STATE OF FLORIDA AUDITOR GENERAL

Financial, Operational, and Federal Single Audit

Report No. 2016-129
March 2016

OKALOOSA COUNTY DISTRICT SCHOOL BOARD

For the Fiscal Year Ended
June 30, 2015

Sherrill F. Norman, CPA
Auditor General

Board Members and Superintendent

During the 2014-15 fiscal year, Mary Beth Jackson served as Superintendent and the following individuals served as Board members:

	District No.
Cindy Frakes to 11-17-14, Vice Chair	1
Dr. Lamar White from 11-18-14	1
Dewey E. Destin, Jr., Vice Chair from 11-18-14	2
Rodney L. Walker, Chair to 11-17-14	3
Catherine S. Thigpen, Chair from 11-18-14	4
Melissa Thrush	5

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 team leader was Christy L. Johnson, CPA, and the audit was supervised by Kenneth C. Danley, CPA. For the information technology portion of this audit, the team leader was Joseph D. Garcia, and the supervisor was Heidi G. Burns, CPA, CISA.

Please address inquiries regarding this report to Douglas R. Conner, CPA, Audit Supervisor, by e-mail at dougconner@aud.state.fl.us or by telephone at (850) 412-2730.

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SUMMARY

SUMMARY OF REPORT ON FINANCIAL STATEMENTS

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

SUMMARY OF REPORT ON INTERNAL CONTROL AND COMPLIANCE

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

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

Additional Matters

Finding 1: The District did not always timely perform required background screenings for applicable instructional and noninstructional employees.

Finding 2: The District needs to enhance controls to ensure compliance with State law by notifying individuals of the District's need for and use of their social security numbers. Similar findings were noted in our report Nos. 2010-108 and 2013-121.

Finding 3: District total program manager (TPM) procedures need improvement to ensure that the TPM selects subcontractors, as applicable, using a competitive bid process; subcontractors are appropriately licensed; and payments made to the TPM for subcontractor services are supported by appropriate documentation. A similar finding was noted in our report No. 2013-121.

Finding 4: Controls over virtual instruction program (VIP) operations and related activities could be enhanced by developing and maintaining comprehensive, written VIP policies and procedures.

Finding 5: Contrary to State law, the District did not provide students with at least three virtual instruction options.

Finding 6: District records did not evidence that timely, written notifications were provided directly to parents about all VIP options.

Finding 7: The VIP provider contract did not contain certain necessary provisions.

Finding 8: District records did not evidence that VIP provider employees were subject to required background screenings.

Finding 9: The District needs to enhance procedures to ensure that parents are notified about the availability of VIP resources for qualifying students.

Finding 10: The District needs to develop a comprehensive, written information technology (IT) risk assessment plan.

Finding 11: The District needs to continue efforts to update its comprehensive, written IT security incident response plan.

Finding 12: The District needs to continue efforts to develop and implement ongoing IT security awareness training for employees.

Finding 13: Some unnecessary IT access privileges continue to exist.

Finding 14: District IT security controls related to user authentication, data loss prevention, and monitoring of application activity continue to need improvement.

SUMMARY OF REPORT ON FEDERAL AWARDS

We audited the District's compliance with applicable Federal awards requirements. The Child Nutrition Cluster, Federal Pell Grant Program, and Improving Teacher Quality 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.

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 accompanying Schedule of Expenditures of Federal Awards as of and for the fiscal year ended June 30, 2015. 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, in both 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
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The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

INDEPENDENT AUDITOR'S REPORT

Report on the 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, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 43 percent of the assets and 85 percent of the liabilities of the aggregate remaining fund information. In addition, we did not audit the financial statements of the aggregate discretely presented component units, which represent 100 percent of the transactions and account balances of the aggregate discretely presented component units' columns. Those 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 solely 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the reports of 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 of the Okaloosa County District School Board, as of June 30, 2015, and the respective changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note II. to the financial statements, the District and a certain component unit implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*, which is a change in accounting principle that requires an employer participating in a cost-sharing multiple-employer defined benefit pension plan to report the employer's proportionate share of the net pension liability of the defined benefit pension plan. This matter affects the comparability of amounts reported in the 2014-15 fiscal year with the amounts reported for the 2013-14 fiscal year. Our opinion, and the opinion of the other auditors, are not modified with respect to this matter.

Other Matters

Required Supplementary Information

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**, **Schedule of the District's Proportionate Share of the Net Pension Liability – Florida Retirement System**

Pension Plan, **Schedule of District Contributions – Florida Retirement System Pension Plan**, **Schedule of the District's Proportionate Share of the Net Pension Liability – Health Insurance Subsidy Pension Plan**, **Schedule of District Contributions – Health Insurance Subsidy Pension 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 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.

Supplementary Information

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.

