

GULF COUNTY DISTRICT SCHOOL BOARD

Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended
June 30, 2011



STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD MEMBERS AND SUPERINTENDENT

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

	<u>District No.</u>
Robert D. Little, III, Chair to 11-15-10	1
George M. Cox	2
Linda R. Wood	3
Billy C. Quinn, Jr., Vice Chair from 11-16-10	4
John Wright, Vice Chair to 11-15-10, Chair from 11-16-10	5

Tim Wilder, 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 Juan A. Fernandez, 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.

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

**GULF COUNTY DISTRICT SCHOOL BOARD
TABLE OF CONTENTS**

	PAGE NO.
EXECUTIVE SUMMARY	i
INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS	1
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	3
BASIC FINANCIAL STATEMENTS	
Statement of Net Assets	10
Statement of Activities	11
Balance Sheet – Governmental Funds	12
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	14
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	16
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	18
Statement of Fiduciary Net Assets – Fiduciary Funds.....	19
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds.....	20
Notes to Financial Statements	21
OTHER REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule – General and Major Special Revenue Funds.....	40
Schedule of Funding Progress – Other Postemployment Benefits Plan.....	42
Notes to Required Supplementary Information.....	43
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	44
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 <i>GOVERNMENT AUDITING STANDARDS</i>	46
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 <i>CIRCULAR A-133</i>	48
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	50
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS	56
EXHIBIT A MANAGEMENT'S RESPONSE	57

EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

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

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

ADDITIONAL MATTERS

Finding No. 1: District records did not sufficiently evidence that performance assessments of instructional personnel and school administrators were based primarily on student performance, contrary to Section 1012.34(3), Florida Statutes (2010).

Finding No. 2: The Board had not adopted formal policies and procedures for ensuring that a portion of each instructional employee's compensation was based on performance pursuant to Section 1012.22(1)(c)2., Florida Statutes (2010), and documenting the differentiated pay process of instructional personnel and school-based administrators using the factors prescribed in Section 1012.22(1)(c)4., Florida Statutes (2010).

Finding No. 3: Improvements were needed in controls over the reporting of instructional contact hours for adult general education classes to the Florida Department of Education.

Finding No. 4: The District lacked written policies and procedures for certain information technology (IT) functions.

Finding No. 5: The District did not have a written security incident response plan.

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

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Educational Technology State Grants Cluster, State Fiscal Stabilization Fund Cluster, and Education Jobs Fund were audited as major Federal programs. The results of our audit indicated that the District materially complied with requirements that could have a direct and material effect on each major Federal program.

Audit Objectives and Scope

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

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

- Taken corrective actions for findings included in our report No. 2011-067.

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

Audit Methodology

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



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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



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

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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Gulf County District School Board, as of and for the fiscal year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the school internal funds, which represent 46 percent of the assets and 99 percent of the liabilities of the aggregate remaining fund information. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the school internal funds, is based on the report 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 school internal funds 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 report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information for the Gulf County District School Board as of June 30, 2011, and the respective changes in financial position thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of the Gulf County District School Board's internal control over financial reporting and on our tests of its compliance with

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

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

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

Respectfully submitted,



David W. Martin, CPA
December 5, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events, and conditions and should be considered in conjunction with the District's financial statements and notes to financial statements found on pages 10 through 38.

FINANCIAL HIGHLIGHTS

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

- The District's net assets decreased by \$465,506.96 (or 3 percent).
- The General Fund (the primary operating fund) in the fund financial statements reflects revenues and other sources that exceeded expenditures and other uses by \$5,337.55. This may be compared to last fiscal year's results in which General Fund revenues and other sources exceeded expenditures and other uses by \$709,509.60.
- General revenues in the government-wide statements account for \$19,537,425.88. Program specific revenues in the form of charges for services, grants, and contributions account for \$1,117,208.43.
- The District has \$21,120,141.27 in expenses, including \$1,117,208.43 that is offset by program specific charges for services, grants, and contributions. General revenues, primarily from ad valorem taxes and the Florida Education Finance Program, provided resources for the remaining programs.

OVERVIEW OF FINANCIAL STATEMENTS

The primary focus of the financial statements is on the District as a whole and the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year to year or school district to school district) and enhance the District's accountability. 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, required supplementary information includes the MD&A, budgetary comparison schedule, and schedule of funding progress – other postemployment benefits plan.

Government-wide Financial Statements

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

assets, the results of operations, during the fiscal year. An increase or decrease in net assets is an indication of whether the District's financial health is improving or deteriorating.

All of the District's activities and services are reported in the government-wide financial statements as governmental activities. The District's governmental activities include its education programs: basic, vocational, adult, and exceptional education. Support functions such as transportation and administration are also included. Local taxes and the State's education finance program provide most of the resources that support these activities.

Over a period of time, changes in the District's net assets are an indication of improving or deteriorating financial condition. This information should be evaluated in conjunction with other nonfinancial factors, such as changes in the District's property tax base and student enrollment.

Fund Financial Statements

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

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

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

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

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

Fiduciary Funds: Fiduciary funds are used to report assets held in a trustee or fiduciary capacity for the benefit of external parties, such as student activity funds. Fiduciary funds are not reflected in the government-wide statements

because the resources are not available to support the District's own programs. In its fiduciary capacity, the District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes.

The District uses private-purpose trust funds to account for various privately funded scholarship and foundation funds, and 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

This section is used to present condensed financial information from the government-wide statements that compares the current fiscal year to the prior fiscal year.

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

	Net Assets, End of Year	
	Governmental Activities	
	6-30-11	6-30-10
Current and Other Assets	\$ 4,380,209.90	\$ 4,793,992.64
Capital Assets	15,633,379.51	15,615,827.10
Total Assets	20,013,589.41	20,409,819.74
Long-Term Liabilities	2,814,099.10	2,740,195.69
Other Liabilities	160,017.77	164,644.55
Total Liabilities	2,974,116.87	2,904,840.24
Net Assets:		
Invested in Capital Assets -		
Net of Related Debt	15,118,379.51	15,055,827.10
Restricted	2,963,722.36	3,375,602.69
Unrestricted (Deficit)	(1,042,629.33)	(926,450.29)
Total Net Assets	\$ 17,039,472.54	\$ 17,504,979.50

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land; buildings; furniture, fixtures, and equipment; improvements other than buildings; and motor vehicles), 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 unrestricted net assets of \$1,256,469.77 (after exclusion of \$2,299,099.10 in compensated absences and other postemployment benefits) may be used to meet the District's ongoing obligations to students, employees, and creditors.

