

**WALTON COUNTY
DISTRICT SCHOOL BOARD**

**Financial, Operational, and Federal Single
Audit**

For the Fiscal Year Ended
June 30, 2011



BOARD MEMBERS AND SUPERINTENDENT

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

	<u>District No.</u>
Mildred T. Wilkerson, Vice Chair to 11-15-10	1
William E. Laird to 11-15-10	2
Faye R. Leddon from 11-16-10	2
Sharon B. Roberts, Chair from 11-16-10	3
Mark D. Davis, Chair to 11-15-10	4
Darrell J. Barnhill to 11-15-10	5
Dennis A. Wallace, Vice Chair from 11-16-10	5

Carlene H. Anderson, Superintendent

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

The audit team leader was Christy L. Johnson, CPA, and the audit was supervised by James W. Kiedinger, Jr., CPA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Manager, by e-mail at gregcenters@aud.state.fl.us or by telephone at (850) 487-9039.

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

WALTON COUNTY DISTRICT SCHOOL BOARD
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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

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 is 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: Controls over electronic funds transfers could be enhanced.

Finding No. 4: 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. 5: The District did not have a written information technology (IT) security incident response plan.

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

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Child Nutrition Cluster; Special Education Cluster; Educational Technology State Grants Cluster; State Fiscal Stabilization Fund Cluster; Improving Teacher Quality State Grants; and Education Jobs Fund programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that could have a direct and material effect on each of its major Federal programs. However, we did note a noncompliance and control deficiency finding as summarized below.

Federal Awards Finding No. 1: Required documentation to support personnel charges for three employees in the Child Nutrition Cluster programs was not maintained, contrary to Federal regulations.

Audit Objectives and Scope

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

- Presented the District's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements or on a major Federal program;

- Established internal controls that promote and encourage: 1) compliance with applicable laws, rules, regulations, contracts, and grant agreements; 2) the economic and efficient operation of the District; 3) the reliability of records and reports; and 4) the safeguarding of District assets;
- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements, and those applicable to the District's major Federal programs; and
- Taken corrective actions for findings included in our report No. 2011-066.

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

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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Walton County District School Board, as of and for the fiscal year ended June 30, 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 37 percent of the assets and 99 percent of the liabilities of the aggregate remaining fund information. In addition, we did not audit the financial statements of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the school internal funds and the aggregate discretely presented component units, are based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information for the Walton County District School Board as of June 30, 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 Walton County District School Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

Respectfully submitted,



David W. Martin, CPA
February 21, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Walton County District School Board has prepared the following discussion and analysis to provide an overview of the District's financial activities for the fiscal year ended June 30, 2011. 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 9 through 37.

FINANCIAL HIGHLIGHTS

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

- In total, net assets increased \$4,062,253.27, which represents a 2.8 percent increase over the 2009-10 fiscal year.
- General revenues total \$80,216,720.92, or 94.9 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total \$4,335,341.41, or 5.1 percent of all revenues.
- Expenses total \$80,489,809.06. Only \$4,335,341.41 of these expenses was offset by program specific charges, with the remainder paid from general revenues. Total revenues exceeded total expenses by \$4,062,253.27.
- At the end of the fiscal year, the fund balance of the General Fund, totals \$5,797,242.36, or 9.9 percent of total General Fund revenues. These fund balances include \$257,503.96 of nonspendable funds, \$520,231.29 of restricted funds, and \$5,019,507.11 of unassigned funds.

OVERVIEW OF FINANCIAL STATEMENTS

The basic financial statements consist of three components:

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

Government-wide Financial Statements

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

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

- Governmental activities – This represents most of the District's services, including its educational programs: basic, vocational, adult, and exceptional education. Support functions such as transportation and administration are also included. Local property taxes and the State's education finance program provide most of the resources that support these activities.
- Component units – The District presents three separate legal entities in this report including the Walton Academy, Inc., The Seaside School, Inc., and the Walton Education Foundation, Inc. Although legally

separate organizations, the component units are included in this report because they meet the criteria for inclusion provided by generally accepted accounting principles. Financial information for these component units is reported separately from the financial information presented for the primary government. The Walton County Public Education Finance Authority, Inc. (Authority), although also a legally separate entity, was formed to facilitate financing for the acquisition of facilities and equipment for the District. Due to the substantive economic relationship between the District and the Authority, the Authority has been included (blended) as an integral part of the primary government.

Fund Financial Statements

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

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

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

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

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

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

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

Notes to Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government’s financial position. The following is a summary of the District’s net assets as of June 30, 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	\$ 20,609,353.43	\$ 19,484,087.76
Capital Assets	164,462,813.25	159,575,381.40
Total Assets	185,072,166.68	179,059,469.16
Long-Term Liabilities	31,893,035.81	23,945,085.01
Other Liabilities	2,560,541.59	8,558,048.14
Total Liabilities	34,453,577.40	32,503,133.15
Net Assets:		
Invested in Capital Assets -		
Net of Related Debt	140,391,867.41	137,018,320.48
Restricted	12,171,175.36	6,085,190.82
Unrestricted (Deficit)	(1,944,453.49)	3,452,824.71
Total Net Assets	\$ 150,618,589.28	\$ 146,556,336.01

The largest portion of the District’s net assets (93.2 percent) reflects its investment in capital assets (e.g., land; buildings; and furniture, fixtures, and equipment), less any related debt still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending.

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

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

	Operating Results for the Fiscal Year Ended	
	Governmental Activities	
	6-30-11	6-30-10
Program Revenues:		
Charges for Services	\$ 1,370,256.31	\$ 1,233,596.38
Operating Grants and Contributions	2,280,260.54	2,183,767.25
Capital Grants and Contributions	684,824.56	477,305.41
General Revenues:		
Property Taxes, Levied for Operational Purposes	45,972,285.84	47,735,166.85
Property Taxes, Levied for Capital Projects	12,349,676.25	17,025,882.32
Grants and Contributions Not Restricted to Specific Programs	20,727,074.21	17,878,358.18
Unrestricted Investment Earnings	158,256.01	235,202.59
Miscellaneous	1,009,428.61	650,342.23
Total Revenues	84,552,062.33	87,419,621.21
Functions/Program Expenses:		
Instruction	41,623,325.85	41,443,828.88
Pupil Personnel Services	2,395,141.68	2,478,496.48
Instructional Media Services	952,503.39	1,268,099.07
Instruction and Curriculum Development Services	1,911,356.37	1,956,253.10
Instructional Staff Training Services	1,182,906.47	1,335,830.66
Instruction Related Technology	701,794.57	670,144.70
School Board	361,887.05	373,205.41
General Administration	413,422.67	453,752.21
School Administration	4,654,341.21	4,932,153.47
Facilities Acquisition and Construction	899,104.09	1,432,547.26
Fiscal Services	327,181.63	406,830.70
Food Services	3,224,735.22	3,207,035.17
Central Services	903,423.38	851,472.07
Pupil Transportation Services	4,605,996.80	4,500,383.52
Operation of Plant	7,877,120.92	8,125,315.58
Maintenance of Plant	1,413,727.15	1,482,830.04
Administrative Technology Services	329,991.12	311,598.21
Community Services	722,640.09	552,793.50
Unallocated Interest on Long-Term Debt	1,248,629.36	1,008,597.34
Unallocated Depreciation Expense	4,740,580.04	4,407,237.39
Total Functions/Program Expenses	80,489,809.06	81,198,404.76
Increase in Net Assets	\$ 4,062,253.27	\$ 6,221,216.45

The District’s results of operations show an increase in net assets of \$4,062,253.27 for the current fiscal year, as compared to an increase of \$6,221,216.45 in the prior fiscal year. From the prior fiscal year, expenses did not change significantly, but revenues decreased by a net total of \$2,867,558.88, or 3.3 percent. Significant changes that contributed to the decrease included:

- Property taxes levied for operational purposes decreased \$1,762,881.01, or 3.7 percent, as a result of declining property valuations.