The accompanying **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** 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. Such 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 accompanying **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of the District'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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Respectfully submitted,

Sherrill F. Norman, CPA
Tallahassee, Florida
March 16, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Okaloosa County District School Board has prepared the following discussion and analysis to provide an overview of the District's financial activities for the fiscal year ended June 30, 2015. 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 2014-15 fiscal year are as follows:

- The assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources at June 30, 2015, by $90,425,308.17 (net position). Of this amount, $75,286,629.24 represents a deficit unrestricted net position. This deficit represents the first reported deficit in unrestricted net position in the history of the District. The major change in the financial position of the District that resulted in this first-ever deficit in unrestricted net position was the implementation of Government Accounting Standards Board (GASB) Statement No. 68.
- The District's total net position decreased by $3,235,342.30, or 1.71 percent, excluding $95,464,811 in adjustments made to decrease beginning net position. The adjustment to beginning net position is explained further in Note II. to the financial statements.
- General revenues and special items total $258,523,743.28, or 94.11 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total $16,182,837.52, or 5.89 percent of all revenues.
- Expenses total $277,941,923.10. Only $16,182,837.52 of these expenses was offset by program specific charges, with the remainder paid from general revenues.
- The General Fund unassigned fund balance represents the net current financial resources available for general appropriation by the Board and totals $14,364,416.33, or 5.86 percent of the total General Fund expenditures, at June 30, 2015, as compared to the 2013-14 fiscal year unassigned fund balance of $14,093,856.72.
- General Fund expenditures exceeded revenues by $23,803,793.51.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The basic financial statements consist of three components: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to financial statements. This report also includes supplementary information intended to furnish additional details to support the basic 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 position 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 position provides information about the District's financial position, its assets, liabilities, and deferred inflows/outflows of resources, using an economic

resources measurement focus. Assets plus deferred outflows of resources, less liabilities and deferred inflows of resources, equals net position, which is a measure of the District's financial health. The statement of activities presents information about the change in the District's net position, the results of operations, during the fiscal year. An increase or decrease in net position 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 School 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.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and 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, not the District as a whole. The District's major funds are the General Fund and Special Revenue – Other Federal Programs 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. Budgetary comparison schedules have been provided for the General Fund and Special Revenue – Other Federal Programs Fund to demonstrate compliance with the budget at the functional level.

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.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the District's net pension liability and its progress in funding its obligation to provide other postemployment benefits to its employees.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position over time may serve as a useful indicator of a government's financial health. The following is a summary of the District's net position as of June 30, 2015, compared to net position as of June 30, 2014:

Net Position, End of Year

	Governmental Activities		
	6-30-15	**6-30-14** (1)	**Increase/ Decrease**
Current and Other Assets	$ 62,335,143.99	$ 73,600,529.22	$ (11,265,385.23)
Capital Assets	198,489,932.90	203,788,380.98	(5,298,448.08)
Total Assets	260,825,076.89	277,388,910.20	(16,563,833.31)
Deferred Outflows of Resources	20,002,818.00	-	20,002,818.00
Long-Term Liabilities	145,300,145.71	83,534,353.39	61,765,792.32
Other Liabilities	4,356,936.01	4,729,095.34	(372,159.33)
Total Liabilities	149,657,081.72	88,263,448.73	61,393,632.99
Deferred Inflows of Resources	40,745,505.00	-	40,745,505.00
Net Position:			
Net Investment in Capital Assets	152,345,932.90	151,105,842.43	1,240,090.47
Restricted	13,366,004.51	15,657,120.63	(2,291,116.12)
Unrestricted (Deficit)	(75,286,629.24)	22,362,498.41	(97,649,127.65)
Total Net Position	$ 90,425,308.17	$ 189,125,461.47	$ (98,700,153.30)

Note: (1) Balances for June 30, 2014, have not been restated for adjustments to beginning net position in the fiscal year ended June 30, 2015, due to the implementation of GASB Statement No. 68. See the Accounting Changes note to financial statements for further details.

The largest portion of the District's net position reflects its $152,345,932.90 investment in capital assets (land; construction in progress; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; computer software; and audio-visual materials), 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. Although the investment in capital assets is reported net of related debt, the resources used to repay the debt must be provided from other sources, since the capital assets cannot be used to liquidate these liabilities.

The restricted portion of the District's net position, $13,366,004.51, represents resources that are subject to external restrictions on how they may be used. The unrestricted net position, a deficit of $75,286,629.24, is the result of having long-term obligations that are greater than currently available resources. This deficit balance represents the first reported deficit in unrestricted net position in the history of the District. The major change in the financial position of the District that resulted in this first-ever deficit net position was due to the implementation of GASB Statement No. 68. Additional information on this implementation can be found in Note II. to the financial statements.

The key elements of the changes in the District's net position for the fiscal years ended June 30, 2015, and June 30, 2014, are as follows:

