REPORT NO. 2013-121
MARCH 2013

# OKALOOSA COUNTY DISTRICT SCHOOL BOARD

## Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended
June 30, 2012

STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

## BOARD MEMBERS AND SUPERINTENDENT

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

| | District No. |
|---|---|
| Cindy Frakes | 1 |
| Charles R. Kelley, Jr. | 2 |
| Rodney L. Walker, Chair | 3 |
| Cathy Thigpen, Vice Chair | 4 |
| Melissa Thrush | 5 |

Dr. Alexis Tibbetts, 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 Joan E. Valle, CPA, and the audit was supervised by James W. Kiedinger, Jr., CPA. For the information technology portion of this audit, the audit team leader was Will Marshall and the supervisor was Heidi G. Burns, CPA, CISA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Manager, by e-mail at gregcenters@aud.state.fl.us or by telephone at (850) 487-9039.

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

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# EXECUTIVE SUMMARY

## Summary of Report on Financial Statements

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

## Summary of Report on Internal Control and Compliance

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

### SIGNIFICANT DEFICIENCY

**Finding No. 1: Financial reporting procedures could be improved to ensure that construction expenditures and related payables are properly reported.**

**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. 2: The Board had not adopted policies and procedures for communicating and reporting known or suspected fraud.**

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

**Finding No. 4: Controls over electronic funds transfers could be enhanced.**

**Finding No. 5: The Board had not established a documented process to identify instructional personnel entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4.b., Florida Statutes.**

**Finding No. 6: Controls over facilities construction activities could be enhanced.**

**Finding No. 7: The District did not ensure that its total program manager maintained sufficient insurance coverage.**

**Finding No. 8: District records did not always evidence that ad valorem tax levy proceeds were used for authorized purposes, resulting in $299,300 of questioned costs.**

**Finding No. 9: Controls over the purchasing card program could be strengthened.**

**Finding No. 10: Some inappropriate information technology (IT) access privileges existed, indicating a need for an improved review of access privileges.**

**Finding No. 11: The District did not timely deactivate IT network and operating system access privileges of some former employees.**

**Finding No. 12: The District's IT security awareness training program needed improvement with regard to providing ongoing security awareness training for current employees.**

**Finding No. 13: District IT security controls related to user authentication and 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 Special Education Cluster, Improving Teacher Quality, Race-to-the-Top, and Disaster Grants 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 noncompliance and a control deficiency finding as summarized below.**

**Federal Awards Finding No. 1: District records did not initially evidence that District personnel verified receipt of certain Special Education program services to eligible students before payments for such services were made.**

## Audit Objectives and Scope

**Our audit objectives were to determine whether the Okaloosa 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 previous audit reports.**

**The scope of this audit included an examination of the District's basic financial statements and the Schedule of Expenditures of Federal Awards as of and for the fiscal year ended June 30, 2012. We obtained an understanding of the District's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements and Federal awards. We also examined various transactions to determine whether they were executed, both in manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.**

## Audit Methodology

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

# AUDITOR GENERAL
## STATE OF FLORIDA

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

DAVID W. MARTIN, CPA
AUDITOR GENERAL

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

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

**INDEPENDENT AUDITOR'S**
**REPORT ON FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Okaloosa County District School Board, as of and for the fiscal year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the school internal funds, which represent 34 percent of the assets and 82 percent of the liabilities of the aggregate remaining fund information. Additionally, 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 Okaloosa County District School Board as of June 30, 2012, and the respective changes in financial position thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

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

Respectfully submitted,

David W. Martin, CPA
February 8, 2013

# MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Okaloosa County District School Board (Board) has prepared the following discussion and analysis to provide an overview of the District's financial activities for the fiscal year ended June 30, 2012. The information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events, and conditions and should be considered in conjunction with the District's financial statements and notes to financial statements found immediately following the MD&A.

## FINANCIAL HIGHLIGHTS

Key financial highlights for the 2011-12 fiscal year are as follows:

- In total, the District's net assets decreased $6,443,094, which represents a 3.15 percent decrease from the 2010-11 fiscal year.
- General revenues total $230,521,600, or 93.86 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total $15,083,771, or 6.14 percent of all revenues.
- Expenses total $252,048,465. Only $15,083,771 of these expenses was offset by program specific charges, with the remainder paid from general revenues.
- Total long-term liabilities decreased $6,533,923, or 6.44 percent. Within long-term liabilities, the liability for compensated absences payable decreased $587,923, or 2.34 percent; the liability for estimated insurance claims payable increased $25,000, or 0.66 percent; the liability for debt decreased $6,150,000, or 8.51 percent; and the liability for other postemployment benefits payable increased $179,000, or 88.18 percent in the fifth year after establishing this liability.
- The unassigned fund balance of the General Fund, which is available for general appropriation by the Board, totals $11,226,755 at June 30, 2012, or 5.47 percent of total General Fund expenditures as compared to the unassigned fund balance of $10,284,036 at June 30, 2011.

## 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. This information should be evaluated in conjunction with other nonfinancial factors, such as changes in the District's property base, student enrollment, and the condition of the District's capital assets, including its school buildings and administrative facilities.

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 Okaloosa Academy, Inc., the Liza Jackson Preparatory School, Inc., and The Okaloosa Public Schools 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 Okaloosa School Board Leasing Corporation (Leasing Corporation), although also a legally separate entity, was formed to facilitate financing for the acquisition of facilities and equipment for the District. Due to the substantive economic relationship between the District and the Leasing Corporation, the Leasing Corporation has been included 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, the Capital Projects – Other Fund, and the Special Revenue – Federal Economic Stimulus 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 and for resources held for employees in an IRS Section 125 Cafeteria Plan.

### Notes to Financial Statements

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. The following is a summary of the District's net assets as of June 30, 2012, as compared to net assets as of June 30, 2011:

**Net Assets, End of Year**

| | Governmental Activities | | |
|---|---|---|---|
| | 6-30-12 | 6-30-11 | Increase (Decrease) |
| Current and Other Assets | $ 78,237,925 | $ 83,081,793 | $ (4,843,868) |
| Capital Assets | 219,281,880 | 226,803,974 | (7,522,094) |
| **Total Assets** | 297,519,805 | 309,885,767 | (12,365,962) |
| Long-Term Liabilities | 94,858,414 | 101,392,337 | (6,533,923) |
| Other Liabilities | 4,283,585 | 3,672,529 | 611,056 |
| **Total Liabilities** | 99,141,999 | 105,064,866 | (5,922,867) |
| Net Assets: | | | |
| Invested in Capital Assets - Net of Related Debt | 155,040,792 | 156,759,687 | (1,718,895) |
| Restricted | 20,827,924 | 24,425,248 | (3,597,324) |
| Unrestricted | 22,509,090 | 23,635,966 | (1,126,876) |
| **Total Net Assets** | $ 198,377,806 | $ 204,820,901 | $ (6,443,095) |

The largest portion of the District's net assets (78.15 percent) reflects its investment in capital assets (e.g., land; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; construction in progress; and audio visual materials and computer software), 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 (10.5 percent) represents resources that are subject to external restrictions on how they may be used. The unrestricted net assets (11.35 percent) may be used to meet the District's ongoing obligations to students, employees, and creditors.

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

**Operating Results for the Fiscal Year Ended**

| | Governmental Activities | | |
|---|---|---|---|
| | 6-30-12 | 6-30-11 | Increase (Decrease) |
| Program Revenues: | | | |
| Charges for Services | $ 6,655,794 | $ 6,560,911 | $ 94,883 |
| Operating Grants and Contributions | 6,546,245 | 5,892,667 | 653,578 |
| Capital Grants and Contributions | 1,881,732 | 3,520,592 | (1,638,860) |
| General Revenues: | | | |
| Property Taxes, Levied for Operational Purposes | 90,133,898 | 91,003,035 | (869,137) |
| Property Taxes, Levied for Capital Projects | 21,604,759 | 22,733,279 | (1,128,520) |
| Grants and Contributions Not Restricted to Specific Programs | 115,116,755 | 133,405,898 | (18,289,143) |
| Unrestricted Investment Earnings | 560,203 | 927,337 | (367,134) |
| Miscellaneous | 3,105,985 | 5,444,558 | (2,338,573) |
| **Total Revenues** | 245,605,371 | 269,488,277 | (23,882,906) |
| Functions/Program Expenses: | | | |
| Instruction | 147,333,050 | 156,291,559 | (8,958,509) |
| Pupil Personnel Services | 6,139,256 | 6,843,614 | (704,358) |
| Instructional Media Services | 1,037,203 | 1,281,222 | (244,019) |
| Instruction and Curriculum Development Services | 6,525,599 | 7,495,403 | (969,804) |
| Instructional Staff Training Services | 1,221,730 | 810,818 | 410,912 |
| Instruction Related Technology | 745,396 | 812,894 | (67,498) |
| School Board | 1,458,665 | 1,295,508 | 163,157 |
| General Administration | 934,098 | 1,394,193 | (460,095) |
| School Administration | 13,182,154 | 14,360,868 | (1,178,714) |
| Facilities Acquisition and Construction | 9,924,341 | 13,938,763 | (4,014,422) |
| Fiscal Services | 1,557,470 | 1,722,730 | (165,260) |
| Food Services | 10,140,124 | 9,969,687 | 170,437 |
| Central Services | 2,549,526 | 2,443,034 | 106,492 |
| Pupil Transportation Services | 10,726,783 | 11,548,701 | (821,918) |
| Operation of Plant | 16,036,768 | 15,488,073 | 548,695 |
| Maintenance of Plant | 6,720,917 | 7,634,639 | (913,722) |
| Administrative Technology Services | 2,596,798 | 2,771,348 | (174,550) |
| Community Services | 1,135,313 | 1,179,485 | (44,172) |
| Unallocated Interest on Long-Term Debt | 2,955,740 | 3,204,005 | (248,265) |
| Unallocated Depreciation Expense | 9,127,534 | 9,208,708 | (81,174) |
| **Total Functions/Program Expenses** | 252,048,465 | 269,695,252 | (17,646,787) |
| **Decrease in Net Assets** | $ (6,443,094) | $ (206,975) | $ (6,236,119) |

The largest revenue source is the State of Florida (38.77 percent). Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data, and is designed to maintain equity in funding across all Florida school districts, taking into consideration the District's funding ability based on the local property tax base.

Grants and contributions not restricted to specific programs represented 46.87 percent of total governmental revenues in the 2011-12 fiscal year. Grants and contributions not restricted to specific programs decreased by $18,289,143, or 13.71 percent, primarily due to the elimination of nonrecurring sources of revenue, including American Recovery and Reinvestment Act (ARRA) stabilization and targeted funds and the Education Jobs Fund programs. Capital grants and contributions decreased by $1,638,860, or 46.55 percent, primarily due to a decrease in funding from State Public Education Capital Outlay (PECO) appropriations.

Instruction expenses represent 58.45 percent of total governmental expenses for the 2011-12 fiscal year. Instruction expenses decreased by $8,958,509, or 5.73 percent from the 2010-11 fiscal year primarily due to the elimination of nonrecurring sources of revenue that funded staffing positions in the previous fiscal year.

Property tax revenues decreased by $1,997,657, or 1.76 percent, as a result of a $735,770,220 decrease in taxable assessed values of property partially offset by a 3.12 percent increase in the total millage rate.

## FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

### Major Governmental Funds

The General Fund is the District's chief operating fund. At the end of the current fiscal year, total fund balance is $63,721,384, which is an increase of $119,682 over June 30, 2011. Of the total fund balance, $1,025,895 is nonspendable; $11,226,755 is unassigned; $38,974,853 is assigned; and $12,493,881 is restricted for State required carryover programs. Key factors affecting the operations of this fund were as follows:

- State revenues increased by $611,274, or by 0.66 percent, due primarily to an increase in enrollment in the 2011-12 fiscal year. The increase in funding received from the FEFP and other State operating revenues offsets the continuing impact of a reduced local property tax base.
- Total expenditures increased by $4,109,316, or 2.04 percent; due mainly to an increase totaling $7,519,688 in instruction expenditures related to the District's commitment to comply with the State constitutional class size reduction mandate. The increase in instruction expenditures was offset by a decrease in maintenance of plant expenditures totaling $912,449, and a decrease in pupil transportation expenditures totaling $751,040. The decreases are due primarily to the Board's effort to consolidate and provide services in the most effective and efficient way possible.

The Special Revenue – Federal Economic Stimulus Fund has total revenues and expenditures of $857,583 each for the current fiscal year, representing decreases of $19,962,859 each, or 95.88 percent, from the previous fiscal year. The significant decreases were primarily due to reductions in funding and related expenditures, primarily for staffing positions and equipment, from nonrecurring ARRA and Education Jobs Fund sources. Because grant revenues attributed to the grants accounted for in this fund are not recognized until expenditures are incurred, this fund generally does not accumulate fund balance.

The Capital Projects – Other Fund has a total fund balance of $2,408,130, which must be used for the acquisition, construction, and maintenance of capital assets. Of the total fund balance, $71,271 has been encumbered for specific projects. The fund balance decreased $2,117,494, or 46.79 percent, for the 2011-12 fiscal year mainly because expenditures for renovations and repairs and transfers for charter school capital outlay exceeded revenues by that amount.

## GENERAL FUND BUDGETARY HIGHLIGHTS

The District's budgets are prepared and amendments are made according to Florida Law. The most significant budgeted fund is the General Fund.

During the 2011-12 fiscal year, the District amended its General Fund budget several times, which resulted in an increase in total budgeted revenues amounting to $1,141,053, or 0.6 percent. At the same time, final appropriations are less than the original budgeted amounts by $1,679,081, or 0.75 percent. Final budgeted ending fund balance was $158,013 less than the original budgeted fund balance. Budget revisions were due primarily to changes in estimated State funding levels and corresponding adjustments to planned expenditures to ensure maintenance of an adequate fund balance.