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

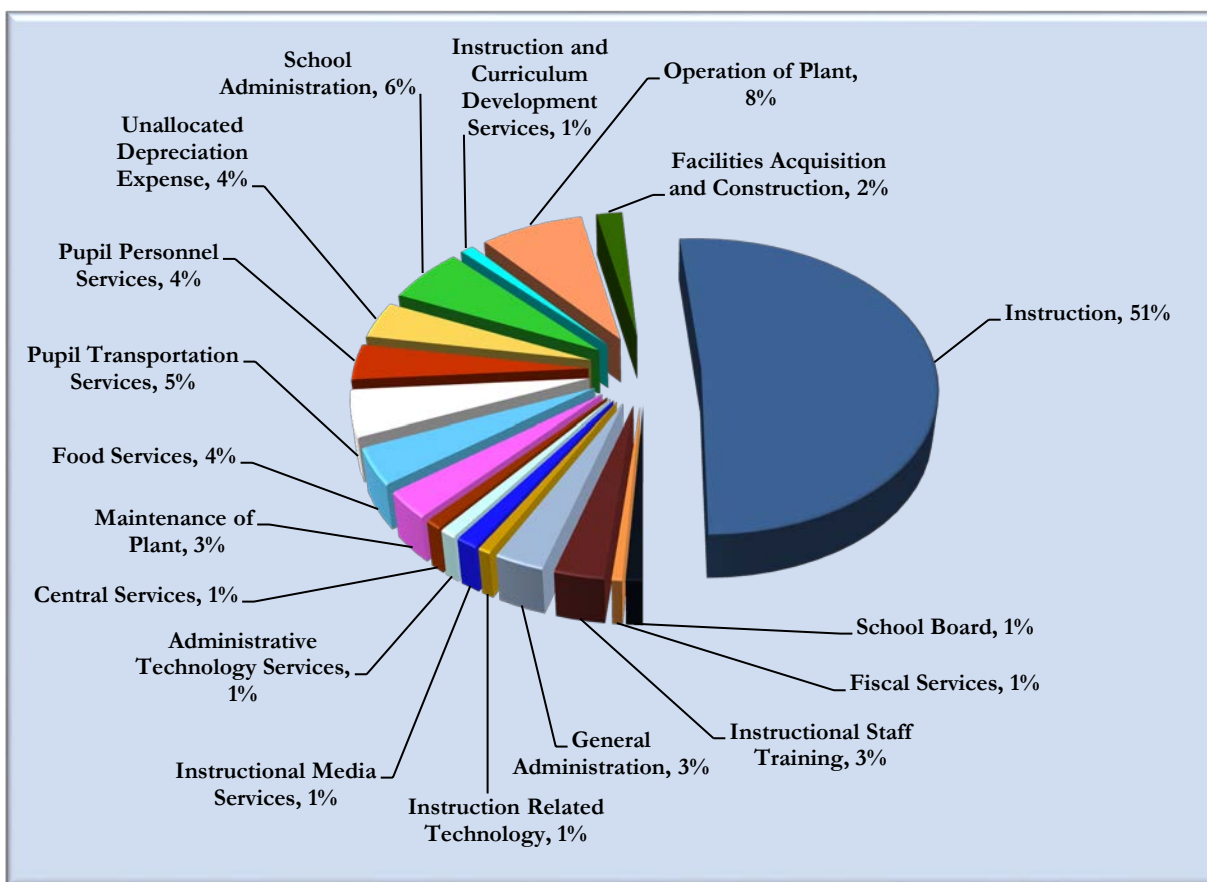
Operating Results for the Year		
	Governmental Activities	
	6-30-11	6-30-10
Program Revenues:		
Charges for Services	\$ 385,582.41	\$ 383,882.13
Operating Grants and Contributions	446,812.17	426,332.12
Capital Grants and Contributions	284,813.85	156,811.10
General Revenues:		
Property Taxes, Levied for Operational Purposes	10,903,388.71	12,526,802.48
Property Taxes, Levied for Capital Projects	555,469.30	606,681.55
Local Sales Taxes		380,099.21
Grants and Contributions Not Restricted to Specific Programs	7,790,510.92	5,365,137.01
Unrestricted Investment Earnings	9,105.05	12,250.50
Miscellaneous	278,951.90	438,786.70
Total Revenues	20,654,634.31	20,296,782.80
Functions/Program Expenses:		
Instruction	10,782,614.89	10,228,342.75
Pupil Personnel Services	840,883.31	937,383.40
Instructional Media Services	240,908.55	234,092.58
Instruction and Curriculum Development Services	301,720.32	238,193.04
Instructional Staff Training Services	560,129.49	411,492.23
Instruction Related Technology	132,757.00	71,485.82
School Board	168,567.81	163,714.85
General Administration	680,977.45	677,708.08
School Administration	1,198,578.41	1,165,573.32
Facilities Acquisition and Construction	462,485.02	273,410.23
Fiscal Services	272,951.81	271,315.24
Food Services	856,562.45	829,964.93
Central Services	183,683.84	164,467.57
Pupil Transportation Services	1,019,535.95	957,276.74
Operation of Plant	1,658,508.85	1,745,824.25
Maintenance of Plant	714,815.67	607,626.16
Administrative Technology Services	91,628.84	86,793.84
Unallocated Interest on Long-Term Debt	35,007.46	44,212.65
Unallocated Depreciation Expense	917,824.15	920,017.68
Total Functions/Program Expenses	21,120,141.27	20,028,895.36
Increase (Decrease) in Net Assets	\$ (465,506.96)	\$ 267,887.44

Property taxes levied for operational purposes decreased by \$1,623,413.77, primarily due to the decrease in local property values experienced within the county. Local sales taxes decreased by \$380,099.21 due to the elimination of the local sales tax during the 2009-10 fiscal year. The increase in grants and contributions not restricted to specific programs of \$2,425,373.91 is for new funding reported in the Federal Economic Stimulus Fund.

Revenues from local sources for current operations are primarily received through property taxes.

Instruction expenses represent 51 percent of total governmental expenses in the 2010-11 fiscal year. Instruction expenses increased by \$554,272.14 from the previous fiscal year, due mainly to receipt of Federal economic stimulus moneys.

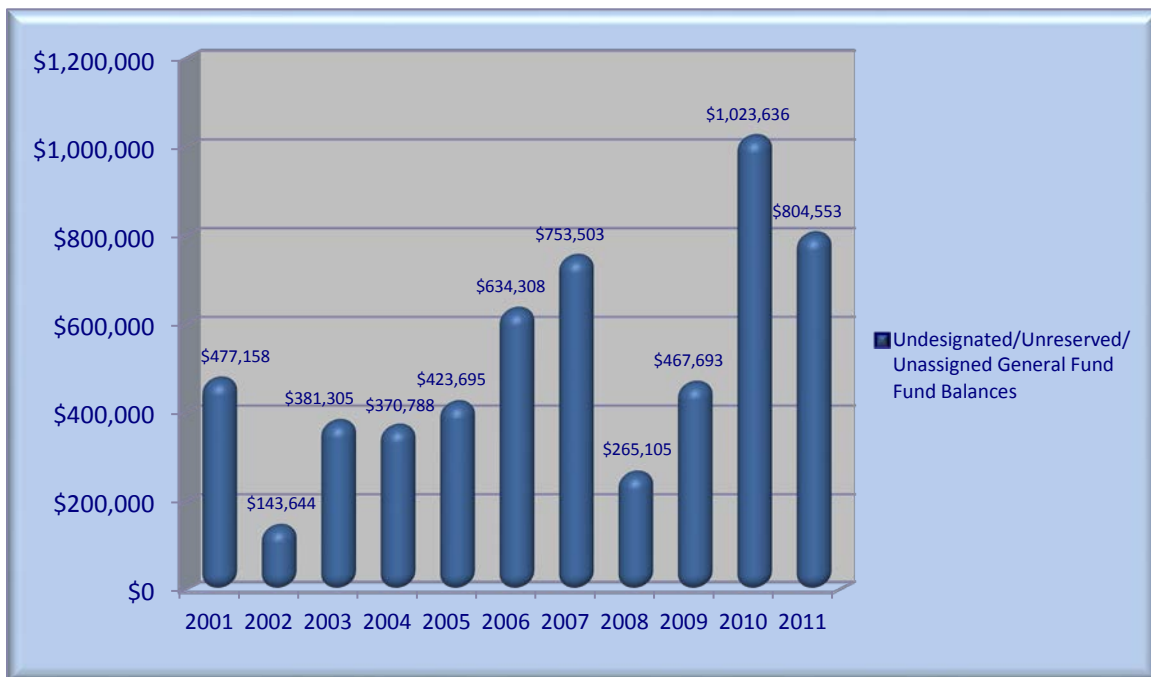
The following graph depicts the distribution of expenses of the District as a whole.



FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

This section provides an analysis of the fund balances and transactions of the individual major funds.

- **General Fund.** The Board has established a provision, in its strategic plan, to provide for an undesignated fund balance at fiscal year-end of 5 percent of Florida Education Finance Program funding. During the 2010-11 fiscal year, the District implemented Government Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Types Definitions*, which changed fund balance definitions. Unassigned fund balance, as defined by GASB Statement No. 54, is essentially equivalent to unreserved, undesignated fund balance as defined prior to GASB Statement No. 54. The undesignated, unreserved/unassigned fund balance of the General Fund had steadily increased until the 2007-08 fiscal year. During the 2008-09, 2009-10, and 2010-11 fiscal years, the State made significant cut-backs in the District's appropriations due to the economic condition of the State of Florida. It is expected that this decrease will continue into the 2011-12 fiscal year. The following graph shows the undesignated, unreserved/unassigned General Fund fund balances from the 2000-01 through 2010-11 fiscal years. The increase from the 2008-09 to 2009-10 fiscal year was due to the District levying a voted school tax for operating purposes of 1 mill, which ends in the 2011-12 fiscal year.



- ***Special Revenue – Federal Economic Stimulus Fund.*** The Federal Economic Stimulus Fund has total revenue and expenditures of \$1,966,741.29. Since Federal revenue is recognized to the extent that eligible expenditures have been incurred, this fund does not generally accumulate a fund balance.
- ***Capital Projects – Public Education Capital Outlay Fund.*** The Capital Projects – Public Education Capital Outlay Fund has a total fund balance of \$1,715,515.42, generated by the State Public Education Capital Outlay and Debt Service Fund, to be used for educational capital outlay needs, including new construction, renovation and remodeling projects, and equipment. The fund balance decreased by \$160,985.34, primarily due to transfers to reimburse the General Fund for eligible maintenance expenditures and property insurance premiums.
- ***Capital Projects – District Bond Fund.*** The Capital Projects – District Bond Fund has a total fund balance of \$530,557.58. Total revenues in this fund totaled \$1,197.07 with expenditures totaling \$71,775.99, which contributed to the decrease in fund balance of \$70,578.92. The sales tax that provided revenue for this fund was discontinued during the 2009-10 fiscal year, and fund balance declined during the 2010-11 fiscal year as prior fiscal year sales tax collections were expended.
- ***Capital Projects – Local Capital Improvement Fund.*** The Capital Projects – Local Capital Improvement Fund has a total fund balance of \$441,776.89. The fund balance decreased by \$182,061.57 due to lower property tax collections resulting from declining property values.