Operating Results for the Fiscal Year Ended

	Governmental Activities		
	6-30-15	6-30-14	Increase/ (Decrease)
Program Revenues:			
Charges for Services	$ 6,202,753.42	$ 6,655,254.05	$ (452,500.63)
Operating Grants and Contributions	7,451,102.37	7,151,673.65	299,428.72
Capital Grants and Contributions	2,528,981.73	1,986,953.71	542,028.02
General Revenues:			
Property Taxes, Levied for Operational Purposes	89,280,573.37	86,821,499.95	2,459,073.42
Property Taxes, Levied for Capital Projects	22,540,194.98	21,515,351.69	1,024,843.29
Grants and Contributions Not Restricted to Specific Programs	141,447,005.57	138,364,230.08	3,082,775.49
Unrestricted Investment Earnings	211,057.12	442,347.42	(231,290.30)
Miscellaneous	6,490,978.99	4,014,811.74	2,476,167.25
Special Items	(1,446,066.75)	-	(1,446,066.75)
Total Revenues and Special Items	274,706,580.80	266,952,122.29	7,754,458.51
Functions/Program Expenses:			
Instruction	164,855,142.17	161,967,237.53	2,887,904.64
Student Personnel Services	8,749,290.48	7,586,172.39	1,163,118.09
Instructional Media Services	1,395,658.31	1,249,075.03	146,583.28
Instruction and Curriculum Development Services	7,927,741.99	8,708,120.10	(780,378.11)
Instructional Staff Training Services	1,396,830.77	1,363,931.44	32,899.33
Instructional-Related Technology	646,841.85	856,992.04	(210,150.19)
Board	1,938,523.90	1,476,957.71	461,566.19
General Administration	873,011.70	889,219.40	(16,207.70)
School Administration	18,819,490.12	16,063,472.03	2,756,018.09
Facilities Acquisition and Construction	5,234,762.11	3,388,173.03	1,846,589.08
Fiscal Services	1,774,296.87	1,821,237.40	(46,940.53)
Food Services	11,312,172.72	10,981,297.04	330,875.68
Central Services	2,905,900.57	3,576,742.74	(670,842.17)
Student Transportation Services	12,088,887.43	11,609,261.54	479,625.89
Operation of Plant	16,049,442.20	15,406,861.05	642,581.15
Maintenance of Plant	7,804,996.95	8,169,471.98	(364,475.03)
Administrative Technology Services	2,815,518.67	2,841,376.42	(25,857.75)
Community Services	2,001,586.92	1,201,374.02	800,212.90
Unallocated Interest on Long-Term Debt	1,963,727.89	2,269,714.20	(305,986.31)
Unallocated Depreciation Expense	7,388,099.48	9,641,612.68	(2,253,513.20)
Total Functions/Program Expenses	277,941,923.10	271,068,299.77	6,873,623.33
Change in Net Position	(3,235,342.30)	(4,116,177.48)	880,835.18
Net Position, Beginning	189,125,461.47	193,241,638.95	(4,116,177.48)
Adjustment to Beginning Net Position (1)	(95,464,811.00)	-	(95,464,811.00)
Net Position - Beginning, as Restated	93,660,650.47	193,241,638.95	(99,580,988.48)
Net Position - Ending	$ 90,425,308.17	$189,125,461.47	$ (98,700,153.30)

Note: (1) The adjustment to beginning net position is due to the implementation of GASB Statement No. 68.

The largest revenue source is the State of Florida (44.6 percent of total governmental revenues). Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula, which is classified as grants and contributions not restricted to specific programs in the operating results shown above. The FEFP funding 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 represent 51.22 percent of total governmental revenues in the 2014-15 fiscal year. Grants and contributions not restricted to specific programs increased by $3,082,775.49, or 2.23 percent, due primarily to increases in FEFP, Department of Defense Section 386, and Federal Impact Aid funding.

Property tax revenues increased by $3,483,916.71, or 3.22 percent, as a result of an increase in taxable assessed values of $626 million despite a 1.46 percent decrease in the total millage rate due to the Florida Department of Education (FDOE) lowering the required local effort.

Instruction expenses represent 59.31 percent of total governmental expenses in the 2014-15 fiscal year. Instruction expenses increased by $2,887,904.64, or 1.78 percent, from the previous fiscal year due primarily to an increase in the number of teachers in order to comply with the class size reduction mandate, an increase in the number of classroom assistants, salary increases, and professional development increases.

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 2014-15 fiscal year, the total fund balance is $51,325,774.46, a decrease of $11,556,526.88 over the 2013-14 fiscal year. Of the total fund balance, $62,462.22 is nonspendable, $8,328,929.34 is restricted for State required carryover programs, $28,569,966.57 is assigned, and $14,364,416.33 is unassigned.

Key factors impacting the change in fund balance are as follows:

- State revenues increased by $2,605,497.29 in the 2014-15 fiscal year due primarily to an increase in student enrollment, an increase in base student allocation, and a new categorical called "Digital Classrooms" from the State.
- Total expenditures increased by $16,505,480.15, or 7.22 percent. Instruction expenditures increased $8,027,974.68 due to the District's commitment to comply with the State constitutional class size reduction mandate, increases in salaries, hiring additional teachers and classroom assistants, and increases in professional development. Student personnel services expenditures increased by $1,337,521.97 due to increases in salaries, hiring additional guidance counselors, and reclassification of some positions from other functions. Instruction and curriculum development services decreased by $833,184.88 due to a decrease in positions and reclassification of some positions to other functions. School administration increased by $3,391,173.01 due to the hiring of new assistant principals based on the Board-approved staffing grid and salary increases. Student Transportation Services increased $635,529.49 due to salary increases. Operation of Plant increased $826,441.38 due to salary increases and an increase in electricity cost. Other capital outlay increased $2,591,400.13 due to the purchase of school buses, other motor vehicles, and computer equipment.

The Special Revenue – Other Federal Programs Fund accounts for the financial resources of certain Federal grant programs. Revenues and expenditures totaled $15,856,445.48 each during the 2014-15 fiscal year, which was a 5.7 percent decrease from the 2013-14 fiscal year.