- Property taxes levied for capital projects decreased \$4,676,206.07, or 27.5 percent, as a result of declining property valuations and a reduction in the millage levied.
- Grants and contributions not restricted to specific programs increased \$2,848,716.03, or 15.9 percent, due primarily to American Recovery and Reinvestment Act and Education Jobs Fund moneys received.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Major Governmental Funds

The General Fund is the District's chief operating fund. The total fund balance increased by \$1,139,131.90 to \$5,797,242.36, and the unassigned fund balance is \$5,019,507.11 at fiscal year-end. Total revenues did not significantly change from the previous fiscal year; however, expenditures decreased by \$2,046,187.92, or 3.3 percent. The main reason for the decrease in expenditures was the payment of salaries and benefits from the Federal Education Jobs Fund program that were paid from the General Fund in the previous fiscal year.

The Special Revenue – Federal Economic Stimulus Fund has total revenues and expenditures of \$4,980,157.20 each for the current fiscal year, representing increases of \$1,466,346.83 each, or 41.7 percent, over the previous fiscal year. The increases were primarily due to the funds provided by the new Federal Education Jobs Fund program. Because grant revenues are not recognized until expenditures are incurred, the grants accounted for in this fund generally do not accumulate fund balances.

The Capital Projects – Local Capital Improvement Fund is restricted for the acquisition, construction, and maintenance of capital assets, and the fund balance increased by \$6,182,581.70 to \$10,506,258.90. At fiscal year-end, this fund had encumbrances of \$864,784.64 for specific projects. Revenues decreased by \$4,667,706.47 due to declining property tax revenues from declining property valuations and a reduction in the millage levied. Expenditures decreased by \$8,766,884.10, or 56.9 percent, primarily due to the reduction in construction costs for the new Emerald Coast Middle School and Walton High School as construction neared completion.

GENERAL FUND BUDGETARY HIGHLIGHTS

The District's budgets are prepared and amendments made according to Florida law, and the most significant budgeted fund is the General Fund. During the 2010-11 fiscal year, the District amended its General Fund budget several times. Final budgeted revenues exceeded the original budget by \$1,491,196, or 2.7 percent due primarily to increases in expected proceeds from the Florida Education Finance Program, and other sources, such as grants and E-rate monies. Final budgeted expenditures exceeded the original budgeted expenditures by \$1,683,683.38, or 2.8 percent, due primarily to the budgeting of expenditures for the increase in expected proceeds noted above, utility adjustments, and higher diesel and gasoline costs. Actual revenues were not significantly different from the final budget. Final budgeted expenditures exceeded actual expenditures by \$1,890,495.70, or 3.1 percent, due primarily to unspent earmarked educational program, E-rate, and grant moneys, and reduced workers' compensation expenditures.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets for its governmental activities as of June 30, 2011, amounts to \$164,462,813.25 (net of accumulated depreciation). This investment in capital assets includes land; land improvements; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; construction in progress; and computer software.

Construction in progress at June 30, 2011, consists primarily of a new Emerald Coast Middle School. Additional information on the District's capital assets can be found in Notes 4 and 15, to the financial statements.

Long-Term Debt

At June 30, 2011, the District has total long-term debt outstanding of \$24,070,945.84. This amount is comprised of \$1,025,000.00 of bonds payable and \$23,045,945.84 of certificates of participation payable. Additional information on the District's long-term debt can be found in Notes 6 through 8 to the financial statements.

REQUESTS FOR INFORMATION

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

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

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
Instruction	\$ 41,623,325.85	\$ 231,127.61	\$	\$
Pupil Personnel Services	2,395,141.68			
Instructional Media Services	952,503.39			
Instruction and Curriculum Development Services	1,911,356.37			
Instructional Staff Training Services	1,182,906.47			
Instruction Related Technology	701,794.57			
School Board	361,887.05			
General Administration	413,422.67			
School Administration	4,654,341.21			
Facilities Acquisition and Construction	899,104.09			543,911.71
Fiscal Services	327,181.63			
Food Services	3,224,735.22	703,944.70	2,280,260.54	
Central Services	903,423.38			
Pupil Transportation Services	4,605,996.80	46,078.75		
Operation of Plant	7,877,120.92			
Maintenance of Plant	1,413,727.15			
Administrative Technology Services	329,991.12			
Community Services	722,640.09	389,105.25		
Unallocated Interest on Long-Term Debt	1,248,629.36			140,912.85
Unallocated Depreciation Expense*	4,740,580.04			
Total Governmental Activities	\$ 80,489,809.06	\$ 1,370,256.31	\$ 2,280,260.54	\$ 684,824.56
Component Units				
Charter Schools/Education Foundation	\$ 2,673,281.00	\$ 0.00	\$ 174,472.00	\$ 72,613.00

General Revenues:

Taxes:

Property Taxes, Levied for Operational Purposes

Property Taxes, Levied for Capital Projects

Grants and Contributions Not Restricted to Specific Programs

Unrestricted Investment Earnings

Miscellaneous

Total General Revenues

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

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

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

Net (Expense) Revenue and Changes in Net Assets	
Primary Government Governmental Activities	Component Units
\$ (41,392,198.24)	\$
(2,395,141.68)	
(952,503.39)	
(1,911,356.37)	
(1,182,906.47)	
(701,794.57)	
(361,887.05)	
(413,422.67)	
(4,654,341.21)	
(355,192.38)	
(327,181.63)	
(240,529.98)	
(903,423.38)	
(4,559,918.05)	
(7,877,120.92)	
(1,413,727.15)	
(329,991.12)	
(333,534.84)	
(1,107,716.51)	
(4,740,580.04)	
<u>(76,154,467.65)</u>	
	<u>(2,426,196.00)</u>
45,972,285.84	
12,349,676.25	
20,727,074.21	2,368,868.00
158,256.01	5,556.00
1,009,428.61	119,143.00
<u>80,216,720.92</u>	<u>2,493,567.00</u>
4,062,253.27	67,371.00
<u>146,556,336.01</u>	<u>2,484,926.00</u>
<u>\$ 150,618,589.28</u>	<u>\$ 2,552,297.00</u>

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

	General Fund	Special Revenue - Federal Economic Stimulus Fund	Capital Projects - Local Capital Improvement Fund
ASSETS			
Cash and Cash Equivalents	\$ 7,244,546.06	\$ 8,106.68	\$ 10,988,986.07
Accounts Receivable	219,878.16		
Due from Other Agencies	18,449.85		
Investments	154,023.18		116,377.31
Inventories	103,480.78		
TOTAL ASSETS	\$ 7,740,378.03	\$ 8,106.68	\$ 11,105,363.38
LIABILITIES AND FUND BALANCES			
Liabilities:			
Salaries and Benefits Payable	\$ 193,106.68	\$	\$
Payroll Deductions and Withholdings	1,224,655.52	8,106.68	
Accounts Payable	490,686.76		9,517.50
Construction Contracts Payable - Retainage			589,586.98
Due to Other Agencies	5,112.25		
Deferred Revenue	29,574.46		
Total Liabilities	1,943,135.67	8,106.68	599,104.48
Fund Balances:			
Nonspendable:			
Inventory	103,480.78		
Fund B Investments	154,023.18		116,377.31
Total Nonspendable Fund Balance	257,503.96		116,377.31
Restricted for:			
State Required Carryover Programs	520,231.29		
Debt Service			
Capital Projects			10,389,881.59
Food Service			
Total Restricted Fund Balance	520,231.29		10,389,881.59
Unassigned Fund Balance	5,019,507.11		
Total Fund Balances	5,797,242.36		10,506,258.90
TOTAL LIABILITIES AND FUND BALANCES	\$ 7,740,378.03	\$ 8,106.68	\$ 11,105,363.38