GENERAL FUND BUDGETARY HIGHLIGHTS

All budget variances for the General Fund were considered normal budget fluctuations.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

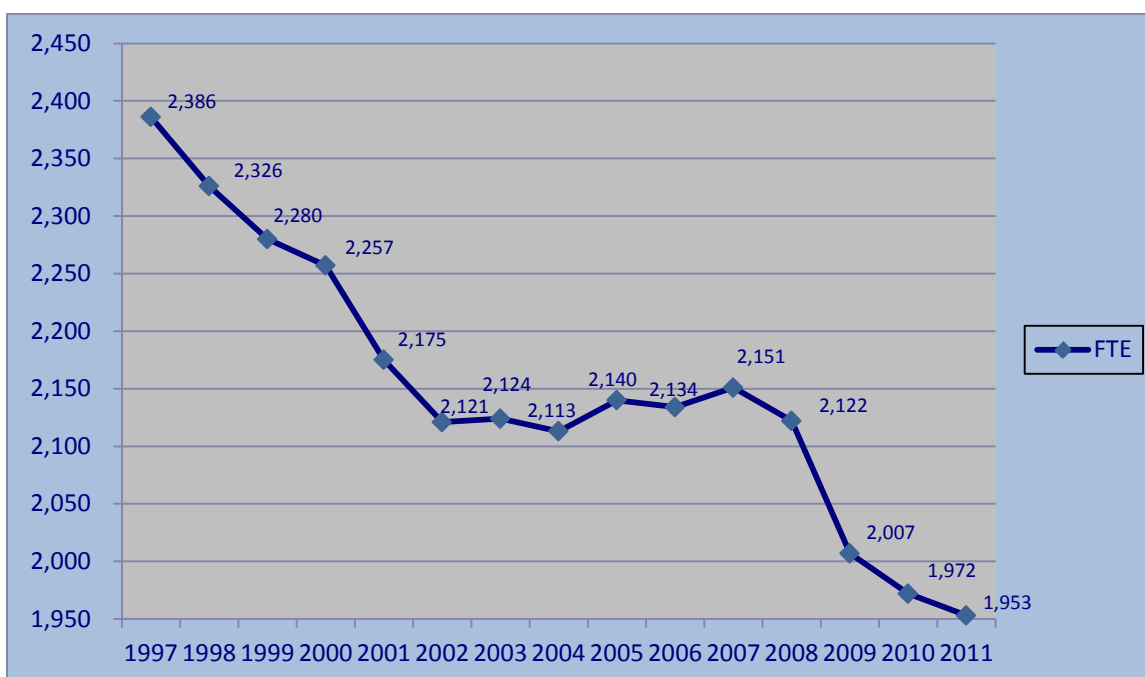
Major capital asset events during the current fiscal year included starting the retrofit of roofs on buildings at Wewahitchka Elementary School and additions to a covered play area. Additional information on the District's capital assets can be found in Notes 4 and 14 to the financial statements.

Long-Term Debt

The District did not issue any new long-term debt during the 2010-11 fiscal year. At this time, there are no plans for issuing any new debt. Additional information on the District's long-term debt can be found in Notes 6 and 7 to the financial statements.

OTHER MATTERS OF SIGNIFICANCE

Student Enrollment and Funding. Revenues from State sources comprise a significant source of total available resources of the District. However, unlike most previous years, revenues from State sources for current operations are not primarily from the Florida Education Finance Program (FEFP) 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. As shown in the following chart, the District experienced a slight decrease in FTE during the 2010-11 fiscal year.



REQUESTS FOR INFORMATION

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the Gulf County District School Board's finances and to demonstrate compliance and accountability for its resources. Questions concerning information provided in the MD&A, financial statements, and notes thereto, or requests for additional financial information should be addressed to the Director of Finance, Gulf County District School Board, 150 Middle School Road, Port St. Joe, FL 32456.

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities
ASSETS	
Cash and Cash Equivalents	\$ 3,039,074.30
Investments	28,211.98
Taxes Receivable	2,377.52
Accounts Receivable	1,059.29
Due from Other Agencies	1,246,069.64
Inventories	63,417.17
Capital Assets:	
Nondepreciable Capital Assets	366,428.49
Depreciable Capital Assets, Net	<u>15,266,951.02</u>
TOTAL ASSETS	<u>\$ 20,013,589.41</u>
LIABILITIES	
Salaries and Benefits Payable	\$ 88,355.66
Payroll Deductions and Withholdings	58,088.34
Accounts Payable	950.77
Construction Contracts Payable - Retainage	10,623.00
Due to Other Agencies	2,000.00
Long-Term Liabilities:	
Portion Due Within One Year	212,843.03
Portion Due After One Year	<u>2,601,256.07</u>
Total Liabilities	<u>2,974,116.87</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	15,118,379.51
Restricted for:	
State Required Carryover Programs	1,297,012.46
Debt Service	18,765.88
Capital Projects	1,603,452.68
Food Service	26,046.29
Classroom Equipment	18,445.05
Unrestricted	<u>(1,042,629.33)</u>
Total Net Assets	<u>17,039,472.54</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 20,013,589.41</u>

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

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

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in in Net Assets Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Instruction	\$ 10,782,614.89	\$ 24,487.55	\$	\$	\$ (10,758,127.34)
Pupil Personnel Services	840,883.31				(840,883.31)
Instructional Media Services	240,908.55				(240,908.55)
Instruction and Curriculum Development Services	301,720.32				(301,720.32)
Instructional Staff Training Services	560,129.49				(560,129.49)
Instruction Related Technology	132,757.00				(132,757.00)
School Board	168,567.81				(168,567.81)
General Administration	680,977.45				(680,977.45)
School Administration	1,198,578.41				(1,198,578.41)
Facilities Acquisition and Construction	462,485.02			13,532.90	(448,952.12)
Fiscal Services	272,951.81				(272,951.81)
Food Services	856,562.45	343,529.04	446,812.17		(66,221.24)
Central Services	183,683.84				(183,683.84)
Pupil Transportation Services	1,019,535.95	17,565.82			(1,001,970.13)
Operation of Plant	1,658,508.85				(1,658,508.85)
Maintenance of Plant	714,815.67			199,387.00	(515,428.67)
Administrative Technology Services	91,628.84				(91,628.84)
Unallocated Interest on Long-Term Debt	35,007.46			71,893.95	36,886.49
Unallocated Depreciation Expense*	917,824.15				(917,824.15)
Total Governmental Activities	\$ 21,120,141.27	\$ 385,582.41	\$ 446,812.17	\$ 284,813.85	(20,002,932.84)
General Revenues:					
Taxes:					
Property Taxes, Levied for Operational Purposes					10,903,388.71
Property Taxes, Levied for Capital Projects					555,469.30
Grants and Contributions Not Restricted to Specific Programs					7,790,510.92
Unrestricted Investment Earnings					9,105.05
Miscellaneous					278,951.90
Total General Revenues					19,537,425.88
Change in Net Assets					(465,506.96)
Net Assets - Beginning					17,504,979.50
Net Assets - Ending					\$ 17,039,472.54

* 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.

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

	General Fund	Special Revenue - Federal Economic Stimulus Fund	Capital Projects - Public Education Capital Outlay Fund	Capital Projects - District Bond Fund
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
ASSETS				
Cash and Cash Equivalents	\$ 1,392,792.13	\$	\$ 555,840.42	\$ 529,362.62
Investments	6,281.48			1,194.96
Taxes Receivable				
Accounts Receivable	1,059.29			
Due from Other Agencies	75,771.64		1,170,298.00	
Inventories	45,635.24			
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u><u>\$ 1,521,539.78</u></u>	<u><u>\$ 0.00</u></u>	<u><u>\$ 1,726,138.42</u></u>	<u><u>\$ 530,557.58</u></u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Salaries and Benefits Payable	\$ 88,355.66	\$	\$	\$
Payroll Deductions and Withholdings	58,088.34			
Accounts Payable	950.44			
Construction Contracts Payable - Retainage			10,623.00	
Due to Other Agencies				
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>147,394.44</u>		<u>10,623.00</u>	
Fund Balances:				
Nonspendable:				
Inventory	45,635.24			
Fund B Investments	6,281.48			1,194.96
Total Nonspendable Fund Balance	<u>51,916.72</u>			<u>1,194.96</u>
Restricted for:				
State Required Carryover Programs	99,230.52		1,197,781.94	
Debt Service				
Capital Projects			517,733.48	529,362.62
Food Service				
Classroom Equipment	18,445.05			
Total Restricted Fund Balance	<u>117,675.57</u>		<u>1,715,515.42</u>	<u>529,362.62</u>
Assigned for Budget Shortfall	400,000.00			
Unassigned Fund Balance	804,553.05			
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>1,374,145.34</u>		<u>1,715,515.42</u>	<u>530,557.58</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 1,521,539.78</u></u>	<u><u>\$ 0.00</u></u>	<u><u>\$ 1,726,138.42</u></u>	<u><u>\$ 530,557.58</u></u>

