florida Department of Education:				
ARRA - Child Nutrition Discretionary Grants Limited Availability	10.579	371	46,224.00	
Total United States Department of Agriculture			6,886,393.09	
United States Department of Labor:				
Indirect:				
WIA Cluster:				
Gulf Coast Workforce Development Board, Inc.:				
WIA Adult Program	17.258	None	36,689.83	
WIA Youth Activities	17.259	None	58,354.11	
ARRA - WIA Youth Activities, Recovery Act	17.259	None	9,787.99	
WIA Dislocated Workers	17.260	None	35,025.72	
Total WIA Cluster			139,857.65	
Florida's Great Northwest, Inc.:				
WIA Pilots, Demonstrations, and Research Projects	17.261	None	10,810.55	
Total United States Department of Labor			150,668.20	
United States Department of Education:				
Direct:				
Student Financial Assistance Cluster:				
Federal Family Education Loans	84.032	N/A	29,232.26	
Federal Pell Grant Program	84.063	N/A	1,171,817.85	
Total Student Financial Assistance Cluster			1,201,050.11	
Impact Aid	84.041	N/A	342,090.01	
Total Direct			1,543,140.12	
Indirect:				
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027	263	5,407,086.95	33,537.12
Special Education - Preschool Grants	84.173	267	80,025.54	
ARRA - Special Education - Grants to States, Recovery Act	84.391	263	2,561,465.78	
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	267	71,592.44	
Total Special Education Cluster			8,120,170.71	33,537.12
Title I, Part A Cluster:				
Florida Department of Education:				
Title I Grants to Local Educational Agencies	84.010	212, 222, 223, 226, 228	6,619,234.03	
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	212, 223, 226	2,179,478.40	
Total Title I, Part A Cluster			8,798,712.43	
Educational Technology State Grants Cluster:				
Florida Department of Education:				
Education Technology State Grants	84.318	121	44,642.31	
ARRA - Education Technology State Grants, Recovery Act	84.386	121	96,887.71	6,465.84
Total Educational Technology State Grants Cluster			141,530.02	6,465.84
State Fiscal Stabilization Fund Cluster:				
Florida Department of Education:				
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	591	8,261,149.45	
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	592	1,071,554.87	28,017.04
Total State Fiscal Stabilization Fund Cluster			9,332,704.32	28,017.04
Education for Homeless Children and Youth Cluster:				
Florida Department of Education:				
Education for Homeless Children and Youth	84.196	127	61,491.75	
ARRA - Education for Homeless Children and Youth, Recovery Act	84.387	127	62,847.36	
Total Education for Homeless Children and Youth Cluster			124,339.11	

BAY COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
For the Fiscal Year Ended June 30, 2010

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)	Amount Provided to Subrecipients
United States Department of Education (continued):				
Indirect (continued):				
Florida Department of Education:				
Adult Education - Basic Grants to States	84.002	191	\$ 183,229.95	\$
Career and Technical Education - Basic Grants to States	84.048	161	443,825.77	
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	3,455.84	
Charter Schools	84.282	298	486,855.30	486,855.30
Twenty-First Century Community Learning Centers	84.287	244	460,269.20	
English Language Acquisition Grants	84.365	102	269,313.04	
Improving Teacher Quality State Grants	84.367	224	1,275,600.23	
School Improvement Grants	84.377	126	23,442.62	
Total Indirect			29,663,448.54	554,875.30
Total United States Department of Education			31,206,588.66	554,875.30
United States Department of Health and Human Services:				
Indirect:				
Florida Department of Children and Families:				
Block Grants for Prevention and Treatment of Substance Abuse	93.959	BDZ02	109,885.49	
Gulf Coast Workforce Development Board, Inc.:				
Temporary Assistance for Needy Families	93.558	None	46,540.94	
Total United States Department of Health and Human Services			156,426.43	
Corporation for National and Community Service:				
Indirect:				
Florida Department of Education:				
Learn and Serve America - School and Community Based Programs	94.004	234	20,455.00	14,707.00
United States Department of Homeland Security:				
Indirect:				
Florida Division of Emergency Management:				
Hazard Mitigation Grant	97.039 (2)(B)	(3)	1,641,163.15	
Florida Department of Education:				
Homeland Security Grant Program	97.067	532	14,038.50	
Total United States Department of Homeland Security			1,655,201.65	
United States Department of Defense:				
Direct:				
Marine Corps Junior Reserve Officers Training Corps	None	N/A	49,573.78	
Navy Junior Reserve Officers Training Corps	None	N/A	57,400.43	
Air Force Junior Reserve Officers Training Corps	None	N/A	132,709.00	
Total United States Department of Defense			239,683.21	
Total Expenditures of Federal Awards			\$ 40,315,416.24	\$ 569,582.30

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 received during the fiscal year. Donated foods are valued at fair value as determined at the time of donation. Cash in lieu of donated foods of \$30,658.52 is included in this amount.