Actual revenues are 0.79 percent greater than the final budgeted amounts while actual expenditures were $205,172,551, or 9.63 percent less than final budgeted amounts. Budgeted expenditures decreased due to changes in planned expenditures for instruction and certain services and as various other variable factors were considered. The actual ending fund balance exceeded the estimated fund balance contained in the final amended budget by $23,374,161, and the actual fund balance increased by only $119,682, or 0.19 percent.

## CAPITAL ASSETS AND LONG-TERM DEBT

### Capital Assets

The District's investment in capital assets for its governmental activities as of June 30, 2012, amounts to $219,281,880 (net of accumulated depreciation). This investment in capital assets includes land; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; construction in progress; and audio visual materials and computer software.

As a result of the decline in property tax values, the elimination of State PECO funding, and transfers from capital projects funds to the General Fund, the District was unable to provide funding for any major construction projects.

Additional information on the District's capital assets can be found in notes 4 and 14 to the financial statements.

### Long-Term Debt

At June 30, 2012, the District has total long-term debt outstanding of $66,140,000. This amount is comprised of $7,150,000 of bonds payable and $58,990,000 of certificates of participation payable. During the current fiscal year, retirement of debt amounted to $6,150,000.

Additional information on the District's long-term debt can be found in notes 5 through 7 to the financial statements.

## OTHER MATTERS OF SIGNIFICANCE

The School Board of Okaloosa County remains in stable financial condition but continues to face uncertain economic times. The District's current operations depend on State revenue sources, primarily FEFP moneys administered by the Florida Department of Education under the provisions of Section 1011.62, Florida Statutes. In accordance with this law, the District received FEFP moneys based on the number of full-time equivalent (FTE) students. The District experienced an increase in FTE funding for the 2011-12 fiscal year, and anticipates another increase in the 2012-13 fiscal year.

Although student enrollment is projected to increase over the next few years, the economic position of school districts for general operating purposes is closely tied to that of the State of Florida. The primary source of State revenue is sales tax, which has demonstrated to be an unstable and unreliable revenue stream. Economic conditions which affect consumer spending, both nationally and specifically in the State of Florida, will impact the amount of revenue received by the District. Additionally, the level of tourism in the State heavily influences the amount of taxes collected. Significant changes in State revenue collections could directly impact future District revenue allocations.

## REQUESTS FOR INFORMATION

The District's annual financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate compliance and accountability for its resources. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, Okaloosa County School District, 120 Lowery Place S.E., Ft. Walton Beach, Florida, 32548, or telephone (850) 833-5840.

# BASIC FINANCIAL STATEMENTS

***OKALOOSA COUNTY***
***DISTRICT SCHOOL BOARD***
***STATEMENT OF NET ASSETS***
***June 30, 2012***

| | Primary Government Governmental Activities | Component Units |
|---|---|---|
| **ASSETS** | | |
| Cash and Cash Equivalents | $ 73,624,587.35 | $ 616,245.00 |
| Investments | 2,173,408.04 | 44,354.00 |
| Accounts Receivable | 153,302.27 | 25,111.00 |
| Cash Equivalents with Fiscal Agent | 611,332.50 | |
| Due from Other Agencies | 1,395,908.70 | 84,806.00 |
| Deposits Receivable | | 45,000.00 |
| Prepaid Items | | 116,880.00 |
| Inventories | 279,386.77 | |
| Capital Assets: | | |
| Nondepreciable Capital Assets | 11,797,834.85 | 487,339.00 |
| Depreciable Capital Assets, Net | 207,484,044.78 | 506,568.00 |
| **TOTAL ASSETS** | $ 297,519,805.26 | $ 1,926,303.00 |
| **LIABILITIES** | | |
| Salaries and Benefits Payable | $ 2,077,583.02 | $ 123,804.00 |
| Accounts Payable | 918,332.91 | 7,486.00 |
| Construction Contracts Payable | 1,208,877.97 | |
| Retainage Payable | 28,949.17 | |
| Due to Other Agencies | | 14,270.00 |
| Deposits Payable | 1,000.00 | |
| Deferred Revenue | 48,842.00 | 6,954.00 |
| Long-Term Liabilities: | | |
| Portion Due Within One Year | 11,390,846.00 | |
| Portion Due After One Year | 83,467,567.76 | 2,524.00 |
| **Total Liabilities** | 99,141,998.83 | 155,038.00 |
| **NET ASSETS** | | |
| Invested in Capital Assets, Net of Related Debt | 155,040,791.56 | 991,383.00 |
| Restricted for: | | |
| State Required Carryover Programs | 12,493,881.00 | |
| Debt Service | 146,407.75 | |
| Capital Projects | 7,189,613.05 | 24,627.00 |
| Food Service | 998,023.37 | |
| Other Purposes | | 70,788.00 |
| Unrestricted | 22,509,089.70 | 684,467.00 |
| **Total Net Assets** | 198,377,806.43 | 1,771,265.00 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 297,519,805.26 | $ 1,926,303.00 |

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

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***OKALOOSA COUNTY***
***DISTRICT SCHOOL BOARD***
***STATEMENT OF ACTIVITIES***
***For the Fiscal Year Ended June 30, 2012***

| Functions/Programs | Expenses | Program Revenues: Charges for Services | Program Revenues: Operating Grants and Contributions | Program Revenues: Capital Grants and Contributions |
|---|---|---|---|---|
| **Primary Government** | | | | |
| **Governmental Activities:** | | | | |
| Instruction | $ 147,333,049.88 | $ 2,131,297.88 | $ | $ |
| Pupil Personnel Services | 6,139,255.90 | | | |
| Instructional Media Services | 1,037,203.23 | | | |
| Instruction and Curriculum Development Services | 6,525,599.24 | | | |
| Instructional Staff Training Services | 1,221,730.42 | | | |
| Instruction Related Technology | 745,395.74 | | | |
| School Board | 1,458,665.19 | | | |
| General Administration | 934,097.62 | | | |
| School Administration | 13,182,153.98 | | | |
| Facilities Acquisition and Construction | 9,924,341.61 | | | 720,616.83 |
| Fiscal Services | 1,557,469.72 | | | |
| Food Services | 10,140,124.51 | 4,012,191.23 | 6,546,244.83 | |
| Central Services | 2,549,525.72 | | | |
| Pupil Transportation Services | 10,726,782.69 | 512,304.84 | | |
| Operation of Plant | 16,036,767.90 | | | |
| Maintenance of Plant | 6,720,917.03 | | | |
| Administrative Technology Services | 2,596,797.94 | | | |
| Community Services | 1,135,312.80 | | | |
| Unallocated Interest on Long-Term Debt | 2,955,740.16 | | | 1,161,115.27 |
| Unallocated Depreciation Expense* | 9,127,534.03 | | | |
| **Total Primary Government** | $ 252,048,465.31 | $ 6,655,793.95 | $ 6,546,244.83 | $ 1,881,732.10 |
| **Component Units** | | | | |
| Charter Schools/Educational Foundation | $ 7,902,688.00 | $ 310,744.00 | $ 760,483.00 | $ 70,180.00 |

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 | Component |
| Governmental Activities | Units |
| $ (145,201,752.00) | $ |
| (6,139,255.90) | |
| (1,037,203.23) | |
| (6,525,599.24) | |
| (1,221,730.42) | |
| (745,395.74) | |
| (1,458,665.19) | |
| (934,097.62) | |
| (13,182,153.98) | |
| (9,203,724.78) | |
| (1,557,469.72) | |
| 418,311.55 | |
| (2,549,525.72) | |
| (10,214,477.85) | |
| (16,036,767.90) | |
| (6,720,917.03) | |
| (2,596,797.94) | |
| (1,135,312.80) | |
| (1,794,624.89) | |
| (9,127,534.03) | |
| (236,964,694.43) | |
| | (6,761,281.00) |
| 90,133,897.58 | |
| 21,604,759.38 | |
| 115,116,755.56 | 6,627,263.00 |
| 560,203.01 | 786.00 |
| 3,105,984.77 | 48,568.00 |
| 230,521,600.30 | 6,676,617.00 |
| (6,443,094.13) | (84,664.00) |
| 204,820,900.56 | 1,855,929.00 |
| $ 198,377,806.43 | $ 1,771,265.00 |

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

| | General Fund | Special Revenue - Federal Economic Stimulus Fund |
|---|---|---|
| **ASSETS** | | |
| Cash and Cash Equivalents | $ 64,115,481.98 | $ |
| Investments | 920,944.22 | |
| Accounts Receivable | 114,573.92 | |
| Cash Equivalents with Fiscal Agent | | |
| Due from Other Funds | 194,892.16 | |
| Due from Other Agencies | 1,034,721.92 | 5,093.09 |
| Inventories | 104,951.24 | |
| **TOTAL ASSETS** | $ 66,485,565.44 | $ 5,093.09 |
| **LIABILITIES AND FUND BALANCES** | | |
| Liabilities: | | |
| Salaries and Benefits Payable | $ 2,077,583.02 | $ |
| Accounts Payable | 637,755.96 | |
| Construction Contracts Payable | | |
| Retainage Payable | | |
| Due to Other Funds | | 5,093.09 |
| Deposits Payable | | |
| Deferred Revenue | 48,842.00 | |
| **Total Liabilities** | 2,764,180.98 | 5,093.09 |
| Fund Balances: | | |
| Nonspendable: | | |
| Inventory | 104,951.24 | |
| Fund B Investments | 920,944.22 | |
| Total Nonspendable Fund Balance | 1,025,895.46 | |
| Restricted for: | | |
| State Required Carryover Programs | 12,493,881.00 | |
| Debt Service | | |
| Capital Projects | | |
| Restricted for Food Service | | |
| Total Restricted Fund Balance | 12,493,881.00 | |
| Assigned for: | | |
| Project Carryover | 24,031,920.72 | |
| School and Department Carryover | 7,216,331.12 | |
| Self-Insurance | 3,799,000.00 | |
| Full-Time Equivalent Funding Adjustments | 3,415,277.77 | |
| Capital Projects | | |
| Terminal Pay | 512,323.58 | |
| Total Assigned Fund Balance | 38,974,853.19 | |
| Unassigned Fund Balance | 11,226,754.81 | |
| **Total Fund Balances** | 63,721,384.46 | |
| **TOTAL LIABILITIES AND FUND BALANCES** | $ 66,485,565.44 | $ 5,093.09 |

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

| Capital Projects - Other Fund | Other Governmental Funds | Total Governmental Funds |
|---|---|---|
| $ 1,756,764.99 | $ 7,752,340.38 | $ 73,624,587.35 |
| 1,093,391.95 | 159,071.87 | 2,173,408.04 |
| | 38,728.35 | 153,302.27 |
| 611,291.89 | 40.61 | 611,332.50 |
| | | 194,892.16 |
| | 356,093.69 | 1,395,908.70 |
| | 174,435.53 | 279,386.77 |
| $ 3,461,448.83 | $ 8,480,710.43 | $ 78,432,817.79 |
| | | |
| $ | $ | $ 2,077,583.02 |
| 4,080.89 | 276,496.06 | 918,332.91 |
| 997,813.40 | 211,064.57 | 1,208,877.97 |
| 28,949.17 | | 28,949.17 |
| 22,475.64 | 167,323.43 | 194,892.16 |
| | 1,000.00 | 1,000.00 |
| | | 48,842.00 |
| 1,053,319.10 | 655,884.06 | 4,478,477.23 |
| | | |
| | 174,435.53 | 279,386.77 |
| 1,093,391.95 | 22,019.48 | 2,036,355.65 |
| 1,093,391.95 | 196,455.01 | 2,315,742.42 |
| | | 12,493,881.00 |
| | 144,577.17 | 144,577.17 |
| 645,892.37 | 6,660,206.35 | 7,306,098.72 |
| | 823,587.84 | 823,587.84 |
| 645,892.37 | 7,628,371.36 | 20,768,144.73 |
| | | 24,031,920.72 |
| | | 7,216,331.12 |
| | | 3,799,000.00 |
| | | 3,415,277.77 |
| 668,845.41 | | 668,845.41 |
| | | 512,323.58 |
| 668,845.41 | | 39,643,698.60 |
| | | 11,226,754.81 |
| 2,408,129.73 | 7,824,826.37 | 73,954,340.56 |
| $ 3,461,448.83 | $ 8,480,710.43 | $ 78,432,817.79 |

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

| | | |
|---|---|---|
| **Total Fund Balances - Governmental Funds** | | $ 73,954,340.56 |
| 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. | | 219,281,879.63 |
| Long-term liabilities are not due and payable in the fiscal year and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at fiscal year-end consist of: | | |
| Bonds Payable | $ 7,150,000.00 | |
| Certificates of Participation Payable | 58,990,000.00 | |
| Estimated Insurance Claims Payable | 3,799,000.00 | |
| Compensated Absences Payable | 24,537,413.76 | |
| Other Postemployment Benefits Payable | 382,000.00 | (94,858,413.76) |
| **Total Net Assets - Governmental Activities** | | $ 198,377,806.43 |