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

Capital Projects - Local Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
\$ 438,906.85	\$ 122,172.28	\$ 3,039,074.30
492.52	20,243.02	28,211.98
2,377.52		2,377.52
		1,059.29
		1,246,069.64
	17,781.93	63,417.17
<u>\$ 441,776.89</u>	<u>\$ 160,197.23</u>	<u>\$ 4,380,209.90</u>
\$	\$	\$ 88,355.66
		58,088.34
	0.33	950.77
		10,623.00
	2,000.00	2,000.00
	2,000.33	160,017.77
	17,781.93	63,417.17
492.52	1,477.14	9,446.10
492.52	19,259.07	72,863.27
		1,297,012.46
	18,765.88	18,765.88
441,284.37	113,384.73	1,601,765.20
	6,787.22	6,787.22
		18,445.05
441,284.37	138,937.83	2,942,775.81
		400,000.00
		804,553.05
441,776.89	158,196.90	4,220,192.13
<u>\$ 441,776.89</u>	<u>\$ 160,197.23</u>	<u>\$ 4,380,209.90</u>

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

Total Fund Balances - Governmental Funds \$ 4,220,192.13

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. 15,633,379.51

Long-term liabilities are not due and payable in the fiscal year and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consist of:

Bonds Payable	\$ 515,000.00	
Other Postemployment Benefits Payable	613,350.00	
Compensated Absences Payable	<u>1,685,749.10</u>	<u>(2,814,099.10)</u>

Total Net Assets - Governmental Activities \$ 17,039,472.54

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

THIS PAGE INTENTIONALLY LEFT BLANK.

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

	General Fund	Special Revenue - Federal Economic Stimulus Fund	Capital Projects - Public Education Capital Outlay Fund	Capital Projects - District Bond Fund
Revenues				
Intergovernmental:				
Federal Direct	\$ 30,269.70	\$	\$	\$
Federal Through State and Local	155,134.72	1,966,741.29		
State	3,993,114.53		199,387.00	
Local:				
Property Taxes	10,903,388.71			
Charges for Services - Food Service				
Miscellaneous	327,463.49		114.68	1,197.07
Total Revenues	<u>15,409,371.15</u>	<u>1,966,741.29</u>	<u>199,501.68</u>	<u>1,197.07</u>
Expenditures				
Current - Education:				
Instruction	8,452,448.12	1,270,184.44		
Pupil Personnel Services	698,946.87	1,000.00		
Instructional Media Services	235,844.15			
Instruction and Curriculum Development Services	187,249.82	7,276.00		
Instructional Staff Training Services	225,320.48	150,992.36		
Instruction Related Technology	73,499.38	57,555.63		
School Board	168,567.81			
General Administration	586,340.31	47,350.16		
School Administration	1,180,532.36			
Facilities Acquisition and Construction			11,900.00	44,864.98
Fiscal Services	337,469.63			
Food Services		2,848.52		
Central Services	196,517.69	13,000.00		
Pupil Transportation Services	917,338.28			
Operation of Plant	1,648,622.62			
Maintenance of Plant	702,919.05			
Administrative Technology Services	89,859.71			
Fixed Capital Outlay:				
Facilities Acquisition and Construction			149,200.02	26,911.01
Other Capital Outlay	66,686.03	416,534.18		
Debt Service:				
Principal				
Interest and Fiscal Charges	6,960.41			
Total Expenditures	<u>15,775,122.72</u>	<u>1,966,741.29</u>	<u>161,100.02</u>	<u>71,775.99</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(365,751.57)</u>		<u>38,401.66</u>	<u>(70,578.92)</u>
Other Financing Sources (Uses)				
Transfers In	421,089.12			
Transfers Out	(50,000.00)		(199,387.00)	
Total Other Financing Sources (Uses)	<u>371,089.12</u>		<u>(199,387.00)</u>	
Net Change in Fund Balances	5,337.55		(160,985.34)	(70,578.92)
Fund Balances, Beginning	1,368,807.79		1,876,500.76	601,136.50
Fund Balances, Ending	<u>\$ 1,374,145.34</u>	<u>\$ 0.00</u>	<u>\$ 1,715,515.42</u>	<u>\$ 530,557.58</u>

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

Capital Projects - Local Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
\$	\$	\$
	2,063,941.36	30,269.70
	94,029.85	4,185,817.37
		4,286,531.38
555,469.30		11,458,858.01
	343,529.04	343,529.04
1,209.84	19,643.73	349,628.81
556,679.14	2,521,143.98	20,654,634.31
	918,692.46	10,641,325.02
	126,581.27	826,528.14
		235,844.15
	116,337.00	310,862.82
	178,848.00	555,160.84
		131,055.01
		168,567.81
	48,499.57	682,190.04
		1,180,532.36
405,720.04		462,485.02
		337,469.63
	853,713.93	856,562.45
		209,517.69
	20,644.94	937,983.22
	1,504.38	1,650,127.00
		702,919.05
		89,859.71
111,318.55		287,429.58
	234,143.06	717,363.27
	45,000.00	45,000.00
	28,047.05	35,007.46
517,038.59	2,572,011.66	21,063,790.27
39,640.55	(50,867.68)	(409,155.96)
	50,000.00	471,089.12
(221,702.12)		(471,089.12)
(221,702.12)	50,000.00	
(182,061.57)	(867.68)	(409,155.96)
623,838.46	159,064.58	4,629,348.09
\$ 441,776.89	\$ 158,196.90	\$ 4,220,192.13

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

Net Change in Fund Balances - Governmental Funds \$ (409,155.96)

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 fiscal year. 17,552.41

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 of debt repayments in the current fiscal year. 45,000.00

In the statement of activities, the cost of compensated absences is measured by the amounts earned during the year, while in the governmental funds expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences used in excess of the amount earned in the current fiscal year. 1,188.59

Other postemployment benefits costs are recorded in the statement of activities under the full accrual basis of accounting, but are not recorded in the governmental funds until paid. This is the net increase in the other postemployment benefits liability for the current fiscal year. (120,092.00)

Change in Net Assets - Governmental Activities \$ (465,506.96)

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

**GULF COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF FIDUCIARY NET ASSETS -
FIDUCIARY FUNDS
June 30, 2011**

	Private-Purpose Trust Funds	Agency Funds
	<u> </u>	<u> </u>
ASSETS		
Cash and Cash Equivalents	\$ 82,350.55	\$ 209,113.00
	<u> </u>	<u> </u>
LIABILITIES		
Internal Accounts Payable		\$ 209,113.00
		<u> </u>
NET ASSETS		
Assets Held in Trust for Scholarships and Other Purposes	<u>82,350.55</u>	
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 82,350.55</u>	

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

**GULF COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS -
FIDUCIARY FUNDS
For the Fiscal Year Ended June 30, 2011**

	Private-Purpose Trust Funds
	<u> </u>
ADDITIONS	
Contributions:	
Gifts	\$ 13,427.24
Investment Earnings:	
Interest	<u> 723.75</u>
Total Additions	<u> 14,150.99</u>
DEDUCTIONS	
Other Expenses	<u> 4,500.00</u>
Change in Net Assets	9,650.99
Net Assets - Beginning	<u> 72,699.56</u>
Net Assets - Ending	<u><u> \$ 82,350.55</u></u>

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

➤ **Reporting Entity**

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

Criteria for determining if other entities are potential component units that should be reported within the District's basic financial statements are identified and described in the Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600. The application of these criteria provides for identification of any entities for which the Board is financially accountable and other organizations for which the nature and significance of their relationship with the School Board are such that exclusion would cause the District's basic financial statements to be misleading or incomplete. Based on these criteria, no component units are included within the District's reporting entity.

➤ **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.

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

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

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

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

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

The District reports the following major governmental funds:

- General Fund – to account for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.
- Special Revenue – Federal Economic Stimulus Fund – to account for certain Federal grant program resources related to Federal Economic Stimulus Programs.
- Capital Projects – Public Education Capital Outlay Fund – to account for the financial resources generated by the State Public Education Capital Outlay and Debt Service Fund to be used for educational capital outlay needs, including new construction, renovation and remodeling projects, and equipment.
- Capital Projects – District Bond Fund – to account for the financial resources generated by the former local sales tax to be used for educational capital outlay needs, including new construction, renovation and remodeling projects, and equipment.
- 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, renovation and remodeling projects, and equipment.

Additionally, the District reports the following fiduciary fund types:

- Private-Purpose Trust Funds – to account for resources of the George G. Tapper Scholarship Fund, Herman R. Dean Scholarship Fund, Marilyn Witten Scholarship Fund, James Lamar Faison Scholarship Fund, Paul and Marlene Sewell Scholarship Fund, and the Marion “Coach” Craig Memorial Scholarship Fund.
- 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 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

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

judgments, other postemployment benefits, and compensated absences, which are recognized when due. Allocations of cost, such as depreciation, are not recognized in governmental funds.