(B) Hazard Mitigation Grant - Represents the Federally-paid portion of emergency shelter generators totaling \$1,166,068.15, which includes Federally-paid installation costs of \$671,272.13.

(3) Hazard Mitigation Grant. Expenditures include \$159,003.00 for contract number 09HM-17-01-13-03-073, \$156,256.00 for contract number 09HM-17-01-13-03-080, \$79,564.00 for contract number 08HM-6G-01-13-03-031, \$68,647.00 for contract number 09HM-17-01-13-03-076, \$11,625.00 for contract number 08HM-6G-01-13-03-051, and \$1,166,068.15 for the emergency shelter generators which have no contract number.



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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, 2010, which collectively comprise the District's basic financial statements, and have issued our report thereon under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the basic financial statements was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the charter schools, Tom P. Haney Education Foundation, Inc., and Bay Education Foundation, Inc., reported as discretely presented component units, as described in our report on the Bay County District School Board's financial statements. For the charter schools and Bay Education Foundation, Inc., this report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of Tom P. Haney Education Foundation, Inc., were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

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

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

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

Respectfully submitted,



David W. Martin, CPA
February 23, 2011



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The President of the Senate, the Speaker of the
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB *CIRCULAR A-133*

Compliance

We have audited the Bay County District School Board's compliance with the types of compliance requirements described in the United States Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major Federal programs for the fiscal year ended June 30, 2010. The District's major Federal programs are identified in the **SUMMARY OF AUDITOR'S RESULTS** section of the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of District management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

As described in Federal Awards Finding No. 1 in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report, the District did not comply with requirements regarding Special Provision – Administrative Capability, Cash Management, Activities Allowed or Unallowed, Financial Reporting, and Special Tests and Provisions that are applicable to its Student Financial Assistance Cluster. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the fiscal year ended June 30, 2010. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB *Circular A-133* and which is described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding No. 2.

Internal Control Over Compliance

District management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program to determine auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB *Circular A-133*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of control deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding No. 1 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding No. 2 to be a significant deficiency.

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

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

Respectfully submitted,



David W. Martin, CPA

February 23, 2011

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

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? No

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

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes

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

Type of report the auditor issued on compliance for major programs: Unqualified for all major programs except for the Student Financial Assistance Cluster (CFDA Nos. 84.032 and 84.063), which was qualified.

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

Identification of major programs: Title I, Part A Cluster (CFDA Nos. 84.010 and 84.389-ARRA); Special Education Cluster (CFDA Nos. 84.027, 84.173, 84.391-ARRA, and 84.392-ARRA); Student Financial Assistance Cluster (CFDA Nos. 84.032 and 84.063); Education for Homeless Children and Youth Cluster (CFDA Nos. 84.196 and 84.387-ARRA); Education Technology State Grants Cluster (CFDA Nos. 84.318 and 84.386-ARRA); and State Fiscal Stabilization Fund (SFSF) Cluster (CFDA Nos. 84.394-ARRA and 84.397-ARRA)

Dollar threshold used to distinguish between Type A and Type B programs: \$1,209,462

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, 2010**

FINANCIAL STATEMENT FINDING

SIGNIFICANT DEFICIENCY

Finding No. 1: Financial Reporting

Section 1001.51, Florida Statutes, and State Board of Education Rule 6A-1.001, Florida Administrative Code (FAC), require the Superintendent to keep accurate records of all financial transactions. State Board of Education Rule 6A-1.0071, FAC, and related instructions from the Florida Department of Education prescribe the exhibits and schedules that should be prepared as part of the District's annual financial report. Law and rules require that these exhibits and schedules be prepared in accordance with generally accepted accounting principles. In addition, United States Office of Management and Budget *Circular A-133* requires the District to prepare a Schedule of Expenditures of Federal Awards (SEFA) that, in part, identifies individual Federal programs by Federal agency and provides total Federal awards expended for each individual Federal program, including amounts provided to subrecipients.