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

Other Governmental Funds	Total Governmental Funds
<u> </u>	<u> </u>
\$ 1,018,150.06	\$ 19,259,788.87
2,210.22	222,088.38
6,428.04	24,877.89
21,129.79	291,530.28
<u>106,961.82</u>	<u>210,442.60</u>
<u>\$ 1,154,879.93</u>	<u>\$ 20,008,728.02</u>
\$ 10,194.76	\$ 193,106.68
	1,242,956.96
	500,204.26
	589,586.98
	5,112.25
	<u>29,574.46</u>
<u>10,194.76</u>	<u>2,560,541.59</u>
106,961.82	210,442.60
	<u>270,400.49</u>
<u>106,961.82</u>	<u>480,843.09</u>
	520,231.29
895,105.98	895,105.98
2,212.57	10,392,094.16
140,404.80	140,404.80
<u>1,037,723.35</u>	<u>11,947,836.23</u>
	<u>5,019,507.11</u>
<u>1,144,685.17</u>	<u>17,448,186.43</u>
<u>\$ 1,154,879.93</u>	<u>\$ 20,008,728.02</u>

**WALTON 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 \$ 17,448,186.43

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. 164,462,813.25

Debt issuance costs are not expensed in the government-wide statements, but are reported as deferred charges and amortized over the life of the debt. 600,625.41

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	\$ 1,025,000.00	
Other Postemployment Benefits Payable	2,893,512.00	
Compensated Absences Payable	4,928,577.97	
Certificates of Participation Payable	<u>23,045,945.84</u>	<u>(31,893,035.81)</u>

Total Net Assets - Governmental Activities \$ 150,618,589.28

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

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

	General Fund	Special Revenue - Federal Economic Stimulus Fund	Capital Projects - Local Capital Improvement Fund
Revenues			
Intergovernmental:			
Federal Direct	\$ 273,822.08	\$	\$
Federal Through State and Local	264,601.69	4,980,157.20	
State	10,152,978.41		
Local:			
Property Taxes	45,972,285.84		12,349,676.25
Charges for Services - Food Service			
Miscellaneous	1,841,463.46		62,586.93
Total Revenues	58,505,151.48	4,980,157.20	12,412,263.18
Expenditures			
Current - Education:			
Instruction	34,696,401.23	4,317,943.98	
Pupil Personnel Services	2,034,975.56	190,466.80	
Instructional Media Services	944,437.60		
Instruction and Curriculum Development Services	772,515.46	267,313.81	
Instructional Staff Training Services	209,890.31	102,179.43	
Instruction Related Technology	691,201.56		
School Board	360,213.24		
General Administration	202,248.10	83,080.92	
School Administration	4,601,800.22	10,000.00	
Facilities Acquisition and Construction			572,691.52
Fiscal Services	324,509.94		
Food Services	20,877.95		
Central Services	894,261.92		
Pupil Transportation Services	3,875,665.70		
Operation of Plant	7,848,364.61		
Maintenance of Plant	1,368,905.66		
Administrative Technology Services	319,259.45	9,172.26	
Community Services	475,257.29		
Fixed Capital Outlay:			
Facilities Acquisition and Construction			4,536,069.27
Other Capital Outlay	67,792.10		1,533,785.69
Debt Service:			
Principal			
Interest and Fiscal Charges	112,415.68		
Total Expenditures	59,820,993.58	4,980,157.20	6,642,546.48
Excess (Deficiency) of Revenues Over Expenditures	(1,315,842.10)		5,769,716.70
Other Financing Sources (Uses)			
Transfers In	2,504,974.00		6,000,000.00
Certificates of Participation Issued			
Transfers Out	(50,000.00)		(5,587,135.00)
Total Other Financing Sources (Uses)	2,454,974.00		412,865.00
Net Change in Fund Balances	1,139,131.90		6,182,581.70
Fund Balances, Beginning	4,658,110.46		4,323,677.20
Fund Balances, Ending	\$ 5,797,242.36	\$ 0.00	\$ 10,506,258.90

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

Other Governmental Funds	Total Governmental Funds
<u> </u>	<u> </u>
\$ 245,642.37	\$ 519,464.45
6,826,666.09	12,071,424.98
951,516.01	11,104,494.42
	58,321,962.09
703,944.70	703,944.70
<u>2,275.83</u>	<u>1,906,326.22</u>
<u>8,730,045.00</u>	<u>84,627,616.86</u>
2,331,356.75	41,345,701.96
151,990.06	2,377,432.42
	944,437.60
864,180.55	1,904,009.82
869,573.41	1,181,643.15
7,688.10	698,889.66
	360,213.24
126,369.55	411,698.57
	4,611,800.22
326,412.57	899,104.09
	324,509.94
3,203,624.28	3,224,502.23
1,876.00	896,137.92
14,580.00	3,890,245.70
4,687.86	7,853,052.47
32,464.97	1,401,370.63
	328,431.71
245,337.37	720,594.66
4,069,957.85	8,606,027.12
188,719.30	1,790,297.09
2,500,000.00	2,500,000.00
<u>1,056,658.69</u>	<u>1,169,074.37</u>
<u>15,995,477.31</u>	<u>87,439,174.57</u>
<u>(7,265,432.31)</u>	<u>(2,811,557.71)</u>
3,250,000.00	11,754,974.00
10,075,000.00	10,075,000.00
<u>(6,117,839.00)</u>	<u>(11,754,974.00)</u>
<u>7,207,161.00</u>	<u>10,075,000.00</u>
(58,271.31)	7,263,442.29
<u>1,202,956.48</u>	<u>10,184,744.14</u>
<u>\$ 1,144,685.17</u>	<u>\$ 17,448,186.43</u>

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

Net Change in Fund Balances - Governmental Funds **\$ 7,263,442.29**

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

Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. The following details the amount of capital outlays in excess of depreciation expense in the current fiscal year:

Capital Outlay - Facilities Acquisition and Construction - Capitalized	\$ 8,606,027.12	
Capital Outlay - Other Capital Outlay - Capitalized	1,790,297.09	
Depreciation Expense	<u>(5,433,337.83)</u>	4,962,986.38

Donated capital assets increase net assets in the statement of activities, but do not provide current financial resources and, therefore, are not reported in the governmental funds. 13,017.42

The undepreciated cost of capital assets which are sold or otherwise disposed of is expensed in the statement of activities. However, the cost of these assets was recognized as an expenditure in the governmental funds in the year purchased. Thus, the change in net assets differs from the change in fund balance by the undepreciated cost of the disposed assets. (88,571.95)

Long-term debt proceeds provide current financial resources to the governmental funds, but issuing long-term debt increase long-term liabilities in the statement of net assets. (10,075,000.00)

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. The following details the amount of repayments in the current fiscal year:

Bonds Payable	270,000.00	
Certificates of Participation	<u>2,230,000.00</u>	2,500,000.00

Governmental funds report the effects of issuance costs, premiums, discounts, and similar items in the year the debt is issued, but these amounts are deferred and amortized over the life of the debt in the statement of activities:

Amortized Deferred Charges	(140,670.07)	
Amortized Premiums	<u>61,115.08</u>	(79,554.99)

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. (448,023.00)

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 paid in excess of the amount earned in the current fiscal year. 13,957.12

Change in Net Assets - Governmental Activities **\$ 4,062,253.27**

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

**WALTON COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES -
FIDUCIARY FUNDS
June 30, 2011**

	Agency Funds
ASSETS	
Cash and Cash Equivalents	\$ 651,003.00
Investments	25,640.00
TOTAL ASSETS	\$ 676,643.00
LIABILITIES	
Accounts Payable	\$ 11,344.00
Internal Accounts Payable	665,299.00
TOTAL LIABILITIES	\$ 676,643.00