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 2014-15 fiscal year, the District amended its General Fund budget several times, which resulted in a decrease in total budgeted revenues of $1,661,339.25, or 0.75 percent. At the same time, final budgeted expenditures were more than the original budgeted amounts by $5,012,391.03, or 1.95 percent. Final budgeted ending fund balance was $6,410,878.65, or 16.46 percent less than the original budgeted fund balance.

Actual revenues are 0.82 percent greater than the final budgeted amounts while actual expenditures are 6.48 percent less than final budget amounts. The actual ending fund balance exceeded the estimated fund balance contained in the final amended budget by $18,787,926.33, whereas the actual fund balance decreased by $11,556,526.88, or 18.38 percent.

Capital Assets and Long-Term Debt

Capital Assets

The District's investment in capital assets (net of accumulated depreciation) for its governmental activities as of June 30, 2015, is $198,489,932.90. This investment in capital assets includes land; construction in progress; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; computer software; and audio-visual materials.

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

Debt Administration

At June 30, 2015, the District has total long-term debt outstanding of $46,144,000, composed of $4,496,000 of bonds payable, and $41,648,000 of certificates of participation payable. During the current fiscal year, retirement of debt was $7,930,000.

Additional information on the District's long-term debt can be found in Notes III.I.1. through III.I.4. to the financial statements.

Other Matters of Significance

The School Board of Okaloosa County remains in stable financial condition; however, it continues to face uncertain economic times. The District's current operations depend on State revenue sources, primarily FEFP moneys administered by the FDOE under the provisions of Section 1011.62, Florida Statutes. In accordance with this law, the District receives FEFP moneys based on the number of full-time equivalent (FTE) students. The District experienced a moderate increase in FTE for the 2014-15 fiscal year and anticipates another increase in the 2015-16 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/or 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.

The District changed budgeting models in the 2015-16 fiscal year. Schools transitioned from a "site-based budgeting model" to a "centralized hybrid budgeting model." The new budgeting model enabled the District to provide a more equitable level of services to students.

Although the District received approximately $500,000 in Public Education Capital Outlay maintenance funding for the first time in 4 years, adequate capital outlay funding continues to be a great concern for the District. The District's capital maintenance requirements are significant since approximately 40 percent of its facilities are more than 50 years old and another 40 percent are more than 40 years old.

REQUESTS FOR INFORMATION

This 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., Fort Walton Beach, Florida, 32548, or telephone (850) 833-5840.

Okaloosa County District School Board
Statement of Net Position
June 30, 2015

	Primary Government: Governmental Activities	Component Units
ASSETS		
Cash and Cash Equivalents	$ 57,072,502.31	$ 870,050.00
Investments	51,376.47	44,702.00
Accounts Receivable	2,138,199.11	34,082.00
Deposits Receivable	447,592.50	45,000.00
Due from Other Agencies	2,492,584.72	51,811.00
Prepaid Items	-	140,264.00
Inventories	132,888.88	-
Capital Assets:		
Nondepreciable Capital Assets	12,261,171.71	7,126.00
Depreciable Capital Assets, Net	186,228,761.19	2,121,386.00
TOTAL ASSETS	260,825,076.89	3,314,421.00
DEFERRED OUTFLOWS OF RESOURCES		
Pensions	20,002,818.00	688,725.00
LIABILITIES		
Accrued Salaries and Benefits	3,061,150.19	160,015.00
Accounts Payable	1,018,766.44	21,616.00
Construction Contracts Payable	228,564.52	-
Construction Contracts Payable - Retained Percentage	33,932.78	-
Due to Other Agencies	8,595.41	16,709.00
Deposits Payable	1,000.00	-
Advanced Revenues	4,926.67	906.00
Long-Term Liabilities:		
Portion Due Within One Year	13,654,247.72	-
Portion Due After One Year	131,645,897.99	1,498,824.00
TOTAL LIABILITIES	149,657,081.72	1,698,070.00
DEFERRED INFLOWS OF RESOURCES		
Pensions	40,745,505.00	963,980.00
NET POSITION		
Net Investment in Capital Assets	152,345,932.90	2,128,512.00
Restricted for:		
State Required Carryover Programs	8,328,929.34	-
Debt Service	319,411.10	-
Capital Projects	3,680,405.38	23,795.00
Food Service	1,037,258.69	-
Other Purposes	-	123,002.00
Unrestricted	(75,286,629.24)	(934,213.00)
TOTAL NET POSITION	$ 90,425,308.17	$ 1,341,096.00