Our review of the District's 2009-10 fiscal year annual financial report, as presented for audit, disclosed that financial reporting procedures could be improved. For example:

- The District places cash balances with the State Board of Administration (SBA) for investment. For the 2008-09 fiscal year, the District did not identify and record certain SBA activities that were corrected by audit adjustments accepted by the District. However, District personnel did not properly make the appropriate entries for these corrections to the 2009-10 fiscal year accounting records, resulting in an overstatement of beginning fund balance and understatement of miscellaneous revenue by approximately \$1 million each for the Capital Projects Fund – Other Fund. When investment activities are not reported in the appropriate fiscal year, financial statement users may misinterpret the performance of the District's investments.
- On the government-wide financial statements, the District misclassified certain net asset accounts. As a result, there were overstatements of unrestricted net assets; investment in capital assets, net of related debt; and net assets restricted for debt service by approximately \$1,700,000, \$400,000, and \$200,000, respectively, and understatements of net assets restricted for capital projects and net assets restricted for food service of approximately \$2,100,000 and \$200,000, respectively. Misreporting net asset classifications may cause financial statement users to incorrectly assess the District's financial position.
- The SEFA lacked certain information, contrary to *Circular A-133*. For example, the District did not identify Charter School and Special Education program amounts, totaling \$486,855.30 and \$33,537.12, respectively, as provided to subrecipients. Without identifying Federal subrecipient amounts on the SEFA, the District may be limited in its ability to demonstrate the required accountability for these grant resources.

The financial statement misclassifications were a result of an oversight by District personnel and the SEFA omissions occurred because of improper consideration of Federal grant subrecipients. We were able to extend our audit procedures to determine the adjustments necessary to ensure the District's financial statements and SEFA were properly reported, and District personnel accepted these adjustments. However, our extended audit procedures

cannot substitute for management's responsibility to implement adequate controls over financial reporting. Similar findings were noted in previous audit reports, most recently in our report No. 2010-133.

Recommendation: To facilitate proper financial reporting, the District should enhance procedures to ensure that information is properly reported on the financial statements and SEFA.

ADDITIONAL MATTERS

Finding No. 2: Fingerprinting Requirements

Sections 1012.465, 1012.467, and 1012.468, Florida Statutes, provide, 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 16 individuals, employed by 8 contractors, who had direct contact with students. District records did not evidence that the required background checks and fingerprints were obtained for 1 of the 16 individuals. We expanded our testing to review records for 12 additional individuals who worked for the same contractor, and District records did not evidence that 6 of these individuals underwent the required background check process. These 7 individuals provided instructional and special education services (i.e., speech, occupational, and physical therapies) to pre-kindergarten children with disabilities at non-District sites, and the individuals were not under the direct supervision of District personnel.

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. In addition, the District's internal accounts auditor noted similar deficiencies at six of the District's schools during the 2009-10 fiscal year internal accounts audit. For these schools, the internal auditor noted evidence of background checks was not available for 24 individuals and an undisclosed number of persons employed by a vendor that was paid by the schools' internal accounts.

When contracted personnel have direct contact with students, are not under the direct supervision of District staff, and are not required to provide background screenings 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 previous audit reports, most recently in our report No. 2010-133.

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

Finding No. 3: Performance Assessments

Section 1012.34(3), Florida Statutes, requires the District to establish annual performance assessment procedures for instructional personnel and school administrators. When evaluating the performance of employees, the procedures must primarily include consideration of student performance, using results from student achievement tests, such as the Florida Comprehensive Assessment Test (FCAT), pursuant to Section 1008.22(3), Florida Statutes, at the school

where the employee works. Additional employee performance assessment criteria prescribed by Section 1012.34(3)(a), Florida Statutes, include evaluation measures such as the employee's ability to maintain appropriate discipline, knowledge of subject matter, ability to plan and deliver instruction and use of technology in the classroom, and other professional competencies established by rules of the State Board of Education and Board policies. Section 1012.34(3)(d), Florida Statutes, requires that, if an employee is not performing satisfactorily, the performance evaluator must notify the employee in writing and describe the unsatisfactory performance.

The District established performance assessment procedures based on criteria prescribed by Section 1012.34(3)(a), Florida Statutes, except that instructional personnel and school administrators were not evaluated based primarily on student performance, such as FCAT scores. The forms used for teacher and school administrator performance assessments did not contain a student performance component, and District personnel indicated that this oversight occurred because this was the first year the District used the forms. Without measuring employee performance by the required criteria, performance assessments of instructional personnel and school administrators are incomplete and may not effectively communicate the employee's accomplishments or shortcomings.