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

➤ **Reporting Entity**

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

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

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

- **Blended Component Unit.** The Walton County Public Education Finance Authority, Inc. (Authority), was formed to facilitate financing for the acquisition of facilities and equipment as further discussed in Note 6. Due to the substantive economic relationship between the District and the Authority, the financial activities of the Authority are included in the accompanying basic financial statements. Separate financial statements for the Authority are not published.
- **Discretely Presented Component Units.** The component unit columns in the government-wide financial statements include the financial data of the District's other component units.
- The Walton Education Foundation, Inc. (Foundation), is a separate not-for-profit corporation organized and operated as a direct-support organization to receive, hold, invest, and administer property and to make expenditures to and for the benefit of the District. Because of the nature and significance of its relationship with the District, the Foundation is considered a component unit.
- The Seaside School, Inc., and the Walton Academy, Inc., are separate not-for-profit corporations organized pursuant to Chapter 617, Florida Statutes, the Florida Not For Profit Corporation Act, and Section 1002.33, Florida Statutes. The charter schools operate under charters approved by their sponsor, the Walton County District School Board. The charter schools are considered to be component units of the District since they are fiscally dependent on the District to levy taxes for their support.
- The financial data reported on the accompanying statements was derived from the Foundation's and charter schools' audited financial statements for the fiscal year ended June 30, 2011. The audit reports are filed in the District's administrative offices.

➤ **Basis of Presentation**

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

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

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

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

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

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

The District reports the following major governmental funds:

- General Fund – to account for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.
- Special Revenue – Federal Economic Stimulus Fund – to account for certain Federal grant program resources related to the American Recovery and Reinvestment Act (ARRA) and other Federal stimulus programs.
- Capital Projects – Local Capital Improvement Fund – to account for the financial resources generated by the local capital improvement tax levy to be used for educational capital outlay needs, including new construction and renovation and remodeling projects.

Additionally, the District reports the following fiduciary fund type:

- Agency Funds – to account for resources of the school internal funds, which are used to administer moneys collected at several schools in connection with school, student athletic, class, and club activities.

➤ **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.

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

Governmental fund financial statements are prepared using the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers revenues to be available if they are collected within 45 days of the end of the current fiscal year. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made. Under the modified accrual basis of accounting, expenditures are generally recognized when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, other postemployment benefits, and compensated absences, which are recognized when due. Allocations of cost, such as depreciation, are not recognized in governmental funds.

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

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

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

➤ **Deposits and Investments**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term, highly liquid investments with original maturities of three months or less. Investments classified as cash equivalents include amounts placed with the State Board of Administration (SBA) in Florida PRIME, formerly known as the Local Government Surplus Funds Trust Fund Investment Pool.

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

Investments consist of amounts placed in 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. The investment pools operate under investment guidelines established by Section 215.47, Florida Statutes.

The District's investments in Florida PRIME, which SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, as of June 30, 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.

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

➤ **Capital Assets**

Expenditures for capital assets acquired or constructed for general District purposes are reported in the governmental fund that financed the acquisition or construction. The capital assets so acquired are reported at cost in the government-wide statement of net assets but are not reported in the governmental fund financial statements. Capital assets are defined by the District as those costing more than \$500. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at fair value at the date of donation. Interest cost incurred during construction of capital assets are not considered material and are not capitalized as part of the cost of construction.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

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

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

➤ **Long-Term Liabilities**

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

In the governmental fund financial statements, bonds and other long-term obligations are not recognized as liabilities until due. Governmental fund types recognize debt premiums and discounts, as well as debt issuance costs, during the current period. The face amount of debt issued is reported as other financing sources, while discounts on debt issuances are reported as other financing uses.

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

Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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

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

➤ **State Revenue Sources**

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

The State provides financial assistance to administer certain educational programs. State Board of Education rules require that revenue earmarked for certain programs be expended only for the program for which the money is provided, and require that the money not expended as of the close of the fiscal year be carried forward into the following year to be expended for the same educational programs. The Department generally requires that these educational program revenues be accounted for in the General Fund. A portion of the fund balance of the General Fund is 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 Walton County Property Appraiser, and property taxes are collected by the Walton 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

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

by the sale of interest bearing tax certificates to satisfy unpaid taxes. The procedures result in the collection of essentially all taxes prior to June 30 of the year following the year of assessment.

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

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

➤ **Federal Revenue Sources**

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

2. BUDGETARY COMPLIANCE AND ACCOUNTABILITY

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

- Budgets are prepared, public hearings are held, and original budgets are adopted annually for all governmental fund types in accordance with procedures and time intervals prescribed by law and State Board of Education rules.
- Appropriations are controlled at the object level (e.g., salaries, purchased services, and capital outlay) within each activity (e.g., instruction, pupil personnel services, and school administration) and may be amended by resolution at any Board meeting prior to the due date for the annual financial report.
- Budgetary information is integrated into the accounting system and, to facilitate budget control, budget balances are encumbered when purchase orders and other contract commitments are issued. Appropriations lapse at fiscal year-end and encumbrances outstanding are honored from the subsequent 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	\$ 9,137,144.93
Fund B Surplus Funds Trust Fund (Fund B)	7.16 Year Average	270,400.42
Debt Service Accounts	6 Months	21,129.86
Certificates of Deposit	August 2012	25,640.00
Total Investments		\$ 9,454,315.21

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

**WALTON 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 Statement No. 40 (i.e., specific identification, duration, weighted average maturity, segmented time distribution, or simulation model) is not available. An estimate of the weighted average life (WAL) is available. In the calculation of the WAL, the time at which an expected principal amount is to be received, measured in years, is weighted by the principal amount received at that time divided by the sum of all expected principal payments. The principal amounts used in the WAL calculation are not discounted to present value as they would be in a weighted average duration calculation. 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, certificates of deposits, 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.

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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	\$ 5,859,959.86	\$	\$	\$ 5,859,959.86
Land Improvements	83,602.06			83,602.06
Construction in Progress	50,055,066.14	8,602,266.63	37,980,334.99	20,676,997.78
Total Capital Assets Not Being Depreciated	55,998,628.06	8,602,266.63	37,980,334.99	26,620,559.70
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	4,911,516.12	441,334.60	257.84	5,352,592.88
Buildings and Fixed Equipment	126,248,647.37	37,980,334.99		164,228,982.36
Furniture, Fixtures, and Equipment	12,797,059.04	675,506.40	1,712,368.04	11,760,197.40
Motor Vehicles	8,489,728.86	690,234.00	341,438.52	8,838,524.34
Computer Software	1,248,988.11		120,711.38	1,128,276.73
Total Capital Assets Being Depreciated	153,695,939.50	39,787,409.99	2,174,775.78	191,308,573.71
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	2,716,779.09	221,319.34		2,938,098.43
Buildings and Fixed Equipment	32,143,214.76	3,398,383.30		35,541,598.06
Furniture, Fixtures, and Equipment	9,434,493.60	1,096,913.05	1,651,556.45	8,879,850.20
Motor Vehicles	4,644,847.25	692,757.79	349,387.52 (1)	4,988,217.52
Computer Software	1,179,851.46	23,964.35	85,259.86	1,118,555.95
Total Accumulated Depreciation	50,119,186.16	5,433,337.83	2,086,203.83	53,466,320.16
Total Capital Assets Being Depreciated, Net	103,576,753.34	34,354,072.16	88,571.95	137,842,253.55
Governmental Activities Capital Assets, Net	<u>\$ 159,575,381.40</u>	<u>\$ 42,956,338.79</u>	<u>\$ 38,068,906.94</u>	<u>\$ 164,462,813.25</u>

Note: (1) This amount includes adjustments for minor corrections.

Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Pupil Transportation Services	\$ 692,757.79
Unallocated	4,740,580.04
Total Depreciation Expense - Governmental Activities	<u>\$ 5,433,337.83</u>

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

5. CHANGES IN SHORT-TERM DEBT

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
GOVERNMENTAL ACTIVITIES				
Tax Anticipation Note, Series 2010	\$	\$ 14,370,000	\$ 14,370,000	\$
Revenue Anticipation Note, Series 2010	<u>6,000,000</u>		<u>6,000,000</u>	
Total Governmental Activities	<u>\$ 6,000,000</u>	<u>\$ 14,370,000</u>	<u>\$ 20,370,000</u>	<u>\$ 0</u>

In September 2010, the District acquired \$14,370,000 by issuing a tax anticipation note, Series 2010, to meet current operating needs pending receipt of property tax proceeds. The District repaid the note on March 23, 2011, at par plus interest of \$91,165.68.

In April 2010, the District acquired \$6,000,000 by issuing a revenue anticipation note, Series 2010, in order to finance a portion of the costs of certain capital improvements pending receipt of certificates of participation proceeds (see Note 6). This note was liquidated on August 5, 2010, at par plus interest of \$29,782.50.

6. CERTIFICATES OF PARTICIPATION

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

<u>Issue</u>	<u>Original</u>		<u>Principal</u>		<u>Refunded By Series</u>	<u>Balance 6-30-11</u>
	<u>Amount</u>	<u>Paid</u>	<u>Refunded</u>			
1999	\$ 25,960,000	\$ 9,915,000	\$ 16,045,000	2005	\$	
2005	16,660,000	3,145,000			13,515,000	
2010	10,075,000	805,000			9,270,000	

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

**WALTON COUNTY
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Ground Lease Agreements for the benefit of the securers of the Certificates until the end of the ground leases.

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

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

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 3,258,751.00	\$ 2,385,000.00	\$ 873,751.00
2013	3,256,504.00	2,460,000.00	796,504.00
2014	3,255,292.00	2,540,000.00	715,292.00
2015	3,251,436.00	2,620,000.00	631,436.00
2016	3,250,535.00	2,730,000.00	520,535.00
2017-2019	<u>10,961,468.50</u>	<u>10,050,000.00</u>	<u>911,468.50</u>
Total Minimum Lease Payments	27,233,986.50	22,785,000.00	4,448,986.50
Plus: Unamortized Premium	<u>260,945.84</u>	<u>260,945.84</u>	
Total Certificates of Participation	<u>\$ 27,494,932.34</u>	<u>\$ 23,045,945.84</u>	<u>\$ 4,448,986.50</u>

7. BONDS PAYABLE

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

<u>Bond Type</u>	<u>Amount Outstanding</u>	<u>Interest Rates (Percent)</u>	<u>Annual Maturity To</u>
State School Bonds:			
Series 2005A	\$ 545,000	5.00	2016
Series 2005B, Refunding	120,000	5.00	2018
District Revenue Bonds:			
Series 1998	<u>360,000</u>	4.83	2012
Total Bonds Payable	<u>\$ 1,025,000</u>		

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

➤ **State School Bonds**

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

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JUNE 30, 2011**

➤ **District Revenue Bonds**

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

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

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
State School Bonds:			
2012	\$ 148,250.00	\$ 115,000.00	\$ 33,250.00
2013	147,500.00	120,000.00	27,500.00
2014	146,500.00	125,000.00	21,500.00
2015	150,250.00	135,000.00	15,250.00
2016	138,500.00	130,000.00	8,500.00
2017-2018	43,000.00	40,000.00	3,000.00
Total State School Bonds	774,000.00	665,000.00	109,000.00
District Revenue Bonds:			
2012	188,161.75	175,000.00	13,161.75
2013	189,467.75	185,000.00	4,467.75
Total District Revenue Bonds	377,629.50	360,000.00	17,629.50
Total	\$ 1,151,629.50	\$ 1,025,000.00	\$ 126,629.50

8. CHANGES IN LONG-TERM LIABILITIES

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

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Due In One Year</u>
GOVERNMENTAL ACTIVITIES					
Certificates of Participation Payable	\$ 14,940,000.00	\$ 10,075,000.00	\$ 2,230,000.00	\$ 22,785,000.00	\$2,385,000.00
Unamortized Premium	322,060.92		61,115.08	260,945.84	55,285.83
Total Certificates of Participation Payable	15,262,060.92	10,075,000.00	2,291,115.08	23,045,945.84	2,440,285.83
Bonds Payable	1,295,000.00		270,000.00	1,025,000.00	290,000.00
Compensated Absences Payable	4,942,535.09	662,119.01	676,076.13	4,928,577.97	676,076.13
Other Postemployment Benefits Payable	2,445,489.00	691,363.00	243,340.00	2,893,512.00	
Total Governmental Activities	\$ 23,945,085.01	\$ 11,428,482.01	\$ 3,480,531.21	\$ 31,893,035.81	\$3,406,361.96

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

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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9. INTERFUND TRANSFERS

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	\$ 2,504,974.00	\$ 50,000.00
Capital Projects:		
Local Capital Improvement	6,000,000.00	5,587,135.00
Other Governmental	3,250,000.00	6,117,839.00
Total	\$ 11,754,974.00	\$ 11,754,974.00

The District made transfers from the Capital Projects – Local Capital Improvement Fund to Other Governmental Funds for debt service payments and to the General Fund to supplement maintenance operations and pay for other advertised projects and property and casualty insurance premiums. The District made a transfer from Other Governmental Funds to the Local Capital Improvement Fund for the repayment of the 2010 revenue anticipation note. The District transferred Charter School Capital Outlay moneys from the Other Governmental Funds to the General Fund before subsequently disbursing the moneys to the charter schools. The District transferred moneys from the General Fund to the Other Governmental Funds to supplement food service operations.

10. FUND BALANCE REPORTING

The District 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:

➤ **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 Fund B investments 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.

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➤ **Unassigned**

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

11. SCHEDULE OF STATE REVENUE SOURCES

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

<u>Source</u>	<u>Amount</u>
Categorical Educational Program - Class Size Reduction	\$ 7,575,310.00
Florida Education Finance Program	1,467,580.00
Voluntary Prekindergarten Program	358,706.12
School Recognition	341,129.00
Gross Receipts Tax (Public Education Capital Outlay)	326,393.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	240,592.56
Workforce Development Program	160,123.00
Charter School Capital Outlay Funds	117,839.00
Discretionary Lottery Funds	25,160.00
Miscellaneous	<u>491,661.74</u>
Total	<u>\$ 11,104,494.42</u>

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

12. PROPERTY TAXES

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

<u>GENERAL FUND</u>	<u>Millages</u>	<u>Taxes Levied</u>
Nonvoted School Tax:		
Required Local Effort	2.749	\$ 32,239,811.82
Basic Discretionary Local Effort	0.748	8,772,418.79
Voted Tax:		
Additional Millage	0.500	5,863,916.30
<u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	<u>1.073</u>	<u>12,583,964.38</u>
Total	<u>5.070</u>	<u>\$ 59,460,111.29</u>

13. FLORIDA RETIREMENT SYSTEM

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

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FRS is a single retirement system administered by the Florida Department of Management Services, Division of Retirement, and consists of two cost-sharing, multiple-employer retirement plans and other nonintegrated programs. These include a defined benefit pension plan (Plan), a Deferred Retirement Option Program (DROP), and a defined contribution plan, referred to as the Public Employee Optional Retirement Program (PEORP).

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

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

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

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.

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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 \$3,951,634.41, \$3,849,347.62, and \$4,105,509.34, respectively, which were equal to the required contributions for each fiscal year. There were 130 PEORP participants during the 2010-11 fiscal year. Required contributions made to PEORP totaled \$489,629.36.