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

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

| | General Fund | Special Revenue - Federal Economic Stimulus Fund |
|---|---|---|
| **Revenues** | | |
| Intergovernmental: | | |
| Federal Direct | $ 4,119,850.73 | $ |
| Federal Through State and Local | 496,738.21 | 857,582.87 |
| State | 93,156,929.17 | |
| Local: | | |
| Property Taxes | 90,133,897.58 | |
| Charges for Services - Food Service | | |
| Miscellaneous | 5,790,895.23 | |
| Total Local Revenues | 95,924,792.81 | |
| **Total Revenues** | 193,698,310.92 | 857,582.87 |
| **Expenditures** | | |
| Current - Education: | | |
| Instruction | 137,153,730.57 | 285,542.16 |
| Pupil Personnel Services | 5,729,254.58 | |
| Instructional Media Services | 1,034,858.86 | |
| Instruction and Curriculum Development Services | 3,423,127.97 | 150,456.69 |
| Instructional Staff Training Services | 625,406.26 | 24,007.84 |
| Instruction Related Technology | 578,459.00 | 167,777.58 |
| School Board | 1,459,447.24 | |
| General Administration | 374,254.80 | 14,676.80 |
| School Administration | 13,125,076.81 | 86,049.00 |
| Facilities Acquisition and Construction | 204,988.26 | |
| Fiscal Services | 1,561,032.45 | |
| Food Services | 31,878.04 | |
| Central Services | 2,519,786.00 | |
| Pupil Transportation Services | 10,604,536.11 | |
| Operation of Plant | 16,048,846.26 | |
| Maintenance of Plant | 6,683,544.01 | |
| Administrative Technology Services | 2,585,783.25 | 15,155.00 |
| Community Services | 1,136,986.76 | |
| Fixed Capital Outlay: | | |
| Facilities Acquisition and Construction | 5,962.00 | |
| Other Capital Outlay | 285,591.77 | 113,917.80 |
| Debt Service: | | |
| Principal | | |
| Interest and Fiscal Charges | | |
| **Total Expenditures** | 205,172,551.00 | 857,582.87 |
| **Excess (Deficiency) of Revenues Over Expenditures** | (11,474,240.08) | |
| **Other Financing Sources (Uses)** | | |
| Transfers In | 11,381,973.90 | |
| Insurance Loss Recoveries | 211,948.26 | |
| Transfers Out | | |
| **Total Other Financing Sources (Uses)** | 11,593,922.16 | |
| **Net Change in Fund Balances** | 119,682.08 | |
| Fund Balances, Beginning | 63,601,702.38 | |
| **Fund Balances, Ending** | $ 63,721,384.46 | $ 0.00 |

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

| Capital Projects - Other Fund | Other Governmental Funds | Total Governmental Funds |
|---|---|---|
| $ | $ 1,211,697.06 | $ 5,331,547.79 |
| 1,410,637.47 | 20,320,120.17 | 23,085,078.72 |
| 592,831.30 | 1,378,345.51 | 95,128,105.98 |
| | 21,604,759.38 | 111,738,656.96 |
| | 4,012,191.23 | 4,012,191.23 |
| 122,499.94 | 141,706.24 | 6,055,101.41 |
| 122,499.94 | 25,758,656.85 | 121,805,949.60 |
| 2,125,968.71 | 48,668,819.59 | 245,350,682.09 |
| | 10,386,125.91 | 147,825,398.64 |
| | 421,630.03 | 6,150,884.61 |
| | 4,258.59 | 1,039,117.45 |
| | 2,969,745.49 | 6,543,330.15 |
| | 574,371.27 | 1,223,785.37 |
| | | 746,236.58 |
| | | 1,459,447.24 |
| | 545,843.29 | 934,774.89 |
| | | 13,211,125.81 |
| 3,278,271.58 | 5,848,659.39 | 9,331,919.23 |
| | | 1,561,032.45 |
| | 10,118,793.29 | 10,150,671.33 |
| | 8,972.00 | 2,528,758.00 |
| | 54,891.27 | 10,659,427.38 |
| | | 16,048,846.26 |
| | | 6,683,544.01 |
| | | 2,600,938.25 |
| | | 1,136,986.76 |
| 253,752.26 | 593,024.63 | 852,738.89 |
| 118,607.22 | 704,734.49 | 1,222,851.28 |
| | 6,150,000.00 | 6,150,000.00 |
| | 2,955,740.16 | 2,955,740.16 |
| 3,650,631.06 | 41,336,789.81 | 251,017,554.74 |
| (1,524,662.35) | 7,332,029.78 | (5,666,872.65) |
| | | 11,381,973.90 |
| | | 211,948.26 |
| (592,831.30) | (10,789,142.60) | (11,381,973.90) |
| (592,831.30) | (10,789,142.60) | 211,948.26 |
| (2,117,493.65) | (3,457,112.82) | (5,454,924.39) |
| 4,525,623.38 | 11,281,939.19 | 79,409,264.95 |
| $ 2,408,129.73 | $ 7,824,826.37 | $ 73,954,340.56 |

***OKALOOSA COUNTY***
***DISTRICT SCHOOL BOARD***
***RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES***
***For the Fiscal Year Ended June 30, 2012***

| | | |
|---|---|---|
| **Net Change in Fund Balances - Governmental Funds** | | $ (5,454,924.39) |
| Amounts reported for governmental activities in the statement of activities are different because: | | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. The following details the amount of depreciation expense in excess of capital outlays: | | |
| Capital Outlay - Facilities Acquisition and Construction - Capitalized | $ 852,738.89 | |
| Capital Outlay - Other Capital Outlay - Capitalized | 1,222,851.28 | |
| Depreciation Expense | (9,640,424.07) | (7,564,833.90) |
| Donated capital assets, capital assets purchased with school internal funds, and assets purchased with proceeds from insurance increase net assets in the statement of activities, but do not provide current financial resources and, therefore, are not reported in the governmental funds statements. | | 42,740.83 |
| Long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. The following details long-term debt repayments in the current fiscal year: | | |
| Certificates of Participation Payable Principal Payments | $ 5,360,000.00 | |
| Bonds Payable Principal Payments | 790,000.00 | 6,150,000.00 |
| In the statement of activities, compensated absences are measured by the amounts earned during the year. In the governmental funds, expenditures are measured by the amount of financial resources used (essentially, the amount paid). This is the net amount of compensated absences paid in excess of compensated absences earned. | | 587,923.33 |
| In the statement of activities, the other postemployment benefits obligation is required to be reported as a liability, which requires that the cost of other postemployment benefits (OPEB) be reported sooner (as promised benefits are being earned) rather than later (when promised benefits are actually paid). This fiscal year, the liability increased from the prior fiscal year. | | (179,000.00) |
| In the statement of activities, certain insurance claims include additional amounts for increases in long-term insurance claims liabilities. In the governmental funds, expenditures are measured by the amount of financial resources used (essentially, the amount paid). This is the net amount of increase in insurance claims payable. | | (25,000.00) |
| **Change in Net Assets - Governmental Activities** | | $ (6,443,094.13) |

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

## *OKALOOSA COUNTY*
## *DISTRICT SCHOOL BOARD*
## *STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - FIDUCIARY FUNDS*
## *June 30, 2012*

| | Agency Funds |
|---|---|
| **ASSETS** | |
| Cash and Cash Equivalents | $ 4,434,692.00 |
| Accounts Receivable | 303,198.69 |
| **TOTAL ASSETS** | $ 4,737,890.69 |
| **LIABILITIES** | |
| Accounts Payable | $ 534,225.69 |
| Internal Accounts Payable | 4,203,665.00 |
| **TOTAL LIABILITIES** | $ 4,737,890.69 |

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

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

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Reporting Entity**. The Okaloosa 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 Okaloosa 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 Okaloosa 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 Units**. The Okaloosa County School Board Leasing Corporation (Leasing Corporation) was formed to facilitate financing for the acquisition of facilities and equipment as further discussed in note 5. Due to the substantive economic relationship between the District and the Leasing Corporation, the financial activities of the Leasing Corporation are included in the accompanying basic financial statements. Separate financial statements for the Leasing Corporation are not published.

**Discretely Presented Component Units**. The component unit columns in the government-wide financial statements include the financial data of the District's other component units.

The Okaloosa Public Schools 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 Okaloosa Academy, Inc., and the Liza Jackson Preparatory School, Inc. (Charter Schools), are not-for-profit corporations organized pursuant to Chapter 617, Florida Statutes, the Florida Not For Profit Corporation Act, and Section 1002.33, Florida Statutes. The Charter Schools operate under a charter approved by their sponsor, the Okaloosa County District School Board. The Charter Schools are considered to be a component unit 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, 2012. The audit reports are filed in the District's administrative offices.

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

**Basis of Presentation:**

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

  Government-wide financial statements are prepared using the economic resources measurement focus. The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are thereby clearly identifiable to a particular function. Depreciation expense associated with instruction and the District's transportation and maintenance departments are allocated to the instruction, pupil transportation services, and maintenance of plant functions, 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 American Recovery and Reinvestment Act (ARRA) and other Federal stimulus programs.
  - Capital Projects – Other fund – to account for various financial resources generated by the issuance of certificates of participation and other moneys set aside by the Board 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 District's pretax flexible benefits plan and for 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.

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

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

Governmental fund financial statements are prepared using the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers revenues to be available if they are collected within 30 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 in money market mutual funds, certificates of deposit, the Florida Education Investment Trust Fund (FEITF), and the State Board of Administration's (SBA) Florida PRIME, formerly known as the Local Government Surplus Funds Trust Fund Investment Pool.

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

Investments consist of amounts placed in the SBA debt service accounts for investment of debt service moneys, amounts placed with the SBA for participation in the Florida PRIME and Fund B Surplus Funds Trust Fund (Fund B) investment pools created by Sections 218.405 and 218.417, Florida Statutes, and those made locally. These investment pools operate under investment guidelines established by Section 215.47, Florida Statutes.

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

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

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

Investments made locally consist of money market funds and certificates of deposit and are reported at fair value. Types and amounts of investments held at fiscal year-end are described in a subsequent note.

**Inventories**. Inventories consist of expendable supplies held for consumption in the course of District operations. Inventories are stated at cost on 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 $1,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at fair value at the date of donation. Interest costs incurred during construction of capital assets are not considered material and are not capitalized as part of the cost of construction.

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

| Description | Estimated Lives |
|---|---|
| Improvements Other Than Buildings | 8 - 40 years |
| Buildings and Fixed Equipment | 10 - 50 years |
| Furniture, Fixtures, and Equipment | 3 - 15 years |
| Motor Vehicles | 5 - 10 years |
| Audio Visual Materials and Computer Software | 3 - 5 years |

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

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

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

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

In the government-wide financial statements, compensated absences (i.e., paid absences for employee vacation leave and sick leave) are accrued as liabilities to the extent that it is probable that the 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 the FTE and related data, and calculates the allocation of funds to the District. The District is permitted to amend its original reporting for a period of five months following the date of the original reporting. Such amendments may impact funding allocations for subsequent years. The Department may also adjust subsequent fiscal period allocations based upon an audit of the District's compliance in determining and reporting the FTE and related data. Normally, such adjustments are treated as reductions or additions of revenue in the 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.

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 Okaloosa County Property Appraiser, and property taxes are collected by the Okaloosa County Tax Collector.

The Board adopted the 2011 tax levy on September 12, 2011. Tax bills are mailed in October and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to 4 percent for early payment.

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

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

Property tax revenues are recognized in the government-wide financial statements when the Board adopts the tax levy. Property tax revenues are recognized in the governmental fund financial statements when taxes are received by the District, except that revenue is accrued for taxes collected by the Okaloosa 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 are issued. Appropriations lapse at fiscal year-end and encumbrances outstanding are honored from the subsequent year's appropriations.

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

## 3. INVESTMENTS

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

| Investments | Maturities | Fair Value |
|---|---|---|
| SBA: | | |
| Florida PRIME (1)(3) | 38 Day Average | $ 1,791,931.87 |
| Fund B (2)(3) | 5.73 Year Average | 2,036,355.65 |
| Debt Service Accounts | 6 Months | 137,052.39 |
| FEITF (1) | 46 Day Average | 20,458,887.92 |
| Certificates of Deposit (1) | 8 Months or Less | 826,026.00 |
| Total Investments, Reporting Entity | | $ 25,250,253.83 |

Notes: (1) These investments are reported as cash equivalents for financial statement reporting purposes.
(2) Fund B currently has a fair market value below cost and, therefore, is reported at the lower fair market value.
(3) Includes value of certificates of participation trust accounts in addition to other Fund B balances. Pursuant to the trust agreements, the trustee for the District's Certificates of Participation, Series 2003, 2006, and 2007, holds all or part of these investments in trust accounts as follows: Florida PRIME $611,332.50 and Fund B $1,076,750.12. The Florida PRIME funds are reported at full value as Cash Equivalents with Fiscal Agent and the Fund B portion is reported as an investment at fair market value.

- 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's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses from increasing interest rates.

Florida PRIME had a weighted average days to maturity (WAM) of 38 days at June 30, 2012. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the portfolio to interest rate changes.

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

The FEITF is designed to maintain a $1 per share net asset value and provide immediate liquidity to meet cash flow needs and has a WAM of 46 days at June 30, 2012.

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

- Credit Risk

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

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

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

- Custodial Credit Risk

  Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the District will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Section 218.415(18), Florida Statutes, requires the District to earmark all investments and 1) if registered with the issuer or its agents, the investment must be immediately placed for safekeeping in a location that protects the governing body's interest in the security; 2) if in book entry form, the investment must be held for the credit of the governing body by a depository chartered by the Federal Government, the State, or any other state or territory of the United States which has a branch or principal place of business in this State, or by a national association organized and existing under the laws of the United States which is authorized to accept and execute trusts and which is doing business in this State, and must be kept by the depository in an account separate and apart from the assets of the financial institution; or 3) if physically issued to the holder but not registered with the issuer or its agents, must be immediately placed for safekeeping in a secured vault. The District's investment policy does not address custodial credit risk.