Recommendation: **The District should ensure that performance assessments of instructional personnel and school administrators are based primarily on student performance.**

Finding No. 4: Compensation and Salary Schedules

Section 1001.42(5)(a), Florida Statutes, requires the Board to designate positions to be filled, prescribe qualifications for those positions, and provide for the appointment, compensation, promotion, suspension, and dismissal of employees, subject to the requirements of Chapter 1012, Florida Statutes. Section 1012.22(1)(c)4., Florida Statutes, requires the Board to adopt a salary schedule with differentiated pay for instructional personnel and school-based administrators. The salary schedule is subject to negotiation as provided in Chapter 447, Florida Statutes, and must allow differentiated pay based on District-determined factors, including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties.

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

The 2009-10 fiscal year salary schedule for instructional personnel and school-based administrators provided pay levels based on various factors such as job classification, level of education, and other factors. However, the District's procedures for documenting its use of the differential pay factors as prescribed in Section 1012.22(1)(c), Florida Statutes, could be improved, as follows:

- **Instructional Personnel.** The instructional personnel salary schedule and union contract provided salary supplements for additional responsibilities beyond the standard seven and a half hour day, such as supplements for athletic coaching positions, extracurricular sponsors, and department heads. Also, the salary schedule evidenced consideration of differentiated pay for level of job performance difficulties and school demographics for teachers at schools with exceptional student education populations, and for

critical shortage areas, such as school psychologists. However, District records did not sufficiently evidence the basis for identifying the selected critical shortage areas. Such documentation could include records evidencing a minimal number of applicants, high personnel turnover rates, and other factors demonstrating the difficulty of hiring and retaining particular personnel.

- **School-based Administrators.** District personnel indicated that the school-based administrators' salary schedule included consideration for additional responsibilities, school demographics, and level of job performance difficulties by the differing administrative pay grades for elementary, middle, and high school administrators based on the type school. Also, the salary schedule provided differential pay for level of job performance difficulties and school demographics for school-based administrators at schools with exceptional student education populations. However, the salary schedule did not evidence consideration of differentiated pay based on critical shortage areas for school-based administrators, contrary to Section 1012.22(1)(c)4., Florida Statutes.

Without Board-adopted policies and procedures for identifying the basis for the differentiated pay, the District may be limited in its ability to demonstrate that the various differentiated pay factors were consistently considered and applied for instructional personnel and school-based administrators.

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

Finding No. 5: 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 for the payroll and finance applications to determine the appropriateness of access privileges. As similarly noted in previous audit reports, most recently in our report No. 2010-133, our audit disclosed various employees whose profiles allowed them inappropriate or unnecessary access privileges for their job functions. Specifically:

- Forty employees from various departments had been granted the ability to add or change application profiles, including panels that could be accessed within the profiles. This access was unnecessary for their job duties. In response to our inquiry, the District removed these unnecessary access privileges in August 2010.
- One employee from the finance department had been granted the ability to add a new vendor, input vendor invoices, pay vendor invoices, and print checks. This access, combined with other job duties, permitted the employee to perform incompatible duties.
- Six employees from the finance department had been granted the ability to record journal entries. Our audit procedures disclosed no evidence of independent review for all 25 journal entries tested. This access, combined with their other job duties and lack of independent review of journal entries, permitted the employees to perform incompatible duties. In response to our inquiry, the District implemented procedures to provide for an independent review of journal entries, which included an independent review of journal entries from July 2009 through October 2010.

The District did have compensating controls in place such as bank reconciliations performed by independent personnel, verification of supporting voucher documentation, 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 timely supervisory approval of journal entries increases the risk of unauthorized disclosure, modification, or destruction of District data and IT resources.

Recommendation: The District should continue to 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 access privileges could be used to compromise District data or IT resources. Additionally the District should continue its efforts to enhance control procedures to document timely independent approval of journal entries.

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Federal Awards Finding No. 1:

Federal Agency: United States Department of Education

Pass-Through Entity: Not Applicable

Award Numbers: P063P093385 and P063P083385

Program: Federal Pell Grant Program (CFDA No. 84.063)

Finding Type: Material Noncompliance and Material Weakness

Questioned Costs: \$167,375

Special Provision – Administrative Capability. The District had expenditures totaling approximately \$1.2 million from the Federal Pell Grant Program (Pell) at Tom P. Haney Vocational Center (Haney) during the 2009-10 fiscal year. To continue participation in the program, Federal regulations require the District to demonstrate to the United States Department of Education (ED) that it is capable of adequately administering the Pell program under various standards established in Title 34, Section 668.16, Code of Federal Regulations (CFR). These administrative capability standards include, among other items:

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

Despite an increase in Pell disbursements from \$409 thousand during the 2008-09 fiscal year to approximately \$1.2 million during the 2009-10 fiscal year, the District continued to employ only one person to coordinate the Pell program and did not adjust personnel resources to manage the increased workload. As shown in the following tabulation, and discussed below, our audit disclosed questioned costs totaling \$167,375:

Types of Questioned Costs	Questioned Costs
Cash Management - Student Account Credit Balances	\$ 124,755
Activities Allowed or Unallowed - AMT Program	33,882
Special Tests and Provisions:	
Verifications	5,350
Escheating	3,134
Return of Pell Grant Funds	254
Total	<u>\$ 167,375</u>

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

Cash Management. Using the ED's e-Payments (G5) system, the District made cash draws of Pell funds that were deposited into the District's General Fund bank account based on pending awards, the finance office wrote checks from this account for deposit into the Haney school internal account, and the Haney account was used to make Pell disbursements to students. However, we noted deficiencies over cash management of Pell funds as follows:

- Title 34, Section 668.166, CFR, defines excess cash as program funds not disbursed to students by the end of the third business day following the date the District receives the funds from ED. Also, the District must return excess cash over its cash tolerance of 1 percent of the prior year draws within three days and the balance of the excess cash within seven days. The District received 10 cash draws during the 2009-10 fiscal year and held excess cash exceeding the tolerable cash limit for 5 of the cash draws ranging from 62 to 117 days after receipt, due, in part, to credit balances in student accounts as discussed below.
- Title 34, Section 668.165(b), CFR, requires the District to obtain written authorization from students to retain credit balances of Pell funds in student accounts. Without this authorization, Title 34, Section 668.14(e)(1), CFR, requires the District to disburse credit balances to students within 14 days of the credit balance occurrence. In December 2009, Haney personnel established student accounts for students receiving Pell funds, but did not obtain the required authorizations to retain credit balances. We tested 58 disbursements and noted that fees were assessed, funds were deposited into the students' accounts, and credit balances occurred after 48 of the disbursements; however, the credit balances were not disbursed to the students within 14 days. District personnel indicated that the credit balances would remain until the students incurred additional fees; however, as of June 30, 2010, credit balances totaling \$124,755 were retained in student accounts from 33 to 197 business days after the credit balances were created, and represent questioned costs subject to disallowance by the grantor. District personnel indicated that the moneys were held in the students' accounts until the students reached the 60 percent completion point in their payment period to avoid having to collect unearned funds if a student withdrew from class; however, Chapter 3 of ED's Federal Student Aid Handbook (FSA Handbook) expressly prohibits this practice. (See additional discussion under the **Special Tests and Provisions – Disbursements** heading.)
- Good business practice dictates monthly reconciliations of the G5 system and the accounting records to confirm the District's Pell program disbursements; however, District records did not evidence any such reconciliations for the 2009-10 fiscal year. Although Haney personnel made disbursements, totaling approximately \$40,400, to Pell students on September 30, 2009, the District had not drawn down Pell program funds for these disbursements until July 28, 2010, or 301 days after the District made the disbursements. Absent monthly reconciliations, the District has limited assurance that information in G5 agrees to its accounting records, and errors or fraud may occur without being timely detected.

Activities Allowed or Unallowed. Title 34, Section 668.32, CFR, provides that a student is eligible to receive Pell program assistance if the student is a regular student enrolled in an eligible program. ED provides the District with an eligibility and certification approval report (ECAR), listing the programs approved for Pell funding. We tested

disbursements to 40 students and noted that 1 student was enrolled in the Aviation Maintenance Technology (AMT) program, which was not an eligible program on the District's ECAR in effect for the 2009-10 fiscal year. Subsequent to audit inquiry, the District requested that ED approve the program for Pell funding and received approval on November 4, 2010. We expanded our procedures to determine if additional students, receiving Pell program funding, were enrolled in the AMT program during fiscal year 2009-10 and noted 13 students received Pell program funds, totaling \$33,882. Since ED did not approve this program for Pell funding prior to these disbursements, these amounts represent questioned costs subject to disallowance by the grantor.