When both restricted and unrestricted resources are available for use, District policy is to restrict certain fund balances that are constrained by constitutional provision or enabling legislation and to use those funds only for the purpose for which they are intended. When expenditures are incurred for which unrestricted resources can be used, it is the District's intention to use committed resources first, followed by assigned resources and then unassigned resources.

➤ **New Pronouncements – Fund Balance Reporting**

GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). The statement established fund balance classifications, provides for a hierarchy of spending constraints for spendable resources and requires disclosure of nonspendable and spendable resources. The District has disclosed information about fund balance reporting in Note 9.

➤ **Restricted Net Assets**

In the accompanying statement of net assets, restricted net assets are subject to restrictions beyond the District's control. The restriction is either externally imposed (for instance, by creditors, grantors, or laws/regulations of other governments) or is imposed by law through constitutional provisions or enabling legislation. It is the practice of the District to utilize restricted assets before unrestricted assets.

➤ **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 certificates of deposit and amounts placed with the State Board of Administration (SBA) in Florida PRIME, formerly known as the Local Government Surplus Funds Trust Fund Investment Pool.

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

Investments consist of amounts placed in SBA Debt Service accounts for investment of debt service moneys; 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; and those made locally. These investment pools operate under investment guidelines established by Section 215.47, Florida Statutes.

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

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

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

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 cost on the last invoice, which approximates the first-in, first-out basis, except that the United States Department of Agriculture donated foods are stated at their fair value as determined at the time of donation to the District's food service program by the Florida Department of Agriculture and Consumer Services, Bureau of Food Distribution. The costs of inventories are recorded as expenditures when used rather than purchased.

➤ **Capital Assets**

Expenditures for capital assets acquired or constructed for general District purposes are reported in the governmental fund that financed the acquisition or construction. The capital assets so acquired are reported at cost in the government-wide statement of net assets but are not reported in the governmental fund financial statements. Capital assets are defined by the District as those costing more than \$750. 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. Land and some buildings acquired or constructed prior to July 1, 1984, are stated at estimated historical cost using price levels at the time of acquisition and, as a result, all of the stated land values and \$1,584,793 of stated building values are based on these estimates.

Buildings and Fixed Equipment are depreciated using the straight-line method, with all other assets being depreciated using the composite method, over the following estimated useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Improvements Other than Buildings	15 - 35 years
Buildings and Fixed Equipment	10 - 50 years
Furniture, Fixtures, and Equipment	5 - 15 years
Motor Vehicles	5 - 10 years
Audio Visual Materials and Computer Software	5 years

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

➤ **Long-Term Liabilities**

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

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

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

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

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 are primarily from the Florida Education Finance Program administered by the Florida Department of Education (Department) under the provisions of Section 1011.62, Florida Statutes. In accordance with this law, the District determines and reports the number of full-time equivalent (FTE) students and related data to the Department. The Department performs certain edit checks on the reported number of FTE and related data, and calculates the allocation of funds to the District. The District is permitted to amend its original reporting for a period of 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 restricted in the governmental fund financial statements for the balance of categorical and earmarked educational program resources.

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

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

➤ **District Property Taxes**

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

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

The Board adopted the 2010 tax levy on September 7, 2010. Tax bills are mailed in October and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to 4 percent for early payment.

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

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

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 Gulf 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.

3. INVESTMENTS

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

Investments	Maturities	Fair Value
State Board of Administration (SBA):		
Florida PRIME (1)	31 Day Average	\$ 2,275,875.14
Fund B Surplus Funds Trust Fund (Fund B)	7.16 Year Average	9,446.10
Debt Service Accounts	6 Months	18,765.88
Certificates of Deposit (1)	May 2012 - June 2012	81,249.99
Total Investments		<u><u>\$ 2,385,337.11</u></u>

Notes: (1) Investment reported as a cash equivalent for financial statement reporting purposes.

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

Interest Rate Risk

- Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Section 218.415(17), Florida Statutes, limits investment maturities to provide sufficient liquidity to pay obligations as they come due. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses from increasing interest rates.
- Florida PRIME had a weighted average days to maturity (WAM) of 31 days at June 30, 2011. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the portfolio to interest rate changes. Due to the nature of the securities in Fund B, the interest rate risk information required by GASB 40 (i.e., specific identification, duration, weighted average maturity, segmented time distribution, or simulation model) is not available. An estimate of the weighted average life (WAL) is available. In the calculation of the WAL, the time at which an expected principal amount is to be received, measured in years, is weighted by the principal amount received at that time divided by the sum of all expected principal payments. The principal amounts used in the WAL calculation are not discounted to present value as they would be in a weighted average duration calculation. The WAL, based on expected future cash flows, of Fund B at June 30, 2011, is estimated at 7.16 years. However, because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the WAL.

Credit Risk

- Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Section 218.415(17), Florida Statutes, limits investments to State Board of Administration (SBA) Local Government Surplus Funds Trust Fund Investment Pool, known as Florida PRIME, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Section 163.01, Florida Statutes; Securities and Exchange Commission (SEC) registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits in qualified public depositories, as defined in Section 280.02, Florida Statutes; and direct obligations of the United States Treasury. The District's investment policy limits investments to bids from qualified depositories, as defined in Section 280.02, Florida Statutes; certificates of deposit, time deposits, securities of the United States Government, State managed cooperative investment plans, and other forms of investments as authorized by Section 218.415, Florida Statutes.
- The District's investments in SBA Debt Service accounts are to provide for debt service payments on bond debt issued by the State Board of Education for the benefit of the District. The District relies on policies developed by SBA for managing interest rate risk and credit risk for this account.
- As of June 30, 2011, the District's investment in Florida PRIME is rated AAAm by Standard & Poor's. Fund B is unrated.
- The District's investments in certificates of deposit are in a qualified public depository.

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

4. CHANGES IN CAPITAL ASSETS

Changes in capital assets are presented in the table below:

	Beginning Balance	Additions	Deletions	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	\$ 93,006.47	\$	\$	\$ 93,006.47
Land Improvements	124,222.00			124,222.00
Construction in Progress		149,200.02		149,200.02
Total Capital Assets Not Being Depreciated	217,228.47	149,200.02		366,428.49
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	1,073,979.37			1,073,979.37
Buildings and Fixed Equipment	20,489,402.13	26,911.01		20,516,313.14
Furniture, Fixtures, and Equipment	3,478,321.15	828,681.82	116,290.68	4,190,712.29
Motor Vehicles	2,097,078.26		22,252.00	2,074,826.26
Audio Visual Materials and Computer Software	615,338.75		134,050.00	481,288.75
Total Capital Assets Being Depreciated	27,754,119.66	855,592.83	272,592.68	28,337,119.81
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	458,863.69	26,449.97		485,313.66
Buildings and Fixed Equipment	8,852,409.59	602,220.55		9,454,630.14
Furniture, Fixtures, and Equipment	887,878.60	280,026.84	116,290.68	1,051,614.76
Motor Vehicles	1,586,664.35	69,416.29	22,252.00	1,633,828.64
Audio Visual Materials and Computer Software	569,704.80	9,126.79	134,050.00	444,781.59
Total Accumulated Depreciation	12,355,521.03	987,240.44	272,592.68	13,070,168.79
Total Capital Assets Being Depreciated, Net	15,398,598.63	(131,647.61)		15,266,951.02
Governmental Activities Capital Assets, Net	\$ 15,615,827.10	\$ 17,552.41	\$ 0.00	\$ 15,633,379.51

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

Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Pupil Transportation Services	\$ 69,416.29
Unallocated	917,824.15
	<u>917,824.15</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 987,240.44</u>

5. CHANGES IN SHORT-TERM DEBT

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

	Beginning Balance	Additions	Deductions	Ending Balance
GOVERNMENTAL ACTIVITIES				
Tax Anticipation Note	\$ 0	\$ 1,450,000	\$ 1,450,000	\$ 0

Proceeds from the tax anticipation note were used as a working capital reserve in the General Fund as permitted under State and Federal tax laws.