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

Okaloosa County District School Board
Statement of Activities
For the Fiscal Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions
Primary Government			
Governmental Activities:			
Instruction	$ 164,855,142.17	$ 2,178,270.20	$ -
Student Personnel Services	8,749,290.48	-	-
Instructional Media Services	1,395,658.31	-	-
Instruction and Curriculum Development Services	7,927,741.99	-	-
Instructional Staff Training Services	1,396,830.77	-	-
Instructional-Related Technology	646,841.85	-	-
Board	1,938,523.90	-	-
General Administration	873,011.70	-	-
School Administration	18,819,490.12	-	-
Facilities Acquisition and Construction	5,234,762.11	-	-
Fiscal Services	1,774,296.87	-	-
Food Services	11,312,172.72	3,619,566.46	7,451,102.37
Central Services	2,905,900.57	-	-
Student Transportation Services	12,088,887.43	404,916.76	-
Operation of Plant	16,049,442.20	-	-
Maintenance of Plant	7,804,996.95	-	-
Administrative Technology Services	2,815,518.67	-	-
Community Services	2,001,586.92	-	-
Unallocated Interest on Long-Term Debt	1,963,727.89	-	-
Unallocated Depreciation Expense*	7,388,099.48	-	-
Total Primary Government	$ 277,941,923.10	$ 6,202,753.42	$ 7,451,102.37
Component Units			
Charter Schools/Foundation	$ 9,531,353.00	$ 340,478.00	$ 921,818.00

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

Special Items

Total General Revenues and Special Items

Change in Net Position

Net Position - Beginning
Adjustments to Beginning Net Position
Net Position - Beginning, as Restated

Net Position - 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.

Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position Primary Government Governmental Activities	Component Units
$ -	$ (162,676,871.97)	$ -
-	(8,749,290.48)	-
-	(1,395,658.31)	-
-	(7,927,741.99)	-
-	(1,396,830.77)	-
-	(646,841.85)	-
-	(1,938,523.90)	-
-	(873,011.70)	-
-	(18,819,490.12)	-
1,375,340.75	(3,859,421.36)	-
-	(1,774,296.87)	-
-	(241,503.89)	-
-	(2,905,900.57)	-
-	(11,683,970.67)	-
-	(16,049,442.20)	-
-	(7,804,996.95)	-
-	(2,815,518.67)	-
-	(2,001,586.92)	-
1,153,640.98	(810,086.91)	-
-	(7,388,099.48)	-
$ 2,528,981.73	(261,759,085.58)	-
$ 171,609.00	-	(8,097,448.00)
	89,280,573.37	-
	22,540,194.98	-
	141,447,005.57	7,992,619.00
	211,057.12	853.00
	6,490,978.99	152,012.00
	(1,446,066.75)	1,446,066.00
	258,523,743.28	9,591,550.00
	(3,235,342.30)	1,494,102.00
	189,125,461.47	1,758,670.00
	(95,464,811.00)	(1,911,676.00)
	93,660,650.47	(153,006.00)
	$ 90,425,308.17	$ 1,341,096.00

Okaloosa County District School Board
Balance Sheet – Governmental Funds
June 30, 2015

	General Fund	Special Revenue - Other Federal Programs Fund	Other Governmental Funds
ASSETS			
Cash and Cash Equivalents	$ 52,230,265.37	$ -	$ 4,842,236.94
Investments	-	-	51,376.47
Accounts Receivable	2,284,613.40	-	124,233.90
Deposits Receivable	447,592.50	-	-
Due from Other Agencies	1,338,165.22	637,830.97	516,588.53
Due from Other Funds	753,183.88	-	-
Inventories	62,462.22	-	70,426.66
Total Assets	$ 57,116,282.59	$ 637,830.97	$ 5,604,862.50
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Liabilities:			
Accrued Salaries and Benefits	$ 3,061,150.19	$ -	$ -
Accounts Payable	714,897.45	265,813.79	38,055.20
Construction Contracts Payable	660.28	-	227,904.24
Construction Contracts Payable - Retained Percentage	995.87	-	32,936.91
Due to Other Agencies	8,595.41	-	-
Due to Other Funds	-	371,299.44	249,387.60
Deposits Payable	-	-	1,000.00
Advanced Revenues	4,208.93	717.74	-
Total Liabilities	3,790,508.13	637,830.97	549,283.95
Deferred Inflows of Resources:			
Deferred Revenue - Unavailable	2,000,000.00	-	18,503.38
Fund Balances:			
Nonspendable:			
Inventories	62,462.22	-	70,426.66
Restricted for:			
State Required Carryover Programs	8,328,929.34	-	-
Debt Service	-	-	319,411.10
Capital Projects	-	-	3,680,405.38
Food Service	-	-	966,832.03
Total Restricted Fund Balance	8,328,929.34	-	4,966,648.51
Assigned for:			
Project Carryover	20,489,107.65	-	-
School and Department Carryover	1,916,449.72	-	-
Full-Time Equivalent Funding Adjustments	1,482,085.62	-	-
Retirement	512,323.58	-	-
Self-Insurance	4,170,000.00	-	-
Total Assigned Fund Balance	28,569,966.57	-	-
Unassigned Fund Balance	14,364,416.33	-	-
Total Fund Balances	51,325,774.46	-	5,037,075.17
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	$ 57,116,282.59	$ 637,830.97	$ 5,604,862.50

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

Total Governmental Funds
$ 57,072,502.31
51,376.47
2,408,847.30
447,592.50
2,492,584.72
753,183.88
132,888.88
$ 63,358,976.06
$ 3,061,150.19
1,018,766.44
228,564.52
33,932.78
8,595.41
620,687.04
1,000.00
4,926.67
4,977,623.05
2,018,503.38
132,888.88
8,328,929.34
319,411.10
3,680,405.38
966,832.03
13,295,577.85
20,489,107.65
1,916,449.72
1,482,085.62
512,323.58
4,170,000.00
28,569,966.57
14,364,416.33
56,362,849.63
$ 63,358,976.06