Financial Reporting. Pursuant to the May 26, 2010, Federal Register, updated on June 8, 2010, the District was required to report all disbursements and adjustments for the 2009-10 award year to ED by September 30, 2010. The District elected to report this information through the common origination and disbursement (COD) system; however, District records did not evidence reconciliations of the COD system and Haney's accounting and financial aid records for the 2009-10 fiscal year. Further, because Haney personnel returned unearned funds on behalf of students to ED and did not timely submit adjustments to the student records in the COD system, the amount of funds reported as disbursed to students in the COD system, as of October 27, 2010, exceeded the amount of funds drawn for disbursements to students for the 2009-10 fiscal year by \$31,504. Additionally, Haney personnel did not notify the District's finance office when it returned Pell funds to ED. As a result, returns totaling \$236,488 were not recorded in the District's accounting records, and program expenditures were overstated by this amount on the District's Schedule of Expenditures of Federal Awards for the 2009-10 fiscal year. Absent timely disbursements and adjustments to the COD system and reconciliations of the COD system to District records, errors or fraud may occur without being timely detected.

For 40 students selected for testing, we compared Haney's financial aid and accounting records as of June 30, 2010, to the records of the individual students as reported in the COD system as of September 1, 2010, for transactions occurring on or before June 30, 2010. We noted the following:

- For 18 students, the amount disbursed to the students as reported in the COD system ranged from \$1,257 less than to \$1,442 more than the amounts recorded in Haney's financial aid records. Also, for 6 students, the amount disbursed as reported in the COD system ranged from \$2,675 less than to \$1,503 more than the amounts recorded in Haney's accounting records. Without timely reconciliations of the COD system and Haney's financial aid and accounting records, the District's assurance of the accuracy of the COD system and financial aid and accounting records is limited, and students may receive financial aid to which they are not entitled.
- Title 34, Section 668.164, CFR, defines the disbursement date as the date the District makes a disbursement to a student's account at the District or pays a student directly. For 64 of 80 disbursements to the 40 students in our sample, the disbursement date as recorded in the COD system did not agree to the date the funds were credited to the student's account or paid directly to the student. Generally, Haney personnel recorded the date the funds were receipted into the District's bank account as the date the funds were disbursed to the student. We noted differences between the date recorded in the COD system and the actual date of disbursement to the student or the student's account ranging from 21 days prior to disbursement to 228 days after disbursement. Because several regulatory requirements are based on that date, including when the student becomes a Federal student aid (FSA) recipient and has the rights and responsibilities of a FSA recipient, it is important to properly enter the disbursement date in the COD system. Incorrect disbursement dates recorded in the COD system increases the risk that students may not receive additional Federal program funding to which they are entitled.

Special Tests and Provisions – Verification. Title 34, Sections 668.51 through 668.61, CFR, require applicants selected by ED for verification to provide documentation to the District supporting information used in determining the applicant's expected family contribution (EFC), which generally includes income, number of family members,

number of family members attending postsecondary educational institutions, and the applicant's dependency status. If the applicant does not provide the requested information, the student forfeits the Pell grant, and must return any payments received for that award year. Our tests of 40 student applications disclosed that 28 of the 40 applications were selected by ED for verification. For 8 students, we noted household sizes shown on the verification worksheets did not agree with the Institutional Student Information Records (ISIRs) and the differences had not been resolved prior to disbursement. Subsequent to our inquiry, Haney personnel determined the household information on the ISIRs to be correct, and they corrected the verification worksheets. In addition, one student reported no income and indicated on the verification form that no income tax return was required to be filed (non-filer). As part of the verification process, Haney personnel requested that non-filers selected for verification obtain a statement from the Internal Revenue Service stating the amount of wages earned during the applicable calendar year; however, the student refused to provide the requested information. Payments to the nine students initially resulted in unresolved costs, totaling \$19,101 (\$23,701 less \$4,600 for one student already included in activities allowed or unallowed above). After correcting the verification worksheets, amounts totaling \$5,350 for payments to the student without the income information represent questioned costs subject to disallowance by the grantor.

Special Tests and Provisions – Disbursements. During our test of disbursements to 40 students we noted the following:

- Haney personnel did not properly calculate disbursement periods for clock hour students, contrary to Title 34, Section 668.4, CFR. For example, Haney personnel did not determine the number of weeks of instructional time in the program completed by the student in the first payment period prior to disbursing funds for the next payment period. Also, Haney personnel initially divided the academic year into five equal payment segments of 180 hours each for the 900-hour academic year, although Federal regulations only provides for two payment periods. Consequently, the students received disbursements based upon 180-hour increments until Haney personnel revised the payment periods to be based on one-half of the clock hours in the academic year, or 450 hours each beginning in January 2010. Disbursements that are inconsistent with the timeframes established by Federal regulations increase the risk of overpayments.
- Because of inadequate procedures to verify the accuracy of hours reported in payment periods, Haney personnel incorrectly counted payment period clock hours for 10 students, crediting the students with 1 to 42.5 hours more than earned, resulting in unearned disbursements of \$814 (this questioned cost is included in the \$124,755 of questioned costs mentioned above).
- For 20 of the 40 students, Haney personnel held initial disbursements until the student had attended 60 percent of the hours in the payment period. However, the FSA Handbook provides that, for clock-hour programs, a student must receive the first disbursement upon starting the program or academic year. Consequently, a school may not delay the disbursement of funds until after the 60 percent completion point. Haney personnel indicated that the funds were held in the students' accounts to avoid having to collect unearned funds previously disbursed should students subsequently withdraw from class.
- Contrary to Title 34, Section 690.75, CFR, for 17 of the 40 students tested, Haney personnel did not determine whether the students were making satisfactory academic progress (SAP) prior to disbursing funds in the next payment period. For 11 of these students, Haney personnel relied on the student's continuing enrollment in the program as evidence that the student was meeting SAP requirements. For 4 students, a SAP determination was made subsequent to the award disbursements. For the remaining 2 students, Haney personnel made no determination because the students had almost completed their programs. While our testing did not disclose that these students failed to meet SAP, our tests cannot substitute for management's responsibility to comply with SAP requirements.

Special Tests and Provisions – Disbursements: Escheating Prohibition. Title 34, Section 668.164(h)(2), CFR, requires the District to return outstanding Pell checks to ED no later than 240 days after the date of the check. Our review of outstanding student checks containing Pell funds disclosed that the District submitted 15 unclaimed Pell checks, totaling \$3,134, on April 20, 2010, to the State of Florida Division of Unclaimed Property. These checks were

outstanding from 278 to 431 days, and represent questioned costs subject to disallowance by the grantor. District personnel indicated they were unaware that the District must return unclaimed Pell checks to ED.

Special Test and Provisions – Return of Pell Program Funds. Title 34, Section 668.22(h)(4)(ii), CFR, requires the District, within 30 days of the date of determining that a student withdrew, to send a notice to any student who received Pell program overpayments resulting from withdrawal to recover the overpayments. Also, Title 34, Section 668.22(j)(1), CFR, requires the District to return such unearned funds to ED within 45 days. In addition, the District must disburse earned but unpaid Pell program funds to a student who withdraws prior to receiving Pell program funds in accordance with Title 34, Section 668.22(a)(5)(ii)(B)(1), CFR.

Our test of 21 students who received Pell funds and withdrew during the 2009-10 fiscal year, disclosed the following:

- The District did not send the required notifications to 7 of the 21 students who owed \$3,734 in overpayments to Haney. Without such notifications, the students were not made aware of their obligation and options regarding the repayment of unearned Pell program funds.
- Of 17 students tested who received Pell funds and withdrew during the 2009-10 fiscal year, the District returned \$4,929 in Pell program funds to ED for 3 of the students ranging from 7 to 22 days late. Additionally, for 3 of 4 students who withdrew prior to receiving Pell program funds, the District disbursed \$1,150 in earned Pell program funds to the students from 25 to 100 days after the allowed 45 days. District personnel indicated that Haney's implementation of a new accounting system and a substantial increase of Pell program recipients without an increase in financial aid staff affected the ability to process returns timely.
- The District did not accurately determine the amount of Pell program funds that students earned as of the student's withdrawal date, contrary to Title 34, Section 668.22, CFR, as follows:
 - For 17 students who received Pell funds prior to withdrawal, the District returned \$18,723 to ED in excess of amounts due. While this does not result in questioned costs, it is indicative of deficiencies in procedures to adequately monitor the return of Pell program funds.
 - For 3 of the 4 students not receiving funds prior to withdrawal who received a post-withdrawal disbursement, the students did not receive approximately \$631 for earned clock hours, and 1 of the 3 students received \$254 for unearned hours, resulting in questioned costs of \$254 subject to disallowance by the grantor.

Recommendation: The District should make appropriate changes to meet the Federal administrative capability requirements of the Pell program, especially given the rapid increase in program participation. Also, the District should establish adequate procedures over the program to ensure that program receipts and disbursements are consistent with Federal requirements. In addition, the District should document to the grantor (United States Department of Education) the allowability of the questioned costs, totaling \$167,375, or restore these moneys to the Pell program.