6. BONDS PAYABLE

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

Bond Type	Amount Outstanding	Interest Rate (Percent)	Annual Maturity To
State School Bonds:			
Series 2005B, Refunding	<u>\$ 515,000</u>	5.0	2020

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

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

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

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2012	\$ 70,750	\$ 45,000	\$ 25,750
2013	73,500	50,000	23,500
2014	71,000	50,000	21,000
2015	73,500	55,000	18,500
2016	70,750	55,000	15,750
2017-2020	293,250	260,000	33,250
Total State School Bonds	<u>\$ 652,750</u>	<u>\$ 515,000</u>	<u>\$ 137,750</u>

7. 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					
Bonds Payable	\$ 560,000.00	\$	\$ 45,000.00	\$ 515,000.00	\$ 45,000.00
Compensated Absences Payable	1,686,937.69	163,324.09	164,512.68	1,685,749.10	167,843.03
Other Postemployment Benefits Payable	493,258.00	222,993.00	102,901.00	613,350.00	
Total Governmental Activities	<u>\$2,740,195.69</u>	<u>\$386,317.09</u>	<u>\$312,413.68</u>	<u>\$2,814,099.10</u>	<u>\$212,843.03</u>

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

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

8. INTERFUND TRANSFERS

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	\$ 421,089.12	\$ 50,000.00
Capital Projects:		
Public Education Capital Outlay		199,387.00
Local Capital Improvement		221,702.12
Nonmajor Governmental	50,000.00	
Total	<u>\$ 471,089.12</u>	<u>\$ 471,089.12</u>

Transfers to the General Fund were to finance maintenance and renovation projects, purchase school equipment, and to pay for property casualty insurance. Transfers to the Nonmajor Governmental Funds were provided to supplement food service operations.

9. FUND BALANCE REPORTING

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

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

➤ **Nonspendable**

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

➤ **Restricted**

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

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

➤ **Committed**

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

➤ **Assigned**

The portion of fund balance that is intended to be used for specific purposes, but is neither restricted nor committed. Assigned amounts include those that have been set aside for a specific purpose by an authorized government body or official, but the constraint imposed does not satisfy the criteria to be classified as restricted or committed. This category includes any remaining positive amounts, for governmental funds other than the General Fund, not classified as nonspendable, restricted, or committed. The District also classifies amounts as assigned that are constrained to be used for specific purposes based on actions of the Board and not included in other categories. The Board authorized the finance officer to assign fund balance by approval of the annual financial report. The District assigned \$400,000 in the General Fund for potential future budget shortfalls.

➤ **Unassigned**

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

10. SCHEDULE OF STATE REVENUE SOURCES

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

Source	Amount
Categorical Educational Program - Class Size Reduction	\$ 2,015,934.00
Florida Education Finance Program	1,303,963.00
Gross Receipts Tax (Public Education Capital Outlay)	199,387.00
Workforce Development Program	154,189.00
School Recognition Program	82,837.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	71,893.95
Food Service Supplement	8,343.00
Discretionary Lottery Funds	6,829.00
Mobile Home License Tax	3,148.50
Miscellaneous	440,006.93
Total	<u><u>\$ 4,286,531.38</u></u>

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

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

11. PROPERTY TAXES

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

	<u>Millages</u>	<u>Taxes Levied</u>
<u>GENERAL FUND</u>		
Nonvoted School Tax:		
Required Local Effort	5.072	\$ 8,284,246
Prior Period Funding Adjustment	0.069	112,697
Basic Discretionary Local Effort	0.748	1,221,730
Voted School Tax:		
Additional Operating	1.000	1,633,329
<u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	0.350	571,665
Total	<u>7.239</u>	<u>\$ 11,823,667</u>

12. FLORIDA RETIREMENT SYSTEM

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

Employees in the Plan vest at six years of service. All vested members are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, which may include up to 4 years of credit for military service. 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.

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

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

FRS Retirement Contribution Rates

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

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

Notes: (A) Employer rates include 1.11 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.03 percent for administrative costs of PEORP.

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

The District's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the District. The District's contributions to the Plan for the fiscal years ended June 30, 2009, June 30, 2010, and June 30, 2011, totaled \$983,810.18, \$1,100,876.82, and \$1,137,775.70, respectively, which were equal to the required contributions for each fiscal year. There were 29 PEORP participants during the 2010-11 fiscal year. Required contributions made to PEORP totaled \$117,186.25.

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.

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

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

13. 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, prescription drug, and life insurance coverage. The District subsidizes the premium rates paid by retirees by allowing them to participate in the Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the Plan on average than those of active employees. The District does not offer any explicit subsidies for retiree coverage. Retirees are assumed to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible. The Plan does not issue a stand-alone report, and is not included in the report of a public employee retirement system or another entity.

Funding Policy. Plan contribution requirements of the District and Plan members are established and may be amended through recommendations of the Insurance Committee and action from the Board. The District has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2010-11 fiscal year, 100 retirees received other postemployment benefits. The District provided required contributions of \$102,901 toward the annual OPEB cost, net of retiree contributions totaling \$211,011, which represents 2.6 percent of covered payroll.

Annual OPEB Cost and Net OPEB Obligation. The District's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 20 years. The following table shows the District's annual OPEB cost for the fiscal year, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation:

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

Description	Amount
Normal Cost (service cost for one year)	\$ 95,133
Amortization of Unfunded Actuarial Accrued Liability	<u>134,146</u>
Annual Required Contribution	229,279
Interest on Net OPEB Obligation	17,264
Adjustment to Annual Required Contribution	<u>(23,550)</u>
Annual OPEB Cost (Expense)	222,993
Contribution Toward the OPEB Cost	<u>(102,901)</u>
Increase in Net OPEB Obligation	120,092
Net OPEB Obligation, Beginning of Year	<u>493,258</u>
Net OPEB Obligation, End of Year	<u><u>\$ 613,350</u></u>

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

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2008-09	\$ 402,695	38.99%	\$ 245,683
2009-10	424,490	41.68%	493,258
2010-11	222,993	46.15%	613,350

Funded Status and Funding Progress. As of October 1, 2010, the most recent valuation date, the actuarial accrued liability for benefits was \$2,761,798, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$2,761,798 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$7,994,744, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 34.55 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.

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

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

The District's OPEB actuarial valuation as of October 1, 2010, used the entry age normal cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2011, and the District's 2010-11 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 3.5 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 0 percent for the 2010-11 fiscal year, an annual healthcare cost trend rate of 8.5 percent for the 2011-12 fiscal year, reduced to an ultimate rate of 5 percent after seven years. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2011, was 19 years.

14. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

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

Project	Contract Amount	Completed to Date	Balance Committed
Covered Play Area:			
Architect	\$ 41,000	\$ 34,850	\$ 6,150
Contractor	487,000	106,226	380,774
Total	<u>\$ 528,000</u>	<u>\$ 141,076</u>	<u>\$ 386,924</u>

15. RISK MANAGEMENT PROGRAMS

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Gulf County District School Board is a member of the Panhandle Area Educational Consortium - Risk Management Consortium (Consortium), under which several district school boards have established a combined limited self-insurance program for property protection, general liability, automobile liability, workers' compensation, employee dishonesty, boiler and machinery, and other coverage deemed necessary by the members of the Consortium. Section 1001.42(12)(k), Florida Statutes, provides the authority for the District to enter into such a risk management program. The Consortium is self-sustaining through member assessments (premiums), and purchases coverage through commercial companies for claims in excess of specified amounts. The Board of Directors for the Consortium is composed of superintendents of all participating districts. The Washington County District School Board serves as fiscal agent for the Consortium.

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

Health and hospitalization coverage for District employees is being provided through purchased commercial insurance.

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

THIS PAGE INTENTIONALLY LEFT BLANK.

OTHER REQUIRED SUPPLEMENTARY INFORMATION

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

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	\$ 30,000.00	\$ 30,000.00	\$ 30,269.70	\$ 269.70
Federal Through State and Local	20,000.00	224,662.00	155,134.72	(69,527.28)
State	3,788,231.00	3,965,671.00	3,993,114.53	27,443.53
Local:				
Property Taxes	10,739,888.00	10,739,888.00	10,903,388.71	163,500.71
Miscellaneous	303,000.00	288,000.00	327,463.49	39,463.49
Total Revenues	14,881,119.00	15,248,221.00	15,409,371.15	161,150.15
Expenditures				
Current - Education:				
Instruction	9,000,050.81	8,874,146.40	8,452,448.12	421,698.28
Pupil Personnel Services	735,729.00	723,974.00	698,946.87	25,027.13
Instructional Media Services	241,284.36	248,025.33	235,844.15	12,181.18
Instruction and Curriculum Development Services	139,207.00	189,696.30	187,249.82	2,446.48
Instructional Staff Training Services	226,726.00	227,451.00	225,320.48	2,130.52
Instruction Related Technology	72,486.00	74,213.00	73,499.38	713.62
School Board	175,166.00	170,492.00	168,567.81	1,924.19
General Administration	610,545.00	604,233.00	586,340.31	17,892.69
School Administration	1,162,350.00	1,211,668.37	1,180,532.36	31,136.01
Fiscal Services	258,550.00	339,063.00	337,469.63	1,593.37
Food Services				
Central Services	164,768.00	196,682.03	196,517.69	164.34
Pupil Transportation Services	939,214.00	930,670.00	917,338.28	13,331.72
Operation of Plant	1,676,581.00	1,682,654.60	1,648,622.62	34,031.98
Maintenance of Plant	671,294.00	710,397.00	702,919.05	7,477.95
Administrative Technology Services	90,086.00	90,086.00	89,859.71	226.29
Fixed Capital Outlay:				
Other Capital Outlay		66,686.03	66,686.03	
Debt Service:				
Interest and Fiscal Charges	15,000.00	6,961.00	6,960.41	0.59
Total Expenditures	16,179,037.17	16,347,099.06	15,775,122.72	571,976.34
Excess (Deficiency) of Revenues Over Expenditures	(1,297,918.17)	(1,098,878.06)	(365,751.57)	733,126.49
Other Financing Sources (Uses)				
Transfers In	484,387.00	484,387.00	421,089.12	(63,297.88)
Transfers Out	(50,000.00)	(50,000.00)	(50,000.00)	
Total Other Financing Sources (Uses)	434,387.00	434,387.00	371,089.12	(63,297.88)
Net Change in Fund Balances	(863,531.17)	(664,491.06)	5,337.55	669,828.61
Fund Balances, Beginning	1,368,807.79	1,368,807.79	1,368,807.79	
Fund Balances, Ending	\$ 505,276.62	\$ 704,316.73	\$ 1,374,145.34	\$ 669,828.61