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

## 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 | $ 11,751,820.84 | $ | $ | $ 11,751,820.84 |
| Construction in Progress | | 46,014.01 | | 46,014.01 |
| Total Capital Assets Not Being Depreciated | 11,751,820.84 | 46,014.01 | | 11,797,834.85 |
| Capital Assets Being Depreciated: | | | | |
| Improvements Other Than Buildings | 14,156,026.63 | 45,043.50 | | 14,201,070.13 |
| Buildings and Fixed Equipment | 293,264,414.95 | 816,812.27 | 93,740.00 | 293,987,487.22 |
| Furniture, Fixtures, and Equipment | 24,654,768.79 | 719,618.27 | 280,831.94 | 25,093,555.12 |
| Motor Vehicles | 14,707,227.40 | 455,028.75 | 62,513.00 | 15,099,743.15 |
| Audio Visual Materials and Computer Software | 3,207,232.30 | 35,814.20 | 54,393.80 | 3,188,652.70 |
| Total Capital Assets Being Depreciated | 349,989,670.07 | 2,072,316.99 | 491,478.74 | 351,570,508.32 |
| Less Accumulated Depreciation for: | | | | |
| Improvements Other Than Buildings | 11,034,704.48 | 722,678.96 | | 11,757,383.44 |
| Buildings and Fixed Equipment | 92,166,525.54 | 6,219,559.79 | 93,740.00 | 98,292,345.33 |
| Furniture, Fixtures, and Equipment | 16,990,106.02 | 1,872,972.83 | 280,831.94 | 18,582,246.91 |
| Motor Vehicles | 11,871,799.72 | 693,302.43 | 62,513.00 | 12,502,589.15 |
| Audio Visual Materials and Computer Software | 2,874,382.45 | 131,910.06 | 54,393.80 | 2,951,898.71 |
| Total Accumulated Depreciation | 134,937,518.21 | 9,640,424.07 | 491,478.74 | 144,086,463.54 |
| Total Capital Assets Being Depreciated, Net | 215,052,151.86 | (7,568,107.08) | | 207,484,044.78 |
| Governmental Activities Capital Assets, Net | $ 226,803,972.70 | $ (7,522,093.07) | $ 0.00 | $ 219,281,879.63 |

Depreciation expense was charged to functions as follows:

| Function | Amount |
|---|---|
| GOVERNMENTAL ACTIVITIES | |
| Instruction | $ 381,420.90 |
| Pupil Transportation Services | 84,869.88 |
| Maintenance of Plant | 46,599.26 |
| Unallocated | 9,127,534.03 |
| Total Depreciation Expense - Governmental Activities | $ 9,640,424.07 |

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

## 5. CERTIFICATES OF PARTICIPATION

The District entered into a financing arrangement on November 1, 2003, which arrangement was characterized as a master lease-purchase agreement, with the Okaloosa County School Board Leasing Corporation (Leasing Corporation) whereby the District secured financing of various educational facilities and the refunding of outstanding Certificates of Participation, Series 1992. The financing was accomplished through the issuance of $17,040,000 in Certificates of Participation, Series 2003, to be repaid from the proceeds of rents paid by the District.

On December 1, 2006, the District entered into a lease schedule under and pursuant to the master lease-purchase agreement, whereby the District secured financing for the acquisition of land and the construction of an elementary school. The financing was accomplished through the issuance of $29,005,000 in Certificates of Participation, Series 2006, to be repaid from the proceeds of rents paid by the District.

On May 1, 2007, the District entered into a lease schedule under and pursuant to the master lease-purchase agreement, whereby the District secured financing for the acquisition of land and construction of a middle school. The financing was accomplished through the issuance of $40,490,000 in Certificates of Participation, Series 2007, to be repaid from the proceeds of rents paid by the District.

As a condition of the financing arrangement, the District has given a ground lease on District property to the Leasing Corporation. The ground lease related to the Series 2003 Certificates, ends on the earlier of the date on which the Series 2003 Certificates have been paid in full or provision for their payment has been made, or July 1, 2029. The ground lease term related to the Certificates of Participation, Series 2006, and the Certificates of Participation, Series 2007, ends on the earlier of the date on which the Series 2006 Certificates, the Series 2007 Certificates, and any series of certificates refunding such certificates have been paid in full or provision for their payment has been made, or 10 years from the final maturity date of the Series 2006 Certificates, Series 2007 Certificates, and any series of certificates refunding such certificates. The properties covered by the ground leases are, together with the improvements constructed thereon from the financing proceeds, leased back to the District. If the District fails to renew the leases and to provide for the rent payments through to term, the District may be required to surrender the sites included under the ground lease for the benefit of the securers of the certificates for a period of time specified by the arrangements which may be up through the last day of the ground lease.

District properties included in the ground lease noted above are as follows:

- Certificates of Participation, Series 2003 (including properties associated with Certificates of Participation, Series 1992), include properties at Baker School, Bluewater Bay Elementary School, Bob Sikes Elementary School, Choctawhatchee High School, CHOICE Institute at Choctawhatchee High School, Crestview High School, CHOICE Institute at Crestview High School, Fort Walton Beach High School, Lewis Middle School, Niceville High School, CHOICE Institute at Niceville High School, CHOICE Institute at Okaloosa Applied Technology Center, Richbourg Middle School, Silver Sands School, and Walker Elementary School.
- Certificates of Participation, Series 2006, include properties at Riverside Elementary School and Richbourg Middle School.
- Certificates of Participation, Series 2007, included properties at Shoal River Middle School, Northwood Elementary School, Richbourg Middle School, and Choctawhatchee High School and land purchases for new school sites.

**OKALOOSA COUNTY**
**DISTRICT SCHOOL BOARD**
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**
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The lease payments are payable by the District semiannually, on July 1 and January 1 at interest rates ranging from 3.5 to 4.25 percent for the Certificates of Participation, Series 2003; interest rates from 3.5 to 4 percent for the Certificates of Participation, Series 2006; and interest rates from 4 to 4.25 percent for the Certificates of Participation, Series 2007. The following is a schedule by years of future minimum lease payments under the lease agreements together with the present value of minimum lease payments as of June 30:

| Fiscal Year Ending June 30 | Total | Principal | Interest |
|---|---|---|---|
| Certificates of Participation, Series 2003: | | | |
| 2013 | $ 1,500,280.00 | $ 1,140,000.00 | $ 360,280.00 |
| 2014 | 1,503,100.00 | 1,185,000.00 | 318,100.00 |
| 2015 | 1,503,070.00 | 1,230,000.00 | 273,070.00 |
| 2016 | 1,505,100.00 | 1,280,000.00 | 225,100.00 |
| 2017 | 1,503,900.00 | 1,330,000.00 | 173,900.00 |
| 2018-2019 | 3,005,570.00 | 2,825,000.00 | 180,570.00 |
| Subtotal Minimum Lease Payments | 10,521,020.00 | 8,990,000.00 | 1,531,020.00 |
| Certificates of Participation, Series 2006: | | | |
| 2013 | 2,714,105.00 | 1,940,000.00 | 774,105.00 |
| 2014 | 2,711,205.00 | 2,005,000.00 | 706,205.00 |
| 2015 | 2,714,025.00 | 2,080,000.00 | 634,025.00 |
| 2016 | 2,713,625.00 | 2,155,000.00 | 558,625.00 |
| 2017 | 2,712,812.50 | 2,235,000.00 | 477,812.50 |
| 2018-2021 | 10,854,400.00 | 9,850,000.00 | 1,004,400.00 |
| Subtotal Minimum Lease Payments | 24,420,172.50 | 20,265,000.00 | 4,155,172.50 |
| Certificates of Participation, Series 2007: | | | |
| 2013 | 3,688,015.00 | 2,475,000.00 | 1,213,015.00 |
| 2014 | 3,689,015.00 | 2,575,000.00 | 1,114,015.00 |
| 2015 | 3,686,015.00 | 2,675,000.00 | 1,011,015.00 |
| 2016 | 3,689,015.00 | 2,785,000.00 | 904,015.00 |
| 2017 | 3,687,615.00 | 2,895,000.00 | 792,615.00 |
| 2018-2022 | 18,433,597.50 | 16,330,000.00 | 2,103,597.50 |
| Subtotal Minimum Lease Payments | 36,873,272.50 | 29,735,000.00 | 7,138,272.50 |
| Total Minimum Lease Payments | $ 71,814,465.00 | $ 58,990,000.00 | $ 12,824,465.00 |

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

## 6. BONDS PAYABLE

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

| Bond Type | Amount Outstanding | Interest Rates (Percent) | Annual Maturity To |
|---|---|---|---|
| State School Bonds: | | | |
| Series 2005A | $2,780,000 | 5.0 | 2016 |
| Series 2005B, Refunding | 430,000 | 5.0 | 2018 |
| Series 2008A | 795,000 | 3.5 - 5.0 | 2028 |
| Series 2009A, Refunding | 230,000 | 4.0 - 5.0 | 2019 |
| Series 2010A | 160,000 | 3.5 - 5.0 | 2030 |
| District Revenue Bonds: | | | |
| Series 2011 | 2,755,000 | 2.0 - 5.5 | 2040 |
| Total Bonds Payable | $7,150,000 | | |

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.

- District Revenue Bonds

  The District authorized the issuance of the Revenue and Refunding Bonds, Series 2011, to provide funds to pay the costs of certain capital improvements and to refund the outstanding Refund and Revenue Bonds, Series 1994. These bonds are authorized by Chapters 63-587 and 78-569, Laws of Florida, Special Acts of 1978, which provide that the bonds be secured from the pari-mutuel tax proceeds distributed annually to Okaloosa County from the State's Pari-mutuel Tax Collection Trust Fund pursuant to Chapter 550, Florida Statutes (effective July 1, 2000, tax proceeds are distributed pursuant to Section 212.20(6)(d)7.a., Florida Statutes (2001), now Section 212.20(6)(d)6.a., Florida Statutes (2011)). The annual distribution is remitted by the Florida Department of Financial Services to the District. As required by the bond resolution, the District has established the sinking fund and has accumulated and maintained adequate resources in the sinking fund.

  The District has pledged a combined total of $2,755,000 of sales tax revenues in connection with the 2011 District Revenue Bonds, described above. During the 2011-12 fiscal year, the District recognized sales tax revenues totaling $190,750 and expended $188,745 (99 percent) of these revenues for debt service directly collateralized by these revenues. The pledged sales tax revenues are committed until final maturity of the debt on July 1, 2040. Approximately 98.6 percent of this revenue stream has been pledged in connection with debt service on the revenue bonds.

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

Annual requirements to amortize all bonded debt outstanding as of June 30, 2012, are as follows:

| Fiscal Year Ending June 30 | Total | Principal | Interest |
|---|---|---|---|
| State School Bonds: | | | |
| 2013 | $ 991,825.00 | $ 775,000.00 | $ 216,825.00 |
| 2014 | 988,800.00 | 810,000.00 | 178,800.00 |
| 2015 | 988,675.00 | 850,000.00 | 138,675.00 |
| 2016 | 991,175.00 | 895,000.00 | 96,175.00 |
| 2017 | 191,425.00 | 140,000.00 | 51,425.00 |
| 2018-2022 | 582,175.00 | 410,000.00 | 172,175.00 |
| 2023-2027 | 485,425.00 | 400,000.00 | 85,425.00 |
| 2028-2030 | 121,225.00 | 115,000.00 | 6,225.00 |
| Total State School Bonds | 5,340,725.00 | 4,395,000.00 | 945,725.00 |
| District Revenue Bonds: | | | |
| 2013 | 187,645.00 | 55,000.00 | 132,645.00 |
| 2014 | 186,545.00 | 55,000.00 | 131,545.00 |
| 2015 | 190,445.00 | 60,000.00 | 130,445.00 |
| 2016 | 189,095.00 | 60,000.00 | 129,095.00 |
| 2017 | 187,475.00 | 60,000.00 | 127,475.00 |
| 2018-2022 | 934,962.50 | 330,000.00 | 604,962.50 |
| 2023-2027 | 939,675.00 | 415,000.00 | 524,675.00 |
| 2028-2032 | 937,750.00 | 525,000.00 | 412,750.00 |
| 2033-2037 | 941,850.00 | 685,000.00 | 256,850.00 |
| 2038-2040 | 567,200.00 | 510,000.00 | 57,200.00 |
| Total District Revenue Bonds | 5,262,642.50 | 2,755,000.00 | 2,507,642.50 |
| Total | $ 10,603,367.50 | $ 7,150,000.00 | $ 3,453,367.50 |

## 7. CHANGES IN LONG-TERM LIABILITIES

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

| Description | Beginning Balance | Additions | Deductions | Ending Balance | Due In One Year |
|---|---|---|---|---|---|
| GOVERNMENTAL ACTIVITIES | | | | | |
| Bonds Payable | $ 7,940,000.00 | $ | $ 790,000.00 | $ 7,150,000.00 | $ 830,000.00 |
| Certificates of Participation Payable | 64,350,000.00 | | 5,360,000.00 | 58,990,000.00 | 5,555,000.00 |
| Estimated Insurance Claims Payable | 3,774,000.00 | 1,817,965.86 | 1,792,965.86 | 3,799,000.00 | 2,496,000.00 |
| Compensated Absences Payable | 25,125,337.09 | 1,991,743.51 | 2,579,666.84 | 24,537,413.76 | 2,509,846.00 |
| Other Postemployment Benefits Payable | 203,000.00 | 952,000.00 | 773,000.00 | 382,000.00 | |
| Total Governmental Activities | $ 101,392,337.09 | $ 4,761,709.37 | $ 11,295,632.70 | $ 94,858,413.76 | $ 11,390,846.00 |

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

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

## 8. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

| Funds | Interfund | |
|---|---|---|
| | Receivables | Payables |
| Major: | | |
| General | $ 194,892.16 | $ |
| Special Revenue: | | |
| Federal Economic Stimulus | | 5,093.09 |
| Capital Projects: | | |
| Other | | 22,475.64 |
| Nonmajor Governmental | | 167,323.43 |
| Total | $ 194,892.16 | $ 194,892.16 |

General Fund receivables represent temporary loans to other funds to cover expenditures of grants and contracts funded on a cost reimbursement basis and miscellaneous reimbursements due from schools. Advances are made as needed and will be repaid within one year without interest.

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

| Funds | Interfund | |
|---|---|---|
| | Transfers In | Transfers Out |
| Major: | | |
| General | $ 11,381,973.90 | $ |
| Capital Projects: | | |
| Other | | 592,831.30 |
| Nonmajor Governmental | | 10,789,142.60 |
| Total | $ 11,381,973.90 | $ 11,381,973.90 |

Transfers from the Capital Projects – Other Fund to the General Fund were made to fund charter school capital outlay. Transfers from the nonmajor governmental funds to the General Fund were made for maintenance and repair of school facilities and for the lease of computers for instructional purposes.