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

Federal Awards Finding No. 2:

Federal Agency: United States Department of Education

Pass-Through Entity: Florida Department of Education

Program: Special Education – Grants to States (CFDA No. 84.027)

Finding Type: Noncompliance and Significant Deficiency

Questioned Costs: \$24,675

Allowable Costs/Cost Principles. United States Office of Management and Budget *Circular A-87*, Attachment A, Section C.1, provides, in part, that costs must be adequately documented to be allowable under Federal awards. For

the 2009-10 fiscal year, the District reported Special Education program expenditures totaling approximately \$5.4 million for salaries and benefits, purchased services, and other costs, and we tested the propriety of approximately \$1.4 million of these expenditures.

Although the expenditures were generally appropriate, payments to one contractor, totaling approximately \$24,675, for behavioral assistance services were not adequately supported. The District made payments to the contractor based on invoices listing the contractor service dates and hours; however, District records, such as sign-in and sign-out sheets for students actually served, did not evidence that District personnel verified that the services were received. When Federal charges are not properly monitored, the risk increases that services may not be performed in accordance with grant terms and District intentions.

Recommendation: The District should enhance procedures to ensure that it receives services before it pays for them, and maintains documentation of the process. In addition, the District should document that it properly received services for the questioned costs, totaling \$24,675, or restore these moneys to the grantor (Florida Department of Education).

District Contact Person: Nancy Boyd, Assistant Superintendent for Teaching and Learning Services

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the District had taken corrective actions for findings included in our report No. 2010-133.

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, 2010*

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

Audit Report No. and Federal Awards Finding No.	Program/ Area	Brief Description	Status	Comments
2010-133		No prior Federal audit findings.		

EXHIBIT A

MANAGEMENT'S RESPONSE



WILLIAM V. HUSFELT III

SUPERINTENDENT

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District 1

Ryan Neves

District 2

Ginger Littleton

District 3

Jerry Register

District 4

Steve Moss

District 5

February 23, 2011

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 January 27, 2011 concerning Preliminary and Tentative Audit Findings resulting from your audit of the Bay County School Board for the fiscal year ending June 30, 2010, I am providing below my explanation concerning the findings and the actions we have taken to correct the deficiencies.

Financial Reporting

During the year-end process, the District will enhance procedures to ensure that information is correctly reported on the Annual Financial Report and the SEFA.

Fingerprinting Requirements

To ensure that the required background screenings are obtained, the contract for the 2010-2011 school years requires that the employees at Early Education and Care who have direct contact with Bay District Students, and are not under direct supervision of District Staff, obtain a background check through the Human Resources Department at Bay District Schools.

Performance Assessments

District committees are currently preparing plans in conjunction with the teachers' union to be certain that all performance assessments of instructional personnel are based primarily on student performance and aligned with the guiding principles of the Race to the Top initiatives. In addition, similar committees are working toward completion of evaluations for administrators that are based primarily on student performance. These two committees have a specific timeline to accomplish this work in accordance with the Race to the Top initiative and memorandum of understanding.

Compensation and Salary Schedules

The District is reviewing Bay District School Board policies and procedures for needed revisions to indicate differentiated pay factors for instructional personnel and school-based administrators. This will be incorporated into the Salary Schedule and training will be provided to administrators on the differentiated pay requirements. District committees comprised of all stakeholders are currently meeting and working on the Race to the Top Grant requirements to change the appraisals of teachers and administrators to reflect differentiated pay requirements.

Information Technology – Management of Access Privileges

The District has corrected all access privilege infractions and will continue our efforts to remove unnecessary access. We have also implemented a new journal entry approval process.

EXHIBIT A
MANAGEMENT'S RESPONSE (CONTINUED)

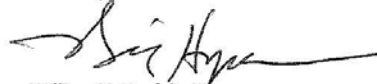
Federal Awards – Federal Pell Grant Program

The District has made changes in the staffing of the Pell Grant Program by hiring two new Financial Aid Counselors and a new bookkeeper. State and Federal training has been provided to staff members and plans have been made for staff to attend future workshops to ensure current guidelines are being followed. New procedures have been developed and are currently being used by the staff to ensure that program receipts and disbursements are consistent with Federal requirements.

Federal Awards – Special Education – Grants to States

As recommended, contractor has been notified that new procedures have been implemented requiring the contractor's invoice to contain sign-in/sign-out annotations signed by school personnel. The District has also reviewed previous invoices which list the type of service performed and with which student. Verification has been made that services including deliverables, such as, specifically individual behavioral plans, were available for review.

Sincerely,



William V. Husfelt, III
District Superintendent