Okaloosa County District School Board
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2015

Total Fund Balances - Governmental Funds		$ 56,362,849.63
Amounts reported for governmental activities in the statement of net position 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.		198,489,932.90
Long-term liabilities are not due and payable in the fiscal year and, therefore, are not reported as liabilities in the governmental funds.		(145,300,145.71)
Deferred outflows of resources and deferred inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds.		
Deferred Outflows of Resources Related to Pensions	$ 20,002,818.00	
Deferred Inflows of Resources Related to Pensions	(40,745,505.00)	(20,742,687.00)
Unavailable revenue in governmental funds is susceptible to full accrual on the government-wide statements.		1,615,358.35
Net Position - Governmental Activities		$ 90,425,308.17

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, 2015

	General Fund	Special Revenue - Other Federal Programs Fund	Other Governmental Funds
Revenues			
Intergovernmental:			
Federal Direct	$ 4,314,949.48	$ 1,739,704.26	$ -
Federal Through State and Local	600,316.82	14,116,741.22	7,466,535.37
State	120,567,897.08	-	2,602,442.06
Local:			
Property Taxes	89,280,573.37	-	22,540,194.98
Charges for Services - Food Service	-	-	3,619,566.46
Miscellaneous	6,639,169.92	-	(31,352.06)
Total Local Revenues	95,919,743.29	-	26,128,409.38
Total Revenues	221,402,906.67	15,856,445.48	36,197,386.81
Expenditures			
Current - Education:			
Instruction	158,904,307.44	10,075,972.81	-
Student Personnel Services	8,368,999.12	625,733.27	-
Instructional Media Services	1,415,197.72	19,779.16	-
Instruction and Curriculum Development Services	4,979,579.70	3,058,135.38	29,231.34
Instructional Staff Training Services	1,029,895.30	317,281.13	70,555.39
Instructional - Related Technology	654,096.50	-	-
Board	1,581,854.68	-	-
General Administration	356,431.95	545,907.43	3,615.04
School Administration	19,392,864.52	-	-
Facilities Acquisition and Construction	256,707.80	-	4,335,582.46
Fiscal Services	1,822,376.07	-	-
Food Services	36,558.87	-	11,346,536.83
Central Services	3,211,780.41	-	-
Student Transportation Services	12,176,181.29	27,000.00	-
Operation of Plant	16,209,991.69	-	-
Maintenance of Plant	7,839,988.37	-	-
Administrative Technology Services	2,880,625.95	-	-
Community Services	1,213,598.30	812,196.36	-
Fixed Capital Outlay:			
Facilities Acquisition and Construction	7,091.85	-	503,787.11
Other Capital Outlay	2,868,572.65	374,439.94	305,667.57
Debt Service:			
Principal	-	-	6,970,000.00
Interest and Fiscal Charges	-	-	1,994,291.19
Total Expenditures	245,206,700.18	15,856,445.48	25,559,266.93
Excess (Deficiency) of Revenues Over Expenditures	(23,803,793.51)	-	10,638,119.88
Other Financing Sources (Uses)			
Transfers In	11,800,960.15	-	167,004.14
Premium on Refunding Bonds	-	-	63,394.70
Proceeds of Refunding Bonds	-	-	911,000.00
Payments to Refunding Escrow Agent	-	-	(992,831.40)
Loss Recoveries	613,310.62	-	62,215.46
Transfers Out	(167,004.14)	-	(11,800,960.15)
Total Other Financing Sources (Uses)	12,247,266.63	-	(11,590,177.25)
Net Change in Fund Balances	(11,556,526.88)	-	(952,057.37)
Fund Balances, Beginning	62,882,301.34	-	5,989,132.54
Fund Balances, Ending	$ 51,325,774.46	$ 0.00	$ 5,037,075.17

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

	Total Governmental Funds
$	6,054,653.74
	22,183,593.41
	123,170,339.14
	111,820,768.35
	3,619,566.46
	6,607,817.86
	122,048,152.67
	273,456,738.96
	168,980,280.25
	8,994,732.39
	1,434,976.88
	8,066,946.42
	1,417,731.82
	654,096.50
	1,581,854.68
	905,954.42
	19,392,864.52
	4,592,290.26
	1,822,376.07
	11,383,095.70
	3,211,780.41
	12,203,181.29
	16,209,991.69
	7,839,988.37
	2,880,625.95
	2,025,794.66
	510,878.96
	3,548,680.16
	6,970,000.00
	1,994,291.19
	286,622,412.59
	(13,165,673.63)
	11,967,964.29
	63,394.70
	911,000.00
	(992,831.40)
	675,526.08
	(11,967,964.29)
	657,089.38
	(12,508,584.25)
	68,871,433.88
$	56,362,849.63