## 9. FUND BALANCE REPORTING

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

- Nonspendable

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

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

- 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 balance, other than General Fund, as well as unspent State categorical and earmarked educational funding reported in the General Fund, which is legally or otherwise restricted, as restricted.

- Committed

  The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the highest level of decision-making authority (i.e., the Board). These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same action it employed to previously commit the amounts. The District did not have any committed fund balances at June 30, 2012.

- Assigned

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

- 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. The District has a contingency reserve of $2,567,000 established informally through the budget process that is included in the unassigned fund balance. The contingency reserve is intended to help sustain the financial stability of the District during times of emergency spending such as disaster recovery and revenue shortfalls that could potentially occur after the current year's budget adoption.

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

## 10. SCHEDULE OF STATE REVENUE SOURCES

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

| Source | Amount |
|---|---|
| Florida Education Finance Program | $ 48,984,281.00 |
| Categorical Educational Programs - Class Size Reduction | 31,418,393.00 |
| Transportation | 5,520,031.00 |
| Instructional Materials | 2,392,227.00 |
| Workforce Development Program | 2,106,907.00 |
| School Recognition | 1,618,338.00 |
| Motor Vehicle License Tax (Capital Outlay and Debt Service) | 1,098,150.80 |
| Charter School Capital Outlay | 592,831.30 |
| Department of Juvenile Justice Supplemental | 433,703.00 |
| Voluntary Prekindergarten | 328,230.10 |
| Racing Commission Funds (Debt Service) | 190,750.00 |
| Food Service Supplement | 101,817.00 |
| Discretionary Lottery Funds | 94,100.00 |
| Mobile Home License Tax | 43,746.14 |
| Virtual Education Contribution | 43,246.00 |
| Miscellaneous | 161,354.64 |
| Total | $ 95,128,105.98 |

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

## 11. PROPERTY TAXES

The following is a summary of millages and taxes levied on the 2011 tax roll for the 2011-12 fiscal year:

| | Millages | Taxes Levied |
|---|---|---|
| GENERAL FUND | | |
| Nonvoted School Tax: | | |
| Required Local Effort | 5.521 | $ 81,854,624.47 |
| Basic Discretionary Local Effort | 0.748 | 11,090,422.73 |
| CAPITAL PROJECTS FUNDS | | |
| Nonvoted Tax: | | |
| Local Capital Improvements | 1.500 | 22,244,181.22 |
| Total | 7.769 | $ 115,189,228.42 |

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

## 12. FLORIDA RETIREMENT SYSTEM

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

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

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

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

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

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

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

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

The District's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the District. The District's contributions, including employee contributions, for the fiscal years ended June 30, 2010, June 30, 2011, and June 30, 2012, totaled $13,863,570.31, $15,138,272, and $10,020,334.25, respectively, which were equal to the required contributions for each fiscal year.

There were 366 District participants in the Investment Plan during the 2011-12 fiscal year. The District's contributions, including employee contributions to the Investment Plan, totaled $921,696.87, which was equal to the required contribution for the 2011-12 fiscal year.

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

## 13. OTHER POSTEMPLOYMENT BENEFITS PAYABLE

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

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

**Funding Policy**. Plan contribution requirements of the District and OPEB Plan members are established and may be amended through action from the Board. The District has not advance-funded or established a funding methodology for the annual OPEB costs or the net OPEB obligation, and the OPEB Plan is financed on a pay-as-you-go basis. For the 2011-12 fiscal year, 289 retirees received medical benefits, and 1,575 received life benefits. The District provided required contributions of $773,000 toward the annual OPEB cost, net of retiree contributions totaling $952,000, which represents 0.74 percent of covered payroll.

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

| Description | Amount |
|---|---|
| Normal Cost (service cost for one year) | $ 367,000 |
| Amortization of Unfunded Actuarial Accrued Liability | 543,000 |
| Interest on Normal Cost and Amortization | 41,000 |
| Annual Required Contribution | 951,000 |
| Interest on Net OPEB Obligation | 9,000 |
| Adjustment to Annual Required Contribution | (8,000) |
| Annual OPEB Cost (Expense) | 952,000 |
| Contribution Toward the OPEB Cost | (773,000) |
| Increase in Net OPEB Obligation | 179,000 |
| Net OPEB Obligation, Beginning of Year | 203,000 |
| Net OPEB Obligation, End of Year | $ 382,000 |

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

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

| Fiscal Year | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|---|---|---|---|
| 2009-10 | $ 1,006,000 | 96.3% | $ 306,000 |
| 2010-11 | 1,030,000 | 110.0% | 203,000 |
| 2011-12 | 952,000 | 81.2% | 382,000 |

**Funded Status and Funding Progress**. As of July 1, 2011, the most recent valuation date, the actuarial accrued liability for benefits was $14,228,000, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability of $14,228,000, and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was $129,090,243.14, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 11.02 percent.

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

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

The District's OPEB actuarial valuation as of July 1, 2011, used the projected unit credit cost method to estimate the unfunded actuarial liability as of June 30, 2012, and to estimate the District's 2011-12 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4.5 percent rate of return on invested assets, which is the District's long-term expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 3.5 percent per year for the 2011-12 fiscal year, and an annual healthcare cost trend rate of 10 percent per year, reduced by 1 percent per year, to an ultimate rate of 5 percent after five years. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis.

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

## 14. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

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

The following is a schedule of encumbrances at June 30, 2012:

| Major Funds | | | |
|---|---|---|---|
| General | Capital Projects - Other | Nonmajor Governmental Funds | Total Governmental Funds |
| $ 971,947.08 | $ 71,271.48 | $ 591,628.52 | $ 1,634,847.08 |

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

| Project | Contract Amount | Completed to Date | Balance Committed |
|---|---|---|---|
| Chiller Replacement: | | | |
| Longwood Elementary School | $ 3,069,050.00 | $ 2,132,444.57 | $ 936,605.43 |
| HVAC: | | | |
| Choctawatchee High School | 3,353,341.94 | 2,733,649.84 | 619,692.10 |
| Niceville High School/Mary Esther Elementary School | 1,085,853.05 | 834,542.51 | 251,310.54 |
| Restroom Renovation: | | | |
| Fort Walton Beach and Crestview High Schools/Baker/Laurel Hill | 1,400,000.00 | 1,034,451.72 | 365,548.28 |
| Roof Replacement: | | | |
| Niceville/Lewis Middle School | 630,326.00 | 279,373.47 | 350,952.53 |
| HVAC and Roofing: | | | |
| Fort Walton Beach High School | 1,766,171.00 | 642,236.30 | 1,123,934.70 |
| Classroom Renovations: | | | |
| Richbourg Middle School | 9,496,611.82 | 8,517,531.71 | 979,080.11 |
| Total | $ 20,801,353.81 | $ 16,174,230.12 | $ 4,627,123.69 |

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

## 15. OPERATING LEASE COMMITMENT

The District leases its computer hardware assets. The lease expires on December 31, 2013. Total expense under this operating lease for the fiscal year ended June 30, 2012, was $5,913,315.48. The following is a schedule by years of future minimum lease payments required under the operating lease:

| Fiscal Year Ending June 30 | Amount |
|---|---|
| 2013 | $6,375,434.76 |
| 2014 | 3,182,503.68 |
| Total Minimum Payments Required | $9,557,938.44 |

## 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. Coverage of these risks is provided for in a variety of different ways. For most general liability claims, the District relies upon the sovereign immunity limits of Section 768.28, Florida Statutes, which limits the District's liability to $200,000 for each claimant and $300,000 in any one occurrence; however, the District did purchase a commercial general liability policy for certain special events. The District is, to some extent, also self-insured for property losses, workers' compensation, automotive liability, crime, and errors and omissions. To limit its exposure to property losses, the District purchased excess property and boiler and machinery insurance with varying deductibles, sublimits, and policy maximums through the Florida School Boards Insurance Trust (Trust). The Trust is a self-insurance fund for Florida school boards established under the authority set forth in Section 1001.42, Florida Statutes. Likewise, the District limited its exposure for workers' compensation, automotive liability, crime, and errors and omissions by purchasing commercial insurance policies which cover losses exceeding specified limits up to certain policy maximums. Health, life, and dental insurance coverage, as well as long-term disability for District employees, is also provided through commercially purchased insurance.

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

An actuarially determined liability of $3,799,000 ($56,000 for the property program, undiscounted, and $3,743,000 for the casualty program, discounted using a 4 percent rate of return) is reported on the District's statement of net assets as estimated insurance claims payable at June 30, 2012. The District reports all of its risk management activities in the General Fund and has assigned $3,799,000 of the fund balance in the General Fund to fund future insurance claims.

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

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

| Fiscal Year | Beginning-of-Fiscal-Year Liability | Current-Year Claims and Changes in Estimates | Claims Payments | Balance at Fiscal Year-End |
|---|---|---|---|---|
| 2010-11 | $ 4,087,000.00 | $ 2,315,993.52 | $ (2,628,993.52) | $ 3,774,000.00 |
| 2011-12 | 3,774,000.00 | 1,817,965.86 | (1,792,965.86) | 3,799,000.00 |

## 17. LITIGATION

The District is involved in several pending and threatened legal actions. In the opinion of District management, after consulting with legal counsel, the range of potential loss from all such claims and actions should not materially affect the financial condition of the District.

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# OTHER REQUIRED SUPPLEMENTARY INFORMATION

***OKALOOSA COUNTY***
***DISTRICT SCHOOL BOARD***
***REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE -***
***GENERAL AND MAJOR SPECIAL REVENUE FUNDS***
***For the Fiscal Year Ended June 30, 2012***

| | General Fund | | | |
|---|---|---|---|---|
| | Original Budget | Final Budget | Actual | Variance with Final Budget - Positive (Negative) |
| **Revenues** | | | | |
| Intergovernmental: | | | | |
| Federal Direct | $ 3,538,456.00 | $ 3,578,734.28 | $ 4,119,850.73 | $ 541,116.45 |
| Federal Through State and Local | 446,245.00 | 496,738.21 | 496,738.21 | |
| State | 94,267,758.16 | 93,156,929.17 | 93,156,929.17 | |
| Local: | | | | |
| Property Taxes | 89,068,784.00 | 89,068,784.00 | 90,133,897.58 | 1,065,113.58 |
| Miscellaneous | 3,719,970.95 | 5,881,081.51 | 5,790,895.23 | (90,186.28) |
| Total Local Revenues | 92,788,754.95 | 94,949,865.51 | 95,924,792.81 | 974,927.30 |
| **Total Revenues** | 191,041,214.11 | 192,182,267.17 | 193,698,310.92 | 1,516,043.75 |
| **Expenditures** | | | | |
| Current - Education: | | | | |
| Instruction | 145,079,641.28 | 145,912,243.98 | 137,153,730.57 | 8,758,513.41 |
| Pupil Personnel Services | 5,905,569.31 | 5,943,852.49 | 5,729,254.58 | 214,597.91 |
| Instructional Media Services | 1,145,782.90 | 1,135,178.54 | 1,034,858.86 | 100,319.68 |
| Instruction and Curriculum Development Services | 4,881,542.78 | 4,794,917.04 | 3,423,127.97 | 1,371,789.07 |
| Instructional Staff Training Services | 314,996.12 | 709,883.05 | 625,406.26 | 84,476.79 |
| Instruction Related Technology | 648,438.26 | 688,708.42 | 578,459.00 | 110,249.42 |
| School Board | 3,133,110.31 | 3,912,849.52 | 1,459,447.24 | 2,453,402.28 |
| General Administration | 459,657.61 | 477,061.38 | 374,254.80 | 102,806.58 |
| School Administration | 13,677,261.98 | 13,884,324.27 | 13,125,076.81 | 759,247.46 |
| Facilities Acquisition and Construction | 318,094.23 | 367,124.04 | 204,988.26 | 162,135.78 |
| Fiscal Services | 1,829,705.52 | 1,766,822.90 | 1,561,032.45 | 205,790.45 |
| Food Services | | 31,878.04 | 31,878.04 | |
| Central Services | 5,200,371.54 | 4,850,951.28 | 2,519,786.00 | 2,331,165.28 |
| Pupil Transportation Services | 11,072,956.81 | 11,017,981.15 | 10,604,536.11 | 413,445.04 |
| Operation of Plant | 19,264,142.96 | 18,882,383.00 | 16,048,846.26 | 2,833,536.74 |
| Maintenance of Plant | 7,648,464.61 | 7,768,815.64 | 6,683,544.01 | 1,085,271.63 |
| Administrative Technology Services | 2,790,970.91 | 2,659,206.03 | 2,585,783.25 | 73,422.78 |
| Community Services | 1,689,326.28 | 1,934,933.88 | 1,136,986.76 | 797,947.12 |
| Fixed Capital Outlay: | | | | |
| Facilities Acquisition and Construction | 5,962.00 | 5,962.00 | 5,962.00 | |
| Other Capital Outlay | 285,591.77 | 285,591.77 | 285,591.77 | |
| **Total Expenditures** | 225,351,587.18 | 227,030,668.42 | 205,172,551.00 | 21,858,117.42 |
| **Excess (Deficiency) of Revenues Over Expenditures** | (34,310,373.07) | (34,848,401.25) | (11,474,240.08) | 23,374,161.17 |
| **Other Financing Sources** | | | | |
| Transfers In | 11,210,858.00 | 11,381,973.90 | 11,381,973.90 | |
| Insurance Loss Recoveries | 3,049.50 | 211,948.26 | 211,948.26 | |
| **Total Other Financing Sources** | 11,213,907.50 | 11,593,922.16 | 11,593,922.16 | |
| **Net Change in Fund Balances** | (23,096,465.57) | (23,254,479.09) | 119,682.08 | 23,374,161.17 |
| Fund Balances, Beginning | 63,601,702.38 | 63,601,702.38 | 63,601,702.38 | |
| **Fund Balances, Ending** | $ 40,505,236.81 | $ 40,347,223.29 | $ 63,721,384.46 | $ 23,374,161.17 |

| Special Revenue - Federal Economic Stimulus Fund | | | |
|---|---|---|---|
| Original Budget | Final Budget | Actual | Variance with Final Budget - Positive (Negative) |
| $ 1,871,542.03 | $ 2,152,282.58 | $ 857,582.87 | $ (1,294,699.71) |
| 1,871,542.03 | 2,152,282.58 | 857,582.87 | (1,294,699.71) |
| 461,999.67 | 454,162.99 | 285,542.16 | 168,620.83 |
| 475,574.43 | 431,090.33 | 150,456.69 | 280,633.64 |
| 174,175.39 | 305,726.08 | 24,007.84 | 281,718.24 |
| 509,358.38 | 522,654.47 | 167,777.58 | 354,876.89 |
| 42,132.16 | 50,778.61 | 14,676.80 | 36,101.81 |
| | 86,049.00 | 86,049.00 | |
| 75,000.00 | 75,000.00 | | 75,000.00 |
| 2,802.00 | 1,868.00 | | 1,868.00 |
| 124,500.00 | 111,035.30 | 15,155.00 | 95,880.30 |
| 6,000.00 | 113,917.80 | 113,917.80 | |
| 1,871,542.03 | 2,152,282.58 | 857,582.87 | 1,294,699.71 |
| $ 0.00 | $ 0.00 | $ 0.00 | $ 0.00 |