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 FRS, except for DROP participants and reemployed retirees who are not eligible for renewed membership, are required to contribute 3 percent of their compensation to FRS.

14. OTHER POSTEMPLOYMENT BENEFITS PAYABLE

Plan Description. The Other Postemployment Benefits Plan (Plan) is a single-employer defined benefit plan administered by the District. Pursuant to the provisions of Section 112.0801, Florida Statutes, 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, 57 retirees received other postemployment benefits. The District provided required contributions of \$243,340 toward the annual OPEB cost, comprised of payments made on behalf of retirees and net of retiree contributions totaling \$420,515, which represents 1.3 percent of covered payroll.

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

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30 years. The following table shows the District's annual OPEB cost for the fiscal year, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation:

Description	Amount
Normal Cost (service cost for one year)	\$ 440,741
Amortization of Unfunded Actuarial Accrued Liability	246,129
Annual Required Contribution	686,870
Interest on Net OPEB Obligation	86,815
Adjustment to Annual Required Contribution	(82,322)
Annual OPEB Cost	691,363
Contribution Toward the OPEB Cost	(243,340)
Increase in Net OPEB Obligation	448,023
Net OPEB Obligation, Beginning of Year	2,445,489
Net OPEB Obligation, End of Year	\$ 2,893,512

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 two preceding years, were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2008-09	\$ 1,630,300	25.2%	\$ 1,218,988
2009-10	1,696,096	27.7%	2,445,489
2010-11	691,363	35.2%	2,893,512

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

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

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan provisions, as understood by the employer and participating members, and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and participating members. The actuarial methods and assumptions used

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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. This method was selected because it is the most common method used for governmental pension valuations and spreads the cost evenly as a percent of pay throughout the collective careers of those in the covered workforce. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 3.55 percent rate of return on invested assets, which is the District’s long-term expectation of investment returns under its investment policy. The investment rate of return includes a 3 percent general inflation rate. The actuarial assumptions also included a payroll growth rate of 4 percent per year, and an annual healthcare cost trend rate of 9 percent initially for the 2010-11 fiscal year, reduced by 0.5 percent per year, to an ultimate rate of 5 percent. 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 27 years.

15. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

Appropriations in governmental funds are encumbered upon issuance of purchase orders for goods and services. Even though appropriations lapse at the end of the fiscal year, unfilled purchase orders of the current year are carried forward and the next year's appropriations are likewise encumbered. At June 30, 2011, encumbrances in the Capital Projects – Local Capital Improvement Fund totaled \$864,784.64.

Encumbrances include the following construction contract commitments at fiscal year-end:

Project	Contract Amount	Completed to Date	Balance Committed
Walton High School Athletic Facilities	\$ 613,511.00	\$ 441,610.37	\$ 171,900.63
Emerald Coast Middle School	13,543,045.01	13,518,747.74	24,297.27
Total	<u>\$ 14,156,556.01</u>	<u>\$ 13,960,358.11</u>	<u>\$ 196,197.90</u>

16. RISK MANAGEMENT PROGRAMS

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Walton County District School Board is a member of the Panhandle Area Educational Consortium – Risk Management Consortium under which several district school boards have established a combined limited self-insurance program for property protection, general liability, automobile liability, workers' compensation, employee dishonesty, boiler and machinery, and other coverage deemed necessary by the members of the Consortium.

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

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 and reports the financial statements and transfers for the Consortium. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past three fiscal years.

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

OTHER REQUIRED SUPPLEMENTARY INFORMATION

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

	General Fund			Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues				
Intergovernmental:				
Federal Direct	\$ 151,918.00	\$ 151,918.00	\$ 273,822.08	\$ 121,904.08
Federal Through State and Local	75,000.00	75,000.00	264,601.69	189,601.69
State	9,582,025.89	10,103,950.13	10,152,978.41	49,028.28
Local:				
Property Taxes	44,991,696.00	44,991,696.00	45,972,285.84	980,589.84
Miscellaneous	1,049,503.93	2,018,775.69	1,841,463.46	(177,312.23)
Total Revenues	55,850,143.82	57,341,339.82	58,505,151.48	1,163,811.66
Expenditures				
Current - Education:				
Instruction	35,747,827.05	35,199,217.77	34,696,401.23	502,816.54
Pupil Personnel Services	2,115,073.50	2,052,884.50	2,034,975.56	17,908.94
Instructional Media Services	1,209,829.68	1,005,666.56	944,437.60	61,228.96
Instruction and Curriculum Development Services	582,358.52	791,199.96	772,515.46	18,684.50
Instructional Staff Training Services	333,473.12	272,099.22	209,890.31	62,208.91
Instruction Related Technology	807,205.38	1,325,207.83	691,201.56	634,006.27
School Board	356,280.36	391,780.36	360,213.24	31,567.12
General Administration	202,375.30	203,875.30	202,248.10	1,627.20
School Administration	4,717,130.09	4,678,006.01	4,601,800.22	76,205.79
Fiscal Services	336,826.66	338,546.66	324,509.94	14,036.72
Food Services	17,363.52	27,730.23	20,877.95	6,852.28
Central Services	806,644.28	958,112.28	894,261.92	63,850.36
Pupil Transportation Services	2,472,720.10	3,998,913.08	3,875,665.70	123,247.38
Operation of Plant	7,909,674.20	7,968,867.92	7,848,364.61	120,503.31
Maintenance of Plant	1,495,768.86	1,496,022.22	1,368,905.66	127,116.56
Administrative Technology Services	302,602.35	320,914.35	319,259.45	1,654.90
Community Services	489,652.93	489,652.93	475,257.29	14,395.64
Fixed Capital Outlay:				
Other Capital Outlay		67,792.10	67,792.10	
Debt Service:				
Interest and Fiscal Charges	125,000.00	125,000.00	112,415.68	12,584.32
Total Expenditures	60,027,805.90	61,711,489.28	59,820,993.58	1,890,495.70
Excess (Deficiency) of Revenues Over Expenditures	(4,177,662.08)	(4,370,149.46)	(1,315,842.10)	3,054,307.36
Other Financing Sources (Uses)				
Transfers In	2,345,000.00	2,617,135.00	2,504,974.00	(112,161.00)
Transfers Out	(500,000.00)	(200,000.00)	(50,000.00)	150,000.00
Total Other Financing Sources (Uses)	1,845,000.00	2,417,135.00	2,454,974.00	37,839.00
Net Change in Fund Balances	(2,332,662.08)	(1,953,014.46)	1,139,131.90	3,092,146.36
Fund Balances, Beginning	4,545,608.42	4,658,110.46	4,658,110.46	
Fund Balances, Ending	\$ 2,212,946.34	\$ 2,705,096.00	\$ 5,797,242.36	\$ 3,092,146.36

Special Revenue - Federal Economic Stimulus Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
\$ 3,727,361.26	\$ 5,177,060.23	\$ 4,980,157.20	\$ (196,903.03)
<u>3,727,361.26</u>	<u>5,177,060.23</u>	<u>4,980,157.20</u>	<u>(196,903.03)</u>
3,094,602.18	4,379,490.77	4,317,943.98	61,546.79
68,276.15	198,760.98	190,466.80	8,294.18
319,479.39	295,533.36	267,313.81	28,219.55
136,449.28	177,711.10	102,179.43	75,531.67
7,432.62	779.49		779.49
101,121.64	95,406.63	83,080.92	12,325.71
	15,000.00	10,000.00	5,000.00
	12,600.00	9,172.26	3,427.74
	1,777.90		1,777.90
<u>3,727,361.26</u>	<u>5,177,060.23</u>	<u>4,980,157.20</u>	<u>196,903.03</u>
<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(A)	(B)	(B-A)	(A/B)	(C)	[(B-A)/C]
October 1, 2007	\$ 0	\$ 18,881,231	\$ 18,881,231	0.0%	\$ 32,872,430	57.4%
October 1, 2010	0	7,185,173	7,185,173	0.0%	33,151,003	21.7%