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, 2015

Net Change in Fund Balances - Governmental Funds		$ (12,508,584.25)
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. This is the amount of depreciation expense in excess of capital outlays in the current fiscal year.		
Capital Outlay - Facilities Acquisition and Construction - Capitalized	$ 510,878.96	
Capital Outlay - Other Capital Outlay - Capitalized	3,548,680.16	
Depreciation Expense	(10,405,900.39)	(6,346,341.27)
Contributions of capital assets are not reported as revenues in the governmental funds.		1,047,893.19
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the net amount by which payments exceeded proceeds in the current fiscal year.		
Certificates of Participation Payable Principal Payments	$ 6,060,000.00	
Bonds Payable Principal Payments	910,000.00	
Bonds Refunded Principal Payments	960,000.00	
Bonds Payable New Debt Issued	(911,000.00)	7,019,000.00
Certain revenues recognized in the statement of activities do not provide current financial resources and are not reported as revenues in the governmental funds.		1,615,358.35
In the statement of activities, the cost of compensated absences is measured by the amounts earned during the fiscal year, while in governmental funds, expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences used in excess of the amount earned in the current fiscal year.		559,534.68
Other postemployment benefits costs are recorded in the statement of activities under the full accrual basis of accounting, but are not recorded in the governmental funds until paid. This is the net increase in the other postemployment benefits liability for the current fiscal year.		(185,000.00)
Governmental funds report pension contributions as expenditures. However, in the statement of activities, the cost of pension benefits earned net of employee contributions is reported as a pension expense.		
FRS Pension Contribution	$ 9,352,316.00	
HIS Pension Contribution	1,902,845.00	
FRS Pension Expense	(2,600,237.00)	
HIS Pension Expense	(3,351,127.00)	5,303,797.00
In the statement of activities, claims expenses include additional amounts for increases in long-term insurance claims liabilities. However, claims expenditures in the governmental funds are measured by the amount of financial resources used (essentially, the amount paid). This is the net amount by which the estimated insurance claims liability decreased during the current fiscal year.		259,000.00
Change in Net Position - Governmental Activities		$ (3,235,342.30)

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, 2015

	Agency Funds
ASSETS	
Cash and Cash Equivalents	$ 3,665,794.11
Investments	832,967.00
Accounts Receivable	265,969.87
TOTAL ASSETS	$ 4,764,730.98
LIABILITIES	
Internal Accounts Payable	$ 4,541,761.14
Accounts Payable	90,473.00
Due to Other Funds	132,496.84
TOTAL LIABILITIES	$ 4,764,730.98

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. Governmental activities, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Okaloosa County School District's (District) 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 that is clearly identifiable to a function is allocated to the function and the remaining depreciation expense is reported as unallocated.

B. 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 District is considered part of the Florida system of public education, operates under the general direction of the Florida Department of Education (FDOE), and is governed by State law and State Board of Education (SBE) rules. 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 legally separate 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. Based on the application of these criteria, the following component units are included within the District's reporting entity:

Blended Component Unit. A blended component unit, is in substance, part of the primary government's operations, even though it is a legally separate entity. Thus, a blended component unit is appropriately presented as funds of the District. 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 III.I.1. 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 units' columns in the government-wide financial statements include the financial data of the District's other component units. Separate columns are used to emphasize that they are legally separate from the District.

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.

Charter schools are separate not-for-profit corporations organized pursuant to Chapter 617, Florida Statutes, the Florida Not For Profit Corporation Act, and Section 1002.33, Florida Statutes. The District is the sponsor for each of the following charter schools and is responsible for monitoring and reviewing their progress toward meeting the goals established in the charters. The charter schools are considered to be a component units of the District because the District is financially accountable for the charter schools as the District established the charter schools by approval of the charter, which is tantamount to the initial appointment of the charter schools, and there is the potential for the charter schools to impose specific financial burdens on the District. In addition, pursuant to the Florida Constitution, the charter schools are public schools, and the District is responsible for the operation, control, and supervision of public schools within the District. The District entered into a charter with the following schools pursuant to Section 1002.33, Florida Statutes:

- The Okaloosa Academy, Inc., (Academy) was established to provide an alternative educational system for "at risk" students. The Academy is a separate not-for-profit entity with a separate board of directors.
- The Liza Jackson Preparatory School, Inc., (School) was established to provide a preparatory program of education for students. The School is a separate not-for-profit entity with a separate board of directors.

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, 2015. The audit reports are filed in the District's administrative offices at 120 Lowery Place S.E., Fort Walton Beach, Florida, 32548.

C. Basis of Presentation: Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

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

D. Basis of Presentation: Fund Financial Statements

The fund financial statements provide information about the District's funds, including the fiduciary funds and a blended component unit. Separate statements for each fund category – governmental

and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the 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 – Other Federal Programs Fund – to account for certain Federal grant program resources.

Additionally, the District reports the following fiduciary fund type:

- Agency Funds – to account for resources of the District's pre-tax flexible benefits plan and the school internal funds, which are used to administer moneys collected at schools in connection with school, student athletic, class, and club activities.

During the course of operations, the District has activity between funds for various purposes. Any residual balances outstanding at fiscal year-end are reported as due from/to other funds. While reported in fund financial statements, these balances are eliminated in the preparation of the government-wide financial statements. Further, certain activity occurs during the fiscal year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in and out. While reported in fund financial statements, transfers between the funds are eliminated in the preparation of the government-wide financial statements.

E. Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. 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.