Special Revenue - Federal Economic Stimulus Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
\$ 1,478,431.39	\$ 2,105,689.93	\$ 1,966,741.29	\$ (138,948.64)
1,478,431.39	2,105,689.93	1,966,741.29	(138,948.64)
1,242,123.39	1,316,379.19	1,270,184.44	46,194.75
1,000.00	1,000.00	1,000.00	
	19,276.00	7,276.00	12,000.00
187,499.00	150,992.36	150,992.36	
	109,220.00	57,555.63	51,664.37
47,809.00	47,350.16	47,350.16	
	2,938.04	2,848.52	89.52
	42,000.00	13,000.00	29,000.00
	416,534.18	416,534.18	
1,478,431.39	2,105,689.93	1,966,741.29	138,948.64
\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

GULF 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)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(A)	(B)	(B-A)	(A/B)	(C)	[(B-A)/C]
October 1, 2007	\$ 0	\$ 5,640,386	\$ 5,640,386	0%	\$ 8,958,328	62.96%
October 1, 2010	0	2,761,798	2,761,798	0%	7,994,744	34.55%

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

1. BUDGETARY BASIS OF ACCOUNTING

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

2. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS

The October 1, 2010, unfunded actuarial accrued liability of \$2,761,798 was significantly lower than the October 1, 2007, liability of \$5,640,386 as a result of benefit changes and other changes in liabilities and costs as discussed below:

- The number of enrolled retirees was expected to have a small increase; however, enrolled retirees decreased from 38 in the October 1, 2007, valuation to 22 in the October 1, 2010, valuation. Similarly, the number of active employees eligible for future postemployment benefits decreased from 246 to 227 in the October 1, 2010, valuation. These changes decreased the cost and liability resulting on the October 1, 2010, valuation.
- The total cost of coverage increased from \$479 per employee per month (as expected for the Plan year ending September 30, 2008) to \$720 per employee per month for the 2009-2010 fiscal year. This change slightly increased the cost and liability on the October 1, 2010, valuation.
- Retiree medical coverage acceptance and continuation assumptions were revised. In the October 1, 2007, valuation the assumption was that 40 percent of retiring employees under the age of 65 would elect to continue medical coverage through the District's plan. Historical data collected for the October 1, 2010, valuation suggests that fewer retirees have been making that choice in recent years and, consequently, a change in the assumption to 25 percent of employees will elect to keep the coverage upon retirement was made. This is consistent with a significant increase in premiums and contributions. This change significantly decreased the cost and liability on the October 1, 2010, valuation. Similarly, a revision to the lapsing rate of retirees attaining age 65 to 75 percent, compared to 60 percent used in the October 1, 2007, valuation was made. This change also significantly decreased the cost and liability on the October 1, 2010, valuation.
- The assumed annual healthcare cost trend for medical and prescription costs was revised for cost increases. In the October 1, 2007, valuation, it was assumed the initial trends for costs and premiums to be 30 percent for the first year followed by 9 percent trend for year beginning January 1, 2009, and further followed by 8.5 percent increase for the year beginning January 1, 2010, with subsequent trend rates decreasing 0.5 percent each year thereafter to the ultimate value of 5 percent. Revisions were made to trend rates for costs and premiums charged to retirees for the year beginning January 1, 2011, to be the same as for the 2010 calendar year (to reflect no actual premium changes). A similar pattern was then followed as used previously: 8.5 percent for costs and premiums for year beginning January 1, 2012, and decreasing by 0.5 percent each subsequent year until reaching the ultimate value of 5 percent, modestly decreasing the costs and liability on the October 1, 2010, valuation.
- The amortization period was revised for the unfunded actuarial accrued liability from 28 years to 20 years. As discussed above, new assumptions were made that many retirees age 65 and older will discontinue coverage under the Plan, shortening the period of benefit. Consequently the amortization period was adjusted to recognize all accrued benefits before they are paid out. This change has no impact on the unfunded actuarial accrued liability, but increases the annual OPEB cost on the October 1, 2010, valuation.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)
United States Department of Agriculture:			
Indirect:			
Child Nutrition Cluster:			
Florida Department of Education:			
School Breakfast Program	10.553	321	\$ 50,612.04
National School Lunch Program	10.555	300, 350	352,008.10
Florida Department of Agriculture and Consumer Services:			
National School Lunch Program	10.555 (2)	None	16,070.54
Total Child Nutrition Cluster			418,690.68
Total United States Department of Agriculture			418,690.68
United States Department of Education:			
Indirect:			
Special Education Cluster:			
Florida Department of Education:			
Special Education - Grants to States	84.027	263	446,938.86
Special Education - Preschool Grants	84.173	267	17,065.43
ARRA - Special Education - Grants to States, Recovery Act	84.391	263	84,327.49
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	267	4,556.11
Total Special Education Cluster			552,887.89
Title I, Part A Cluster:			
Florida Department of Education:			
Title I Grants to Local Educational Agencies	84.010	212, 222, 226, 228	565,521.87
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	212	63,820.79
Total Title I, Part A Cluster			629,342.66
Educational Technology State Grants Cluster:			
Florida Department of Education:			
Education Technology State Grants	84.318	122	358,892.71
ARRA - Education Technology State Grants, Recovery Act	84.386	121, 122	751,955.50
Total Educational Technology State Grants Cluster			1,110,848.21
State Fiscal Stabilization Fund Cluster:			
Florida Department of Education:			
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	591	581,052.00
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	592	17,599.52
Total State Fiscal Stabilization Fund Cluster			598,651.52
Florida Department of Education:			
Adult Education - Basic Grants to States	84.002	191	40,695.99
Career and Technical Education - Basic Grants to States	84.048	161	66,552.05
Rural Education	84.358	110	30,409.73
Improving Teacher Quality State Grants	84.367	224	119,306.54
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	RL111	83,720.88
Education Jobs Fund	84.410	541	379,709.00
Florida State University:			
Mathematics and Science Partnerships	84.366	None	116.00
Washington County District School Board:			
Fund for the Improvement of Education	84.215	None	62.14
Reading First State Grants	84.357	None	900.00
Norris D. Langston Youth Scholarship Foundation:			
Twenty-First Century Community Learning Centers	84.287	None	96,171.89
Total United States Department of Education			3,709,374.50

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

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)
United States Substance Abuse and Mental Health Service Administration:			
Indirect:			
Florida State University:			
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	ROO1140	\$ 2,654.90
United States Department of Defense:			
Direct:			
Navy Junior Reserve Officers Training Corps	None	N/A	30,269.70
Total Expenditures of Federal Awards			\$ 4,160,989.78

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

(2) Noncash Assistance - National School Lunch Program. Represents the amount of donated food received during the fiscal year. Donated foods are valued at fair value as determined at the time of donation.



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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



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

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Gulf County District School Board as of and for the fiscal year ended June 30, 2011, which collectively comprise the District's basic financial statements, and have issued our report thereon under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the basic financial statements was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the school internal funds, as described in our report on the Gulf County District School Board's financial statements. The financial statements of the school internal funds 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

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

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

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

Respectfully submitted,



David W. Martin, CPA
December 5, 2011



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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



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

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

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

Compliance

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

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

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the fiscal year ended June 30, 2011.

Internal Control Over Compliance

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

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

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

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

Respectfully submitted,



David W. Martin, CPA
December 5, 2011

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

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be a material weakness(es)?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be a material weakness(es)?	None reported
Type of report the auditor issued on compliance for major programs:	Unqualified for all major programs
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB <i>Circular A-133</i> ?	No
Identification of major programs:	Educational Technology State Grants Cluster (CFDA Nos. 84.318 and 84.386 - ARRA); State Fiscal Stabilization Fund Cluster (CFDA Nos. 84.394 – ARRA and 84.397 - ARRA); and Education Jobs Fund (CFDA No. 84.410)
Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	Yes

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

ADDITIONAL MATTERS

Finding No. 1: Performance Assessments

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

While the assessments of instructional personnel and school administrators generally met the requirements of Section 1012.34(3)(a), Florida Statutes (2010), including student performance as a component of the evaluation, District records did not sufficiently evidence a correlation between student performance and the employee's performance assessments nor that student performance was the primary factor for the overall evaluation rating. For example, the evaluation form did not provide a numeric or percentage indicator to show that student achievement was the primary contributing factor used to evaluate employee performance. District personnel indicated that they delayed revisions to performance assessments until implementation of the Federal Race-to-the-Top grant requirements, which are subject to approval by the Florida Department of Education for the 2011-12 fiscal year. However, without measuring employee performance by the required criteria, performance assessments of instructional personnel and school administrators may not effectively communicate the employee's accomplishments or shortcomings. A similar finding was noted in our report No. 2011-067.