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

| Actuarial Valuation Date | Actuarial Value of Assets (A) | Actuarial Accrued Liability (AAL) (1) (B) | Unfunded AAL (UAAL) (B-A) | Funded Ratio (A/B) | Covered Payroll (C) | UAAL as a Percentage of Covered Payroll [(B-A)/C] |
|---|---|---|---|---|---|---|
| July 1, 2008 | $ 0 | $ 17,409,000.00 | $ 17,409,000.00 | 0.0% | $ 98,725,435.59 | 17.63% |
| July 1, 2009 | 0 | 16,100,000.00 | 16,100,000.00 | 0.0% | 114,997,141.69 | 14.00% |
| July 1, 2011 | 0 | 14,228,000.00 | 14,228,000.00 | 0.0% | 129,090,243.14 | 11.02% |

Note: (1) The District's OPEB actuarial valuation used the projected unit credit cost method to estimate the actuarial accrued liability.

**OKALOOSA 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 July 1, 2011, unfunded actuarial accrued liability of $14,228,000 was significantly lower than the July 1, 2009, liability of $16,100,000 as a result of benefit changes and other changes in liabilities and costs as discussed below:

- The retirement, termination, and mortality assumptions were updated using the most recent FRS assumptions.
- Health claim costs have been lower than expected.
- Healthcare trend rates were reset.
- The provisions of the Patient Protection and Affordable Care Act recently signed into law were considered, including:
  - Starting in 2014, individuals who fail to maintain health coverage face financial penalties. Due to these penalties, it is assumed that all future retirees will comply with individual coverage mandates.
  - The effect of affordability subsidies available to individuals below 400 percent of the Federal poverty level is reflected in the participation assumption.
  - Starting in 2018, a 40 percent excise tax is applied to the value of retiree health coverage exceeding the $11,850 limit.

# SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

| Federal Grantor/Pass-Through Grantor/Program Title | Catalog of Federal Domestic Assistance Number | Pass - Through Grantor Number | Amount of Expenditures (1) | Amount Provided to Subrecipients |
|---|---|---|---|---|
| **United States Department of Agriculture:** | | | | |
| Indirect: | | | | |
| Child Nutrition Cluster: | | | | |
| Florida Department of Education: | | | | |
| School Breakfast Program | 10.553 | 321 | $ 461,323.53 | $ |
| National School Lunch Program | 10.555 | 300 | 1,911,729.29 | |
| Summer Food Service Program for Children | 10.559 | 323 | 82,422.40 | |
| Florida Department of Agriculture and Consumer Services: | | | | |
| School Breakfast Program | 10.553 | 321 | 657,664.06 | |
| National School Lunch Program | 10.555 (2)(A) | 300 | 3,195,586.58 | |
| Summer Food Service Program for Children | 10.559 | 323 | 131,776.97 | |
| **Total Child Nutrition Cluster** | | | 6,440,502.83 | |
| Florida Department of Financial Services: | | | | |
| Schools and Roads - Grants to States | 10.665 | None | 240.86 | |
| **Total United States Department of Agriculture** | | | 6,440,743.69 | |
| **United States Department of Energy:** | | | | |
| Indirect: | | | | |
| University of Central Florida: | | | | |
| ARRA - State Energy Program | 81.041 (2)(B) | None | 46,014.01 | |
| **United States Department of Education:** | | | | |
| Direct: | | | | |
| Impact Aid | 84.041 (3) | N/A | 3,107,002.45 | 84,639.00 |
| Federal Pell Grant Program | 84.063 | N/A | 770,053.25 | |
| **Total Direct** | | | 3,877,055.70 | 84,639.00 |
| Indirect: | | | | |
| Florida Department of Education: | | | | |
| Special Education Cluster: | | | | |
| Special Education - Grants to States | 84.027 | 263 | 6,751,851.51 | |
| Special Education - Preschool Grants | 84.173 | 267 | 196,761.49 | |
| **Total Special Education Cluster** | | | 6,948,613.00 | |
| Title I Grants to Local Educational Agencies | 84.010 | 212, 222, 223, 226, 228 | 5,318,358.09 | |
| Career and Technical Education - Basic Grants to States | 84.048 | 161 | 315,407.18 | |
| Education for Homeless Children and Youth | 84.196 | 127 | 56,661.93 | |
| Educational Technology State Grants | 84.318 | 122 | 58,191.25 | |
| English Language Acquisition State Grants | 84.365 | 102 | 76,379.93 | |
| Improving Teacher Quality State Grants | 84.367 | 224 | 1,068,028.05 | |
| ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act | 84.395 | RL111, RD211, RG311 | 771,533.87 | |
| Education Jobs Fund | 84.410 | 541 | 86,049.00 | |
| **Total Indirect** | | | 14,699,222.30 | |
| **Total United States Department of Education** | | | 18,576,278.00 | 84,639.00 |
| **United States Department of Homeland Security:** | | | | |
| Indirect: | | | | |
| Florida Department of Community Affairs: | | | | |
| Disaster Grants - Public Assistance (Presidentially Declared Disasters) | 97.036 (4) | 05-PA-G=-01-56-03-632 | 1,348,262.95 | |
| Florida Department of Education: | | | | |
| Homeland Security Grant Program | 97.067 | 532 | 35,000.00 | |
| **Total United States Department of Homeland Security** | | | 1,383,262.95 | |
| **United States Department of Defense:** | | | | |
| Direct: | | | | |
| Public Law 110-417 | None | N/A | 705,290.20 | |
| Public Law 106-398 | None | N/A | 12,494.88 | |
| Air Force Junior Reserve Officers Training Corps | None | N/A | 180,805.55 | |
| Army Junior Reserve Officers Training Corps | None | N/A | 112,752.65 | |
| Competitive Grants: Promoting K-12 Student Achievement at Military-Connected Schools | 12.556 | HE1254-11-1-0059 | 385,219.92 | |
| Air Force Defense Research Sciences Program | 12.800 | FA8651-12-2-0005 | 57,928.89 | |
| **Total United States Department of Defense** | | | 1,454,492.09 | |
| **Total Expenditures of Federal Awards** | | | $ 27,900,790.74 | $ 84,639.00 |

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

(2) Noncash Assistance:
(A) National School Lunch Program - Includes $713,363.77 of donated foods received during the fiscal year. Donated foods are valued at fair value as determined at the time of donation.
(B) State Energy Program - Includes $46,014.01 representing the Federally-paid portion of solar panels and related site preparation and installation costs.

(3) Impact Aid. Expenditures include $2,496,102.51 for grant number/program year S041B-2012-1256, $244,091.24 for grant number/program year S041B-2010-1256, and $366,808.70 for grant number/program year S041B-2009-1256.

(4) Disaster Grants - Public Assistance (Presidentially Declared Disasters). The amount reported as expenditures represents loss recoveries related to Hurricane Ivan for the 2011-12 fiscal year as follows: $1,424,061.40 for large projects, $(13,423.93) for small projects, and $11,869.57 for allowable administrative costs.

DAVID W. MARTIN, CPA
AUDITOR GENERAL

# AUDITOR GENERAL
## STATE OF FLORIDA

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

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

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

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

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Okaloosa County District School Board as of and for the fiscal year ended June 30, 2012, which collectively comprise the District's basic financial statements, and have issued our report thereon under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS.** Our report on the basic financial statements includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the school internal funds and the aggregate discretely presented component units, as described in our report on the Okaloosa County District School Board's financial statements. For the school internal funds and the aggregate discretely presented component units, this report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

**Internal Control Over Financial Reporting**

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

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

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

**Compliance and Other Matters**

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

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

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

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

Respectfully submitted,

David W. Martin, CPA
February 8, 2013

# AUDITOR GENERAL
## STATE OF FLORIDA

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

DAVID W. MARTIN, CPA
AUDITOR GENERAL

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


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

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

**Compliance**

We have audited the Okaloosa County District School Board's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major Federal programs for the fiscal year ended June 30, 2012. The District's major Federal programs are identified in the **SUMMARY OF AUDITOR'S RESULTS** section of the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of District management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the fiscal year ended June 30, 2012. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding No. 1.

**Internal Control Over Compliance**

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

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

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

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

**Restricted Purpose Relating to Testing of Internal Control Over Compliance**

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

Respectfully submitted,

David W. Martin, CPA
February 8, 2013

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

## SUMMARY OF AUDITOR'S RESULTS

| | |
|---|---|
| **Financial Statements** | |
| Type of auditor's report issued: | Unqualified |
| Internal control over financial reporting: | |
| Material weakness(es) identified? | No |
| Significant deficiency(ies) identified that are not considered to be a material weakness(es)? | Yes |
| Noncompliance material to financial statements noted? | No |
| **Federal Awards** | |
| Internal control over major programs: | |
| Material weakness(es) identified? | No |
| Significant deficiency(ies) identified that is 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: | Special Education Cluster (CFDA Nos. 84.027 and 84.173); Improving Teacher Quality State Grants (CFDA No. 84.367); ARRA – State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act (CFDA No. 84.395 - ARRA); and Disaster Grants - Public Assistance (Presidentially Declared Disasters) (CFDA No. 97.036) |
| Dollar threshold used to distinguish between Type A and Type B programs: | $837,023 |
| Auditee qualified as low-risk auditee? | Yes |

# OKALOOSA COUNTY
# DISTRICT SCHOOL BOARD
# SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
# FOR THE FISCAL YEAR ENDED JUNE 30, 2012

## FINANCIAL STATEMENT FINDING

### SIGNIFICANT DEFICIENCY

**Finding No. 1: Financial Reporting**

Our review of the District's 2011-12 fiscal year annual financial report, as submitted to the Florida Department of Education and presented for audit, disclosed that financial reporting procedures could be improved. District personnel identified payable amounts for goods and services received before, and paid after, fiscal year-end but did not timely record certain construction expenditures and related payables pending Board approval of shared savings on a construction project. As a result, on the governmental fund financial statements for the Capital Projects – Other Fund, District personnel underreported facilities, acquisition, and construction expenditures and construction-related payables totaling $641,000 each.

Reporting errors such as these may cause financial statement users to incorrectly assess the District's construction activity and financial position. We extended our audit procedures to determine the adjustments necessary to properly report account balances and transactions on the District's financial statements, and District personnel accepted these adjustments. However, our extended audit procedures cannot substitute for management's responsibility to implement adequate controls over financial reporting. A similar finding was noted in our report No. 2010-108.

**Recommendation: The District should improve its financial reporting procedures to ensure that construction expenditures and related payables are properly reported.**

## ADDITIONAL MATTERS

**Finding No. 2: Policies and Procedures for Reporting Fraud**

The Board had not adopted policies and procedures for communicating and reporting known or suspected fraud. As of November 2012, the District had initiated efforts to develop fraud policies and procedures, but the efforts were not finalized. Such policies and procedures should clearly identify actions constituting fraud, reporting procedures, responsibilities for fraud investigation, and consequences for fraudulent behavior. Fraud policies and procedures are necessary to educate employees about proper conduct, create an environment that deters dishonesty, and maintain controls that provide reasonable assurance of achieving management objectives and detecting dishonest acts. In addition, such policies serve to establish the responsibilities for investigating potential incidents of fraud, taking appropriate actions, and reporting evidence of such actions to the appropriate authorities. Fraud policies and procedures also help to avoid damaging the reputations of persons suspected of fraud but subsequently found innocent. Without such policies, the risk increases that a known or suspected fraud may be identified but not reported to appropriate authorities. A similar finding was noted in our report No. 2010-108.

**Recommendation: The Board should adopt policies and procedures for communicating and reporting known or suspected fraud to the appropriate authorities.**

**Finding No. 3: Collection and Use of Social Security Numbers**

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

Section 119.071(5)(a), Florida Statutes, provides that the District may not collect an individual's SSN unless the District has stated in writing the purpose for its collection and unless it is specifically authorized by law to do so, or is imperative for the performance of the District's duties and responsibilities as prescribed by law. Additionally, this section requires that if the District collects an individual's SSN, it must provide that individual with a written statement indicating whether the collection of the SSN is authorized or mandatory under Federal or State law, and identifying the specific Federal or State law governing the collection, use, or release of SSNs for each purpose for which the SSN is collected. This section also provides that SSNs collected by the District may not be used for any purpose other than the purpose provided in the written statement. This section further requires that the District review whether its collection of SSNs is in compliance with the above requirements and immediately discontinue the collection of SSNs for purposes that are not in compliance.