**WALTON 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 \$7,185,173 was significantly lower than the October 1, 2007, liability of \$18,881,231 as a result of benefit changes and other changes in liabilities and costs as discussed below:

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)	Amount Provided to Subrecipients
United States Department of Agriculture:				
Indirect:				
Child Nutrition Cluster:				
Florida Department of Education:				
School Breakfast Program	10.553	321	\$ 428,528.22	\$
National School Lunch Program	10.555	300	1,593,196.10	
Summer Food Service Program for Children	10.559	323	15,573.60	
Florida Department of Agriculture and Consumer Services:				
National School Lunch Program	10.555 (2)	None	196,208.00	
Total Child Nutrition Cluster			2,233,505.92	
Florida Department of Financial Services:				
Secure Payments for States and Counties Containing Federal Lands	10.665	None	3,224.54	
Total United States Department of Agriculture			2,236,730.46	
United States Department of Education:				
Direct:				
Impact Aid	84.041 (3)	N/A	214,863.00	
Federal Pell Grant Program	84.063	N/A	245,642.37	
Total Direct			460,505.37	
Indirect:				
Title I, Part A Cluster:				
Florida Department of Education:				
Title I Grants to Local Educational Agencies	84.010	212, 222, 223, 226, 228	2,247,061.10	86,071.34
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	212, 223, 226	402,498.87	
Total Title I, Part A Cluster			2,649,559.97	86,071.34
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027	263	1,347,124.14	
Special Education - Preschool Grants	84.173	267	37,453.62	
ARRA - Special Education - Grants to States, Recovery Act	84.391	263	893,359.46	
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	267	18,349.35	
University of South Florida:				
Special Education - Grants to States	84.027	None	5,100.00	
Total Special Education Cluster			2,301,386.57	
Educational Technology State Grants Cluster:				
Florida Department of Education:				
Education Technology State Grants	84.318	121, 122	148,791.57	
ARRA - Education Technology State Grants, Recovery Act	84.386	121	4,869.38	
Total Educational Technology State Grants Cluster			153,660.95	
State Fiscal Stabilization Fund Cluster:				
Florida Department of Education:				
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	591	2,150,025.00	
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	592	42,714.00	
Total State Fiscal Stabilization Fund Cluster			2,192,739.00	
Florida Department of Education:				
Career and Technical Education - Basic Grants to States	84.048	161	164,882.95	
Transition to Teaching	84.350	227	102,802.49	
Rural Education	84.358	110	136,071.73	
English Language Acquisition Grants	84.365	102	34,133.19	
Improving Teacher Quality State Grants	84.367	224	374,860.76	
ARRA - Education for Homeless Children and Youth, Recovery Act	84.387	127	25,692.68	
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	RL111	30,151.46	
Education Jobs Fund	84.410	541	1,412,497.00	40,193.94
Total Indirect			9,578,438.75	126,265.28
Total United States Department of Education			10,038,944.12	126,265.28
United States Department of Homeland Security:				
Indirect:				
Florida Department of Education:				
Homeland Security Grant Program	97.067	532	1,698.14	
United States Department of Defense:				
Direct:				
Air Force Junior Reserve Officers Training Corps	None	N/A	58,959.08	
Total Expenditures of Federal Awards			\$ 12,336,331.80	\$ 126,265.28

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
 (3) **Impact Aid.** Expenditures include \$43,582 for grant number/program S041A-2007-1272; \$105,364 for grant number/program S041A-2011-1272; and \$65,917 for grant number/program S041A-2008-1272.



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

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

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Walton County District School Board as of and for the fiscal year ended June 30, 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 and the aggregate discretely presented component units, as described in our report on the Walton County District School Board's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

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

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

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

Respectfully submitted,



David W. Martin, CPA
February 21, 2012



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

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

Compliance

We have audited the Walton County District School Board's compliance with the types of compliance requirements described in the United States Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the District's major Federal programs for the fiscal year ended June 30, 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. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding No. 1.

Internal Control Over Compliance

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

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

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

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

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

Respectfully submitted,



David W. Martin, CPA
February 21, 2012

**WALTON 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)?	Yes
Type of report the auditor issued on compliance for major programs:	Unqualified for all major programs
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	Yes
Identification of major programs:	Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559); Special Education Cluster (CFDA Nos. 84.027, 84.173, 84.391 - ARRA, and 84.392 - ARRA); 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); Improving Teacher Quality State Grants (CFDA No. 84.367); and Education Jobs Fund (CFDA No. 84.410)
Dollar threshold used to distinguish between Type A and Type B programs:	\$370,089
Auditee qualified as low-risk auditee?	Yes

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

The District established performance assessment procedures generally based on criteria prescribed by Section 1012.34(3)(a), Florida Statutes (2010), except that District records did not sufficiently evidence that instructional personnel and school administrators were evaluated primarily based on student performance. Although student performance was a consideration in completing instructional and school administrator evaluation forms, District records did not sufficiently evidence a correlation between student performance and the employee's performance assessment, nor that student performance was the primary factor for the overall evaluation rating. For example, the evaluation form did not provide a numeric indicator to show that student achievement was the primary contributing factor used to evaluate employee performance.

District personnel indicated that the District used evaluation forms, designed before enactment of the statutorily-required process, and revisions to performance assessments were delayed 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 may not effectively communicate the employee's accomplishments or shortcomings. A similar finding was noted in our report No. 2011-066.

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.

Recommendation: The District should continue its efforts to document that performance assessments of instructional personnel and school administrators consider student performance as required by law.

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 contract 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 contract 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 salary supplements for additional responsibilities beyond the standard work day, such as supplements for athletic coaches and band directors. In addition, the District has historically employed teachers as speech language pathologists in a higher pay scale due to the District's prior determination that the speech language pathologist position was a critical shortage area that required a higher pay scale to attract individuals for the job. However, neither the salary schedule nor the union contract specifically identified this position as a critical shortage area, and these records did not evidence differentiated pay based on school demographics and level of job performance difficulties for instructional personnel, contrary to Section 1012.22(1)(c)4., Florida Statutes (2010).

- **School-based Administrators.** The administrative salary schedule for school-based administrators evidenced consideration of differentiated pay for additional responsibilities, school demographics, and level

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.

of job performance difficulties based on the student enrollment of the school. For example, high school principals at schools with more than 700 students are in a higher pay scale than those high school principals with 600 to 700 students and those less than 600 students. 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 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 differentiated pay, the District may be limited in its ability to demonstrate that each instructional employee's performance correlates to their compensation and the various differentiated pay factors are consistently considered and applied. A similar finding was noted in our report No. 2011-066.

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: Electronic Funds Transfers

Section 1010.11, Florida Statutes, requires the Board to adopt written policies prescribing the accounting and control procedures for electronic funds transfers (EFTs) for any purpose including direct deposit, wire transfer, withdrawal, investment, or payment consistent with the provisions of Chapter 668, Florida Statutes. Pursuant to Section 668.006, Florida Statutes, the District is responsible for implementing control processes and procedures to ensure adequate integrity, security, confidentiality, and auditability of business transactions conducted using electronic commerce. In addition, State Board of Education (SBE) Rule 6A-1.0012, Florida Administrative Code (FAC), authorizes the District to make EFTs provided adequate internal control measures are established and maintained, such as a written agreement with a financial institution. An agreement must, among other things, contain the title of the bank account subject to the agreements and the manual signatures of the Board chair, superintendent, and employees authorized to initiate EFTs. Also, SBE Rule 6A-1.0012, FAC, requires the District to maintain documentation signed by the initiator and authorizer of EFTs to confirm the authenticity of EFTs.