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

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

Finding No. 2: Compensation and Salary Schedules

Section 1001.42(5)(a), Florida Statutes, requires the Board to designate positions to be filled, prescribe qualifications for those positions, and provide for the appointment, compensation, promotion, suspension, and dismissal of employees, subject to the requirements of Chapter 1012, Florida Statutes. Section 1012.22(1)(c)2., Florida Statutes (2010),² provided that, for instructional personnel, the Board must base a portion of each employee's compensation on performance. In addition, Section 1012.22(1)(c)4., Florida Statutes (2010), required the Board to adopt a salary schedule with differentiated pay for instructional personnel and school-based administrators. The salary schedule is subject to negotiation as provided in Chapter 447, Florida Statutes, and was required to provide differentiated pay based on District-determined factors, including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties.

While compensation of instructional personnel is typically subject to collective bargaining, the Board had not adopted formal policies and procedures to ensure that a portion of each instructional employee's compensation was based on performance pursuant to Section 1012.22(1)(c)2., Florida Statutes (2010). Such policies and procedures could establish and communicate the performance measures affecting instructional employee compensation. In addition, the Board had not adopted formal policies and procedures establishing the documented process to identify the instructional personnel and school-based administrators entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4., Florida Statutes (2010). Such policies and procedures could specify the prescribed factors to be used as the basis for determining differentiated pay, the documented process for applying the prescribed factors, and the individuals responsible for making such determinations.

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

- **Instructional Personnel.** Contrary to Section 1012.22(1)(c)2., Florida Statutes (2010), the instructional personnel salary schedule and union contracts did not evidence that a portion of the compensation of each instructional employee was based on performance. The instructional personnel salary schedule and union contracts provided that a teacher who volunteered to teach at a low performing school would receive a stipend of \$1,000 and earn an additional 1 percent of base pay if 90 percent of the students taught demonstrated improvement on a standardized assessment. However, the District had no low performing schools during the 2010-11 fiscal year and District personnel indicated that no teacher was paid the additional percentage. As such, District records did not evidence that a reasonable attempt had been made to base a portion of each instructional employee's compensation on the employee's performance.

The instructional personnel salary schedule and union contracts provided salary supplements for additional responsibilities beyond the standard seven and one half-hour day, such as supplements for athletic coaches, band and choral directors, peer teachers, and club sponsors. However, neither the salary schedule nor the union contracts evidenced differentiated pay based on school demographics, level of job performance difficulties, and critical shortage areas for instructional personnel, contrary to Section 1012.22(1)(c)4., Florida Statutes (2010).

- **School-based Administrators.** District personnel indicated that the school-based administrators' salary schedule included consideration for additional responsibilities, school demographics, and level of job

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

performance difficulties by the differing administrative pay grades for elementary, middle, secondary, and combination schools based on the type school. However, the salary schedule did not provide for differentiated pay based on critical shortage areas for school-based administrators, contrary to Section 1012.22(1)(c)4, Florida Statutes (2010).

District personnel indicated that salary schedule revisions to comply with the statutory performance and differentiated pay requirements were delayed to ensure consistency with Federal Race-to-the-Top grant requirements. However, without Board-adopted policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance, and sufficiently identifying the basis for the differentiated pay, the District may be limited in its ability to demonstrate that each instructional employee's performance correlated to their compensation and the various differentiated pay factors were consistently considered and applied. A similar finding was noted in our report No. 2011-067.

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

Finding No. 3: Adult General Education Classes

Section 1004.02(3), Florida Statutes, defines adult general education, in part, as comprehensive instructional programs designed to improve the employability of the State's workforce. Chapter 2010-152, Laws of Florida, Specific Appropriation 109, states that from the funds provided in Specific Appropriations 9 and 109, each school district shall report enrollment for adult general education programs identified in Section 1004.02, Florida Statutes, in accordance with the Florida Department of Education's (FDOE) instructional hours reporting procedures. Procedures provided by FDOE to school districts stated that fundable instructional contact hours are those scheduled hours that occur between the date of enrollment in a class and the withdrawal date or end-of-class date, whichever is sooner.

For the 2010-11 fiscal year, the District reported 34,897 adult general education contact hours for 116 students to FDOE. Our tests of the 10,673 hours reported for 30 students enrolled in 96 adult general education classes held in Fall 2010 and Spring 2011 disclosed a total of 927 overreported hours for 6 students enrolled in 17 classes. District personnel indicated that data entry errors, such as inputting incorrect student enrollment and exit dates, caused the overreported hours. Since future funding may be based, in part, on enrollment data submitted to FDOE, it is important that such data be submitted correctly. Similar findings were noted in previous audits, most recently in our report No. 2011-167.

Recommendation: The District should enhance its controls over the reporting of instructional contact hours for adult general education classes to FDOE. The District should also contact FDOE to determine proper resolution of the overreported hours.

Finding No. 4: Information Technology – Written Policies and Procedures

Each information technology (IT) function needs complete, well-documented policies and procedures to describe the scope of the function and its activities. Sound policies and procedures provide benchmarks against which compliance can be measured and contribute to an effective control environment. However, the District lacked written policies and procedures for the following IT functions:

- Administering user identification codes (IDs), administrator IDs, administrator passwords, guest accounts, and security devices (such as firewalls and routers).
- Prohibiting administrator rights on the workstations of end users.
- Revoking access privileges of former or reassigned employees, consultants, and vendors.

District personnel indicated that as of October 2011 they were in the process of drafting written policies and procedures to be approved and implemented during the 2011-12 fiscal year. Without written policies and procedures, the risk is increased that IT controls may not be followed consistently and in a manner pursuant to management's expectations. A similar finding was noted in our report No. 2011-067.

Recommendation: The District should establish written policies and procedures to document management's expectations for the performance of the above-listed IT functions.

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

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

The District's *Acceptable Use Policy* requires employees to notify a system administrator if a security problem is identified; however, the District did not have a comprehensive written security incident response plan. District personnel indicated that as of October 2011 they were in the process of drafting a formal security incident response program to be approved and implemented during the 2011-12 fiscal year. Should an event occur that involves the potential or actual compromise, loss, or destruction of District data or IT resources, the lack of a written security incident response plan could result in the District's failure to take appropriate actions in a timely manner to prevent further loss or damage to the District's data and IT resources.

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

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

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

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

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

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

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the District had taken corrective actions for findings included in our report No. 2011-067.

MANAGEMENT'S RESPONSE

Management's response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

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

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

Audit Report No. and Federal Awards Finding No.	Program/ Area	Brief Description	Status	Comments
2011-067		There were no prior Federal audit findings.		

EXHIBIT A
MANAGEMENT'S RESPONSE



150 MIDDLE SCHOOL ROAD • PORT ST. JOE, FLORIDA 32456 • PHONE: (850) 229-8256 or (850) 639-2871 • FAX (850) 229-6089

December 5, 2011

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

Dear Mr. Martin:

Please find below responses to the Preliminary and Tentative Audit Findings and Recommendations for the Fiscal Year Ended June 30, 2011, for the Gulf County District School Board.

Finding #1

Response: The District is currently developing a performance evaluation tool.

Finding #2

Response: The School Board has successfully negotiated a differentiated pay plan for the District and compensation will be based on performance consistent with the RTTT grant requirements.

Finding #3

Response: Steps are being taken to ensure the District is in full compliance with Florida Statutes and we have contacted DOE for additional assistance.

Tomorrow's Future Begins In Today's Classrooms

DANNY LITTLE
DISTRICT 1

GEORGE M. COX
DISTRICT 2

LINDA ROBERTS WOOD
DISTRICT 3

BILLY C. QUINN, JR.
DISTRICT 4

JOHN W. WRIGHT
DISTRICT 5

EXHIBIT A
MANAGEMENT'S RESPONSE (CONTINUED)

Page 2

Finding #4

Response: Written policies are being developed.

Finding #5

Response: A written security incident plan is being developed.

Finding #6

Response: Security controls are being developed.

Please contact my office if I may provide further information or assistance.

Most Sincerely,


Jim Norton
Superintendent

pcs: School Board Members
sworley@gulf.k12.fl.us
pattycrutchfield@aud.state.fl.us
gregcenters@aud.state.fl.us