The District obtained SSNs from students, employees, volunteers, and vendors for certain purposes such as employee insurance, withholding taxes, background checks, and registration of new students and vendors. However, we noted certain instances in which written statements indicating the purpose for collecting SSNs of employees and students were not provided, contrary to law. For example, employee forms for travel vouchers, verification of work experience of education support employees, and temporary duty elsewhere, and student forms for dual enrollment and requests for transcripts, requested the SSN of the employee or student, but no written statement indicating the purpose for collecting the SSN was included on the forms or provided to the individuals.

The District did have a written SSN usage policy that was provided in the new employee packet and posted on the District's Web site. However, the policy did not identify the specific Federal or State law governing the collection, use, or release of SSNs for each purpose for which the District collected SSNs, or include a statement as to whether the collection of the SSNs was authorized or mandatory under Federal or State law because District personnel were not aware of this requirement. A similar finding was noted in our report No. 2010-108.

**Recommendation: The District should continue its efforts to comply with Section 119.071(5)(a), Florida Statutes.**

**Finding No. 4: Electronic Funds Transfers**

Section 1010.11, Florida Statutes, requires each school board to adopt written policies prescribing the accounting and control procedures under which funds are allowed to be moved by electronic transaction for any purpose including direct deposit, wire transfer, withdrawal, investment, or payment. This law also requires that electronic transactions comply with the provisions of Chapter 668, Florida Statutes, which discusses the use of electronic signatures in

electronic transactions between school boards and other entities. 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. SBE Rule 6A-1.0012, FAC, also requires the District to maintain documentation signed by the initiator and authorizer of EFTs to confirm the authenticity of EFTs.

Although the District did not make EFTs for vendor payments, District personnel maintained documentation signed by initiators and authorizers of EFTs for transfers between District bank accounts and for direct deposits. According to District records, cash and cash equivalents and investments totaling $75.8 million were available for electronic transfer at June 30, 2012. The Board established EFT agreements with two banks and investment agreements with the State Board of Administration and the Florida Education Investment Trust Fund to provide various services, such as EFTs; however, controls over the EFT process could be enhanced, as follows:

- The Board adopted written policies prescribing control procedures for EFTs, which required written confirmation of monetary transactions and authorization of transactions by the Superintendent or designee. However, these policies did not require that the initiator and authorizer of EFTs be different employees for appropriate separation of duties and, contrary to Chapter 668, Florida Statutes, did not provide for the use of electronic signatures.
- The District had informal procedures that require personnel to appropriately record EFT transactions in the accounting system; however, the Board had not adopted written policies prescribing accounting procedures for EFTs, contrary to Section 1010.11 and Chapter 668, Florida Statutes.
- One bank EFT agreement lacked signatures of those designated to make EFTs, contrary to SBE Rule 6A-1.0012, FAC.

District personnel indicated that controls are in place, such as separation of initiator and authorizer of EFTs and management review of EFT transactions, to compensate, in part, for lack of formal written procedures. While our tests did not disclose any EFTs for unauthorized purposes, the above-noted deficiencies related to EFTs increases the risk of misappropriation of funds without timely detection.

**Recommendation: The Board should enhance its written policies and procedures related to EFTs, including the use of electronic signatures. Such policies and procedures should ensure that the duties of initiating and authorizing EFTs are separated, accounting procedures are established, and EFT agreements contain required signatures of those designated to make EFTs.**

### Finding No. 5: Compensation and Salary Schedules

Section 1001.42(5)(a), Florida Statutes, requires the Board to designate positions to be filled, prescribe qualifications for those positions, and provide for the appointment, compensation, promotion, suspension, and dismissal of employees, subject to the requirements of Chapter 1012, Florida Statutes. Section 1012.22(1)(c)4.b., Florida Statutes, provides that, for instructional personnel, the Board must provide for differentiated pay based on district-determined factors, including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties.

While compensation of instructional personnel is typically subject to collective bargaining, the Board had not established a documented process to identify instructional personnel entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4.b., Florida Statutes. Such a documented process could specify the factors to be

used as the basis for determining differentiated pay, the process for applying the factors, and the individuals responsible for making such determinations.

The 2011-12 fiscal year salary schedule and union contract for instructional personnel provided pay levels based on various factors such as job classification, years of experience, level of education, and other factors, and provided salary supplements for additional responsibilities beyond the standard workday, such as supplements for athletic coaches, band directors, staff coordinators, and department chairpersons. However, neither the salary schedule nor the union contract evidenced differentiated pay based on school demographics, level of job performance difficulties, and critical shortage areas, contrary to Section 1012.22(1)(c)4.b., Florida Statutes.

District personnel indicated that, as of November 2012, the differentiated pay requirements were not implemented because the District was in negotiations with the instructional collective bargaining agent. Without a Board-established documented process for identifying the basis for differentiated pay, the District may be limited in its ability to demonstrate that differentiated pay factors are consistently considered and applied.

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

**Finding No. 6: Construction – Total Program Management Services**

During the 2011-12 fiscal year, the District expended $9,659,000 for facilities construction, including remodeling and renovation projects. In lieu of having its own facilities construction function, the District, pursuant to Section 1013.45(1)(d), Florida Statutes, uses the services of a total program manager (TPM) to coordinate and manage the District's facilities construction program. The contract with the TPM has been in effect since June 2008, provides for a guaranteed maximum price (GMP) or time and materials (TM) construction service delivery method, and the Board documents its choice of the construction service delivery method by approving a task order that gives the TPM authorization to perform the construction project.

The District generally used the GMP construction service delivery method when a project was considered a major project or was of higher cost and complexity. The GMP construction service delivery method provided for the District to pay the TPM 50 percent of any cost savings generated on the project and the District contracted with an independent third-party firm to determine if the TPM's proposed GMP project cost budget is reasonable based on current construction costs. While the firm documented the reasonableness of these GMP project costs, the District did not obtain such evaluations for TM project budgets. The TM delivery method was generally used for minor projects of lower cost and complexity with subcontractors selected by the TPM without the use of competitive bids. The District's TPM contract specified the labor rates for which the TPM would be reimbursed for TM projects.

While our review of facilities management procedures indicated that procedures were generally adequate, District personnel indicated that they had not established written policies and procedures for evaluating the construction delivery methods used and, while they considered the two methods, they did not document evaluations of the approaches to determine for each construction project which would be most cost-effective and beneficial. For example, the District issued the TPM a TM task order totaling $1.4 million, representing the largest construction project expenditures for the fiscal year, for restroom renovations at four schools and heating, ventilation, and air-conditioning (HVAC) design at another school; however, the task order was issued without documenting the advantages of the construction delivery method selected. In addition, we noted the following:

- The TPM issued four subcontracts ranging from $83,700 to $238,800, and totaling $580,900, to one subcontractor to perform the construction work on the restroom renovations and a separate subcontract, totaling $235,000, to another subcontractor to perform the HVAC design. Since the TPM contract does not require competitive bidding for TM projects, the subcontractors used for this task order were not selected pursuant to competitive bids, contrary to good business practice. As such, the risk increases that the District may not realize potential cost savings by obtaining the lowest and best prices for subcontractor services, consistent with acceptable quality and performance.
- The District reimbursed the TPM a total of $576,775 as of June 30, 2012, for amounts paid to the subcontractor for the TM restroom renovations work based on a progression schedule pursuant to a lump sum agreement. However, District records supporting the request for payment did not specify the subcontractor time or materials for the reimbursements. Without District procedures to ensure subcontractor TM costs are sufficiently supported, there is an increased risk that the District may overpay for such services.
- At June 30, 2012, the expenditures for the restroom renovations work totaled $908,113, of which $262,201 was paid to the TPM for project design and management costs. Although the TPM's costs represent 29 percent of the total costs at June 30, 2012, District records did not evidence the basis upon which the District determined the reasonableness of these costs. Without such documented determination, using an independent third-party documented review or other measures, the District is exposed to greater risk that services for TM projects may not be obtained at the best price consistent with acceptable quality.

District personnel indicated that projects, such as the restroom renovation and HVAC projects discussed above, are generally awarded on a GMP construction services delivery basis and the decision to use the TM construction services delivery method was an oversight. Without Board-approved policies and procedures for evaluating construction delivery methods for each construction project and independent third-party review of estimated construction cost budgets of TM projects, there is an increased risk that the District may not use the most cost-effective and beneficial construction delivery method.

In addition, the TM task orders were not issued using a contract but issued as a "Notice to Proceed (NTP)," which stated only that the TPM was given the authority to proceed with the projects included in the task order. The NTP did not include terms and conditions such as the scope of the work, anticipated timeline, solicitation of subcontractors, or budget for the projects in the task order. In the absence of written terms and conditions when executing a task order, the District has a higher risk that TM task orders will not be performed in accordance with the requirements of the contract or that there will be misunderstandings related to contract requirements.

**Recommendation: The District should enhance its construction delivery method process by developing policies and procedures for evaluating such methods for each construction project. The policies and procedures should require that subcontractors used on major construction projects be competitively selected and documentation of the reasonableness of estimated construction cost budgets of construction projects before methods are selected.**

## Finding No. 7: Total Program Manager Insurance

The District's contract with its TPM required the TPM to maintain certain insurance, including $5 million in commercial general liability for each of the following risks: general aggregate; products and completed operations aggregate; and personal and advertising injury for each occurrence. The contract also required the TPM to maintain $3 million in automobile liability coverage for each occurrence. However, District records indicated that TPM insurance was insufficient as the TPM's commercial general liability general aggregate, and products and completed operations aggregate, were each limited to $2 million, and personal and advertising injury for each occurrence was limited to $1 million, or $3 million and $4 million less than the contract-required insurance, respectively, for these

risks. In addition, TPM's automobile liability was limited to $2 million for each occurrence, or $1 million less than the contract-required insurance.

While District risk management personnel reviewed the TPM's insurance certificates, they were initially unaware of the contract requirements. Without adequate procedures to monitor TPM insurance, there is an increased risk that such insurance may be insufficient, subjecting the District to potential losses.

**Recommendation: The District should enhance its monitoring procedures to ensure that TPMs maintain required insurance coverage.**

**Finding No. 8: Ad Valorem Taxation**

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

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

The District separately accounts for each fiscal year's ad valorem tax levy within the Capital Projects – Local Capital Improvement (LCI) Fund. For the 2011-12 fiscal year, the District had LCI Fund expenditures totaling $6.1 million and transfers totaling $18.7 million to other funds. Our tests of LCI Fund expenditures and transfers totaling $15.3 million disclosed that the District used 2007-08 and 2008-09 fiscal year ad valorem tax levy proceeds totaling $6,912 and $100,116, respectively, to pay for motor vehicles other than school buses, and 2009-10 fiscal year ad valorem tax levy proceeds totaling $192,272 to pay for school buses. However, the public notices of taxes for the respective fiscal years did not identify these proposed uses, contrary to Section 200.065(10)(a), Florida Statutes. District personnel indicated that the errors occurred because they used the older funding sources and were unaware that the advertisements did not authorize these purchases. Although Section 200.065(10)(b), Florida Statutes, allows a school district to publish advertisements to announce the school district's proposal to use remaining ad valorem tax proceeds for other purposes, the District did not publish such announcements. In the absence of the required advertisement of the proposed uses of funds, these expenditures totaling $299,300 for buses and other motor vehicles represent questioned costs.

**Recommendation: The District should enhance its procedures to ensure that ad valorem tax levy proceeds are used for advertised purposes as required. The District should also document to the Florida Department of Education the allowability of the $299,300 of questioned costs or restore this amount to the LCI Fund.**

**Finding No. 9: Purchasing Cards**

The District provided purchasing cards to expedite the payment of certain purchases in an efficient manner. Purchases made with purchasing cards are subject to the same rules and regulations that apply to other District purchases and the Board has approved purchasing card procedures to provide users with additional guidance on how to properly use the purchasing cards. The District's purchasing card procedures allow purchases of goods and services for official business use only and do not permit the purchase of equipment costing more than $1,000. SBE Rule 6A-1.0143, FAC, and Board policy allow purchases for promotions, public relations, and hospitality made from undesignated gifts or donations to the District or from profits of enterprise-type activities.

During the 2011-12 fiscal year, the District assigned 240 purchasing cards to employees and made payments totaling $3.5 million for goods and services purchased with the cards. Our tests of 25 purchasing card expenditures totaling $67,217 disclosed 2 expenditures totaling $3,600 for flowers and framed certificates awarded for employee performance and service that were paid from District budgeted funds, instead of promotion, public relations, and business hospitality resources, contrary to SBE rule and Board policy. We also noted a $1,999 purchasing card expenditure for a desk, which exceeded the $1,000 limit established by the District's purchasing card procedures. Although purchasing cards are useful for expediting the payment of certain purchases in an efficient manner, without effective monitoring procedures, there is an increased risk that purchasing cards will be used for unauthorized purchases or that errors or fraud may occur without timely detection. A similar finding was noted in our report No. 2010-108.

**Recommendation: The District should enhance procedures over purchasing cards to ensure that purchases serve a public purpose and adhere to SBE rules and established Board procedures.**

**Finding No. 10: Information Technology – Access Privileges**

Access controls are intended to protect data and information technology (IT) resources from unauthorized disclosure, modification, or destruction. Effective access controls provide employees access to IT resources based on a demonstrated need to view, change, or delete data and restrict employees from performing incompatible functions or functions outside of their areas of responsibility. For example, access privileges should typically be configured to enforce an appropriate restriction of application end-user access privileges to preclude the possibility of one individual controlling all critical stages of a transaction process, including a combination of functions such as data entry and verification of data, reconciliation of output, or supervisory authorization functions. Periodically reviewing IT access privileges assigned to employees promotes good internal control and is necessary to ensure that employees cannot access IT resources inconsistent with their assigned job duties.

The Operations and Security Coordinator (Coordinator) reviewed the access privileges assigned to the profiles created for the District's finance and human resources (HR) applications and the profiles assigned to employees when a change to a profile was made upon request or when a former employee's profile was transferred to a new employee. In addition, the Coordinator reviewed users' profiles for the District's operating system upon request from the end-user department that initially authorized the access. However, the District did not conduct periodic reviews of employee access privileges to ensure that the access privileges remained appropriate.