Board policy requires the Superintendent to develop the accounting and control procedures under which EFTs may be made. The Board adopted finance office procedures that detail the routine procedures of personnel in this office, such as procedures to electronically transfer moneys for retirement benefits, Federal withholding taxes, direct deposits of employee pay, and between District investment and bank accounts. Also, the District established EFT bank agreements with two banks containing the signatures of the Board chair and employees authorized to make EFTs, and the District maintained documentation evidencing that EFTs were initiated by an employee who was not the employee who authorized EFTs.

Documentation supporting EFT transactions tested contained the authorized initiator and approver signatures and the initiator and approver of the EFTs were different employees. However, the Board-adopted written EFT procedures did not require that the initiator and authorizer of EFTs be different employees, that EFTs be reviewed and authorized by supervisory personnel, or that EFTs be confirmed in writing. In addition, the bank agreements with the District's two depositories did not require separate approvals of EFTs and the agreement for one bank depository was outdated as the agreement authorized a former superintendent, whose term ended in November 2004,

to change the bank accounts to which funds could be transferred. Subsequent to our inquiries, in January 2012 the District revised its bank agreements to delete the signature of the former superintendent and replace it with the current superintendent's signature.

Recommendation: The Board should enhance written policies and procedures to ensure adequate integrity, security, confidentiality, and auditability of business transactions conducted using electronic commerce consistent with applicable Florida Statutes and SBE Rules. Such procedures should ensure that the District timely update bank agreements for personnel changes.

Finding No. 4: 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 (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 to FDOE 23,051 adult general education contact hours for 156 students. Our tests of 1,300 hours reported for 10 students enrolled in 22 adult general education classes disclosed exceptions in the enrollment reporting for 7 students enrolled in 12 of the classes, resulting in a net 114 overreported hours. District personnel indicated that these exceptions were due to errors made by District personnel when recording attendance, submitting class information, or entering student entry and exit dates. Since future funding may be based, in part, on enrollment data submitted to FDOE, it is important that such data be submitted correctly. Similar findings were noted in our previous audit reports, most recently in our report No. 2011-066.

Recommendation: The District should enhance its controls over the reporting of instructional contact hours for adult general education classes to FDOE. Further, the District should determine the extent of hours misreported and contact FDOE for proper resolution.

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

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

The District did not have a written security incident response plan but, as of January 2012, a plan was being developed. Should an event occur that involves the potential or actual compromise, loss, or destruction of District data or information technology (IT) resources, the lack of a written security incident response plan could result in the District's failure to take appropriate and timely actions to prevent further loss or damage to the District's data and IT resources.

Recommendation: The District should continue its efforts to develop a written security incident response plan to provide reasonable assurance that the District will respond in an appropriate and timely 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 FINDING AND QUESTIONED COSTS

Federal Awards Finding No. 1:
Federal Agency: United States Department of Agriculture
Pass-Through Entity: Florida Department of Education
Programs: Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559)
Finding Type: Noncompliance and Significant Deficiency
Questioned Costs: None

Allowable Costs/Cost Principles – Documentation of Time and Effort. United States Office of Management and Budget (OMB) Circular A-87, Attachment A, Section C.1, provides, in part, that costs must be adequately documented to be allowable under Federal awards. OMB Circular A-87 further provides that charges to Federal awards for salaries and wages be based on payrolls documented in accordance with generally accepted practices of the governmental unit and approved by a responsible official of the governmental unit. Where employees are expected to work on multiple cost activities or cost objectives, a distribution of their salaries or wages will be supported by monthly personnel activity reports or equivalent documentation. These reports must reflect an after-the-fact distribution of the actual activity of each employee and must be signed by the employee.

For the 2010-11 fiscal year, the District reported expenditures from Child Nutrition Cluster (CNC) programs totaling approximately \$2.2 million, and recorded program salary and benefit expenditures totaling approximately \$1.9 million. While reviewing District payroll records, we noted three employees whose salaries and benefits were distributed 50 percent to CNC programs and the remainder to other cost objectives. The CNC expenditures for these three employees totaled \$107,337.25; however, the employees did not maintain personnel activity reports or other documentation to evidence the time devoted to the programs because they were unaware of the Federal recordkeeping requirements. Absent the required documentation, we performed additional audit procedures, including interviewing supervisory personnel, and determined that the employees devoted the appropriate amount of time on Federal program activities for their respective salary charges.

When personnel activity reports or other evidence to delineate the job responsibilities and work activities of employees are not properly maintained, there is an increased risk that personnel costs may be inappropriately charged to a Federal program.

Recommendation: The District should enhance its procedures to ensure that personnel activity reports or equivalent documentation are maintained for employees who work on multiple activities or cost objectives.

District Contact Person: Mary Hobbs, Chief Finance Officer

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the District had taken corrective actions for findings included in our report No. 2011-066.

MANAGEMENT'S RESPONSE

Management's response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

*WALTON COUNTY
DISTRICT SCHOOL BOARD
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - FEDERAL AWARDS
For the Fiscal Year Ended June 30, 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
2011-066		There were no prior Federal audit findings.		

EXHIBIT A
MANAGEMENT’S RESPONSE

Carlene H. Anderson
Superintendent of Schools



145 Park Street
DeFuniak Springs, FL 32435
850.892.1100
Fax 850.892-1191
www.walton.k12.fl.us

February 21, 2012

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

Dear Mr. Martin:

In response to your preliminary and tentative audit findings for the fiscal year ended June 30, 2011, I submit the following explanations and corrective actions:

Finding No. 1: Performance Assessments

The District will continue to improve its procedures to ensure that performance assessments of instructional personnel and school administrators are primarily based on student performance, and we will ensure that records are maintained to evidence this. We are in the process of developing the methods and measures necessary to ensure that this is properly reflected in the assessments and maintained accordingly.

Finding No.2: Compensation and Salary Schedules

The District is in the process of adopting 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 the salary schedules. It has been extremely difficult to develop differentiated pay schedules based on such factors as additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties, especially in those areas subject to collective bargaining. However, we are making progress and will continue to do so.

Finding No. 3: Electronic Funds Transfers

The District has enhanced its written procedures to include the timely update of bank agreements as well as ensuring that the initiator and the authorizer of an EFT or wire transfer will be different individuals, and will be reviewed and authorized by supervisory personnel. The District has also updated procedures to include that the EFT’s will be confirmed in writing. We will continue to closely monitor these transactions to ensure adequate integrity, security, confidentiality, and auditability of business transactions conducted using electronic commerce consistent with applicable Florida Statutes and SBE Rules.

Finding No. 4: Adult General Education Classes

The District continues to improve its controls over the reporting of instructional contact hours for adult general education classes to FDOE. The District has now developed a computer program to correctly report the entry and exit dates of the students and will continue to monitor this closely to prevent future errors. The District has been in contact with the FDOE for proper resolution of the over-reported hours.

“Making All Decisions in the Best Interest of Students.”

Mildred Wilkerson
District 1

Faye Leddon
District 2

Sharon Roberts
District 3

Mark D. Davis
District 4

Dennis Wallace
District 5

EXHIBIT A
MANAGEMENT’S RESPONSE (CONTINUED)

Page 2 of 2
Walton County School District

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

The District is continuing its efforts to 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

The District is in the process of improving security controls related to data loss prevention to ensure the continued confidentiality, integrity, and availability of District data and IT resources. We have our technical personnel working on this matter.

Federal Awards Finding and Questioned Costs

Finding No.1: Allowable Costs/Cost Principles-Documentation of Time and Effort.

The District has enhanced its procedures to ensure that personnel activity reports are maintained for employees who work on multiple activities or cost objectives.

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

Sincerely,



Carlene H. Anderson
Superintendent of Schools
Walton County School District