Our audit tests of selected access privileges to the finance and HR applications and supporting operating system disclosed that some employees had access privileges that permitted the employees to perform incompatible duties. Specifically:

- Two school bookkeepers had the ability to change, delete, display, and release spooled files, including confidential files; hold, release, change, and cancel any job; and shut down the system or subsystem through direct assignment of special operating system authorities. The ability to control all system spooling functions and control system jobs is more appropriately limited to selected IT employees. In response to our inquiry, District management removed the special operating system authorities.
- Eleven employees in the budgeting and finance departments had the ability to generate and update purchase orders, although only purchasing department employees responsible for executing purchase orders should have this ability.
- Two payroll clerks, a retirement analyst, and the payroll supervisor had the ability to update an employee's tax and benefit information, although only HR employees responsible for maintaining this information should have this ability.
- One retirement analyst and the payroll supervisor had the ability to add and update employee pay rates. In addition, the payroll supervisor had the ability to add and update an employee's job code. Only HR personnel responsible for adding new employees and maintaining employee information should have this ability.
- A retirement analyst had the ability to run a direct deposit job, although only personnel who process payroll should have this ability.

District personnel indicated, and records evidenced, that various controls compensate for the deficiencies noted above. For example, District procedures include supervisory review and approval of employee work activities; timely, independent bank account reconciliations; supervisory review and approval of transactions such as journal entries and electronic funds transfers; and restricted access to unused checks. While our tests did not disclose any errors or fraud resulting from the unnecessary access privileges, the existence of inappropriate access privileges indicated a need for an improved District review of access privileges and increased the risk of unauthorized disclosure, modification, or destruction of District data and IT resources. A similar finding was noted in our report No. 2010-108.

**Recommendation: The District should improve its review of access privileges and timely deactivate any inappropriate access detected.**

**Finding No. 11: Information Technology – Timely Deactivation of Access Privileges**

Effective IT access controls include provisions for the timely deactivation of employee IT access privileges when employment is terminated. Prompt action is necessary to ensure that former employees' access privileges are not misused by former employees or others to compromise data or IT resources.

Our test of 10 former employees who had terminated employment during the period July 1, 2011, through June 14, 2012, disclosed that, as of the close of our fieldwork, August 31, 2012, the operating system access privileges of 2 former employees had been deactivated, but had remained active for 4 to 105 days after termination of employment. Additionally, the network access privileges of 1 of those employees remained active as of August 31, 2012, which was 123 days after termination of employment. The network access privileges of an additional former employee remained active as of August 31, 2012, which was 245 days after termination of employment.

Upon our inquiry, the District determined that the last sign-on of the former employees using the network and applicable operating system user accounts occurred prior to the date of termination with the exception of one employee's network account. The account was used by the former employee, according to District practice, to access the employee's e-mail and calendar. Nevertheless, when the access privileges of former employees are not timely

deactivated, the risk is increased that the access privileges may be misused by the former employees or others. A similar finding was noted in our report No. 2010-108.

**Recommendation: The District should improve its termination procedures to ensure that the access privileges of former employees are timely deactivated. In addition, for circumstances in which a former employee's network account is permitted to remain active, the account should be restricted to only those resources necessary, be active for a set period of time, and be monitored frequently during this period for unauthorized access.**

### Finding No. 12: Information Technology – Security Awareness Training Program

A comprehensive security awareness training program apprises new employees of, and reemphasizes to current employees, the importance of preserving the confidentiality, integrity, and availability of data and IT resources entrusted to them. Significant nonpublic records (e.g., student record information and other records that contain sensitive information) are included in the data maintained by the District's IT systems.

Although new employees were provided education and training on security responsibilities, including acceptable or prohibited methods for storage and transmission of data, password protection and usage, copyright issues, malicious software and virus threats, workstation controls, and handling of confidential information, the District did not facilitate employees' ongoing training and awareness through periodic reminders or training sessions. Upon logging into the District's network, employees affirmed their continued responsibility for adhering to the *Electronic Resources Acceptable Use Guidelines* that they signed when hired. However, with this one action, the employees would not necessarily be made aware of changes or additions to security policies and procedures and, consequently, revised or expanded security-related responsibilities.

The absence of ongoing security awareness training for all employees increases the risk that the District's IT resources may be unintentionally compromised by users while performing their duties. A similar finding was noted in our report No. 2010-108.

**Recommendation: The District should improve its security awareness training program to include ongoing training to ensure that employees are aware of the importance of information handled and their responsibilities for maintaining its confidentiality, integrity, and availability.**

### Finding No. 13: Information Technology – Security Controls – User Authentication and 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 user authentication and data loss prevention that needed improvement. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising the District's data and IT resources. However, we have notified appropriate District management of the specific issues.

Without adequate security controls related to user authentication and data loss prevention, the risk is increased that the confidentiality, integrity, and availability of District data and IT resources may be compromised. A similar finding was noted in our report No. 2010-108.

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

## FEDERAL AWARDS FINDING

**Federal Awards Finding No. 1:**
**Federal Agency: United States Department of Education**
**Pass-Through Entity: Florida Department of Education**
**Program: Special Education – Grants to States (CFDA No. 84.027)**
**Finding Type: Noncompliance and Significant Deficiency**
**Questioned Costs: None**

**Procurement.** United States Office of Management and Budget Circular A-87, Attachment A, Section C.1., requires Federal award costs to be adequately documented. During the 2011-12 fiscal year, the District had Special Education program expenditures totaling $6.9 million, of which $75,000 was paid to two therapists for evaluation and therapy services. However, District personnel indicated that they did not verify that these services were appropriately provided to students participating in the Special Education program. Upon our request, the District obtained the therapists' documentation of services performed that evidenced services were appropriately provided to students participating in the program. Without documented evidence that contracted services are appropriately received prior to payment, there is an increased risk of overpayment and for services to be inconsistent with Board intent and Federal regulations.

**Recommendation: The District should enhance its monitoring procedures to ensure that District personnel with direct knowledge of the contracted services confirm and document that the services are appropriately received prior to payment for the services.**

District Contact Person: Lois Handzo, Director of Student Intervention Services

## PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the District had taken corrective actions for findings included in previous audit reports. The following table provides information on recurring District audit findings:

| | Financial and Federal Single Audit | | Financial, Operational, and Federal Single Audit |
|---|---|---|---|
| Current Fiscal Year Finding Numbers | 2010-11 Fiscal Year Audit Report and Finding Numbers | 2009-10 Fiscal Year Audit Report and Finding Numbers | 2008-09 Fiscal Year Audit Report and Finding Numbers |
| 2 | NA | NA | Audit Report No. 2010-108, Finding No. 7 |
| 3 | NA | NA | Audit Report No. 2010-108, Finding No. 8 |
| 9 | NA | NA | Audit Report No. 2010-108, Finding No. 10 |
| 10 | NA | NA | Audit Report No. 2010-108, Finding No. 2 |
| 11 | NA | NA | Audit Report No. 2010-108, Finding No. 3 |
| 12 | NA | NA | Audit Report No. 2010-108, Finding No. 5 |
| 13 | NA | NA | Audit Report No. 2010-108, Finding No. 6 |

NA – Not Applicable

## MANAGEMENT'S RESPONSE

Management's response is included as Exhibit A.

# SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

***OKALOOSA COUNTY***
***DISTRICT SCHOOL BOARD***
***SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - FEDERAL AWARDS***
***For the Fiscal Year Ended June 30, 2012***

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

| Audit Report No. and Federal Awards Finding No. | Program/Area | Brief Description | Status | Comments |
|---|---|---|---|---|
| Carr, Riggs, & Ingram, LLC | | There were no prior Federal audit findings. | | |

## EXHIBIT A
## MANAGEMENT'S RESPONSE

# SCHOOL DISTRICT OF OKALOOSA COUNTY

SUPERINTENDENT OF SCHOOLS
MARY BETH JACKSON

ATTORNEY TO THE BOARD
C. JEFFREY McINNIS

BOARD MEMBERS
DEWEY DESTIN
CINDY FRAKES
CATHY THIGPEN
MELISSA THRUSH
RODNEY L. WALKER

February 8, 2013

David W. Martin, CPA
Auditor General
7282 Plantation Road, Suite 401
Pensacola, Florida 32514

RE: Preliminary and Tentative Audit Findings and Recommendations for the Fiscal Year Ended June 30, 2012

Dear Mr. Martin,

Enclosed are the District's responses to the Preliminary and Tentative Audit Findings and Recommendations for the fiscal year ended June 30, 2012.

Should you have any questions or require additional information regarding the responses, please do not hesitate to contact me.

Sincerely,

Mary Beth Jackson

Mary Beth Jackson
Superintendent

MJ:rrs

C: Rodney Walker, Chairman, School Board
Cathy Thigpen, School Board Member
Melissa Thrush, School Board Member
Dewey Destin, School Board Member
Cindy Frakes, School Board Member
Rita R. Scallan, Chief Financial Officer

ADMINISTRATIVE COMPLEX-120 LOWERY PLACE S.E - FORT WALTON BEACH, FLORIDA 32548
TELEPHONE (850) 833-3100 FAX (850) 833-3436

## EXHIBIT A (CONTINUED)
## MANAGEMENT'S RESPONSE

School Board of Okaloosa County
Preliminary and Tentative Audit Findings
Management's Response
FY 2011-2012
February 8, 2013

**Finding No. 1: Financial Reporting**

*District Response:*

The District has implemented written procedures to ensure construction and related payables are properly reported.

**Finding No. 2: Policies and Procedures for Reporting Fraud**

*District Response:*

The School Board will adopt policies and procedures for communicating and reporting known or suspected fraud to the appropriate authorities.

**Finding No. 3: Collection and Use of Social Security Numbers**

*District Response:*

The School Board will continue its efforts to comply with Section 119.071(5) (a), Florida Statutes. The district plans to enhance its written SSN usage policy by identifying the specific Federal or State law governing the collection, use and release of SSNs and include a statement as to whether the collection of the SSNs was mandatory under law.

**Finding No. 4: Electronic Funds Transfers**

*District Response:*

The Finance Department has informal procedures and controls in place to ensure adequate security, confidentiality and auditability of business transactions conducted using electronic funds transfers. However, the Board will enhance its controls over electronic funds transfers through written policies and procedures pursuant to recommendations.

**Finding No. 5: Compensation and Salary Schedules**

*District Response:*

The School Board has adopted a documented process, effective July 1, 2012, ensuring that differentiated pay of instructional personnel is appropriately identified. The district is offering

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## EXHIBIT A (CONTINUED)
## MANAGEMENT'S RESPONSE

School Board of Okaloosa County
Preliminary and Tentative Audit Findings
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differentiated pay for instructional personnel working in critical shortage areas, Title I schools, teaching additional periods, serving as department chairs or grade level chairs.

**Finding No. 6: Construction – Total Program Management Services**

*District Response:*

The District will enhance its construction delivery method process by developing policies and procedures to evaluate the available methods for each construction project, specifically the time and materials method.

**Finding No. 7: Total Program Manager Insurance**

*District Response:*

The School Board will enhance its monitoring procedures to ensure that Total Program Managers maintain required insurance coverage. The District is in the process of developing written policies and procedures which will be implemented to ensure TPMs insurance coverage. Insurance Coverage will be verified at the time a building permit is issued to the TPM which will ensure insurance policies are current and up to date.

**Finding No. 8: Ad Valorem Taxation**

*District Response:*

The District will enhance its procedures to ensure capital expenditures funded from prior year ad valorem tax levy proceeds were appropriately advertised as required.

**Finding No. 9: Purchasing Cards**

*District Response:*

The District plans to explore alternate revenue sources to ensure that employee performance awards, such as Teacher of the Year, Educational Support Employee of the Year, and other employee recognitions are not funded from District budgeted funds and adheres to SBE rules.

## EXHIBIT A (CONTINUED)
## MANAGEMENT'S RESPONSE

School Board of Okaloosa County
Preliminary and Tentative Audit Findings
Management's Response
FY 2011-2012
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**Finding No. 10 – Information Technology – Access Privileges**

*District Response:*

The District will improve its review of access privileges and timely remove any inappropriate access detected. Information Technology (IT) personnel are in the process of developing reports that will be reviewed on a quarterly basis, by departments, to validate employee access privileges.

**Finding No. 11: Information Technology – Timely Deactivation of Access Privileges**

*District Response:*

The District will improve its termination procedures to ensure that access privileges of former employees are deactivated timely. Information Technology will run a daily report listing all employees who have terminated employment. Employees listed on the report will have their TERMS access disabled immediately and their names forwarded to L-3 representatives for active directory tracking. Additionally, a report will be run at the end of each month listing the names of all employee profiles that have been disabled in the AS400 TERMS system. Employees that have been inactive in the district for three months will be disabled in the active directory.

**Finding No. 12: Information Technology – Security Awareness Training Program**

*District Response:*

The District will improve its security awareness training program. Information Technology is working with the District's Vendor, for seat management services (L-3), to develop and implement an electronic method to ensure employees are aware of the District's acceptable use policy and acknowledge acceptance of said policy.

**Finding No. 13: Information Technology – Security Controls**

*District Response:*

The District will improve security controls related to user authentication. The improved security controls will address user authentication related to the network, as well as the TERMS system.

## EXHIBIT A (CONTINUED)
## MANAGEMENT'S RESPONSE

School Board of Okaloosa County
Preliminary and Tentative Audit Findings
Management's Response
FY 2011-2012
February 8, 2013

FEDERAL AWARDS

**Federal Awards Finding No. 1: Procurement**

*District Response:*

The District has revised its monitoring procedures related to contracted services personnel. All contracted services personnel providing therapy/services to Exceptional Education Students will be required to submit sign-in/sign-out sheets and therapy logs or time and effort schedules, verified and signed by school based personnel, with their invoices each month. The documentation will be reviewed and approved prior to payment.

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