The governmental fund financial statements are reported using the current financial resources measurement focus and 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 fiscal year. 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. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received

during the fiscal year or within the availability period for this revenue source (within 30 days of fiscal year-end). Expenditures are generally recognized when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, claims and judgments, pension benefits, other postemployment benefits, and compensated absences are only recorded when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt are reported as other financing sources. Allocations of cost, such as depreciation, are not recognized in governmental funds.

The agency funds have no measurement focus but utilize the accrual basis of accounting for reporting assets and liabilities.

The Okaloosa Public Schools Foundation, Inc., 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.

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash and Cash Equivalents

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 3 months or less. Investments classified as cash equivalents include amounts placed with the State Board of Administration (SBA) in Florida PRIME, formerly known as the Local Government Surplus Funds Trust Fund Investment Pool, amounts in the Florida Education Investment Trust Fund (FEITF), and amounts in money market funds.

Cash deposits are held by banks qualified as public depositories under Florida law or through the Federally Insured Cash Account program which complies with the provisions of Section 218.415(23), Florida Statutes, and is therefore exempt from Florida's public deposits program pursuant to Section 280.03(3)(f), Florida Statutes. 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.

2. Investments

Investments consist of amounts placed in the SBA debt service accounts for investments of debt service moneys, amounts placed with the SBA for participation in the Florida PRIME investment pool created by Section 218.405, Florida Statutes, amounts placed in the FEITF, and those made locally. The investment pool operates under investment guidelines established by Section 215.47, Florida Statutes.

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 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.

Investments made locally consist of money market funds which are reported at fair value.

Types and amounts of investments held at fiscal year-end are described in a subsequent note.

3. 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 United States Department of Agriculture donated foods are stated at their fair value as determined at the time of donation to the District's food service program by the Florida Department of Agriculture and Consumer Services, Bureau of Food Distribution. Although the costs of inventories are recorded as expenditures when used rather than purchased, a nonspendable fund balance is established at fiscal year-end to indicate that inventories do not constitute available expendable resources even though inventories are a component of current assets.

4. 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 position 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 the 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 Useful 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
Computer Software and Audio-Visual Materials	3 - 5 years

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

5. Pensions

In the government-wide statement of net position, liabilities are recognized for the District's proportionate share of each pension plan's net pension liability. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to

pensions, and pension expense, information about the fiduciary net position of the Florida Retirement System (FRS) defined benefit plan and the Health Insurance Subsidy (HIS) defined benefit plan and additions to/deductions from the FRS and the HIS fiduciary net position have been determined on the same basis as they are reported by the FRS and the HIS plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

The District's retirement plans and related amounts are described in a subsequent note.

6. 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 position. In the governmental fund financial statements, long-term obligations are not recognized as liabilities until due.

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

7. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until then. The District only has one item that qualifies for reporting in this category. The item, deferred outflows of resources related to pensions, is reported in the statement of net position and discussed in a subsequent note.

In addition to liabilities, the statement of net position and the governmental funds balance sheet report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The District has two items that qualify for reporting as deferred inflows of resources. The first item is deferred inflows of resources related to pensions, which is only reported on the government-wide statement of net position. This item results from the difference in the expected and actual amounts of experience, earnings, and contributions, and is deferred and amortized over the service life of all employees that are provided pensions through the pension plan, except earnings are amortized over 5 years. The second item is unavailable revenues primarily from the British Petroleum Deep Water Horizons Economic Settlement, which arises under the modified accrual basis of accounting and is only reported on the governmental funds balance sheet.

8. Net Position Flow Assumption

The District occasionally funds outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. To calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. Consequently, it is the District's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

9. Fund Balance Flow Assumptions

The District may fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). To calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

10. Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. The Board is the highest level of decision-making authority for the District that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation. The District reported no committed fund balances at June 30, 2015.

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The Board has, by vote, authorized the Assistant Superintendent for Finance and the Accounting Supervisor to assign fund balance. The Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent fiscal year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

G. Revenues and Expenditures/Expenses

1. Program Revenues

Amounts reported as 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. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than program revenues. 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.

2. State Revenue Sources

Significant revenues from State sources for current operations include the Florida Education Finance Program administered by the FDOE 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 FDOE. The FDOE performs certain edit checks on the reported number of FTE students 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 5 months following the date of the original reporting. Such amendments may impact funding allocations for subsequent fiscal years. The FDOE may also adjust subsequent fiscal year allocations based upon an audit of the District's compliance in determining and reporting FTE students and related data. Normally, such adjustments are treated as reductions or additions of revenue in the fiscal year when the adjustments are made.

The State provides financial assistance to administer certain educational programs. SBE 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 fiscal year to be expended for the same educational programs. The FDOE generally requires that these educational program revenues be accounted for in the General Fund. A portion of the fund balance of the General Fund is restricted in the governmental fund financial statements for the balance of categorical and earmarked educational program resources.

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

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

3. 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 2014 tax levy on September 8, 2014. Tax bills are mailed in October and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to 4 percent for early payment.

Taxes become a lien on the property on January 1, and are delinquent on April 1, of the year following the year of assessment. State law provides for enforcement of collection of personal

property taxes by seizure of the property to satisfy unpaid taxes, and for enforcement of collection of real property taxes by the sale of interest-bearing tax certificates to satisfy unpaid taxes. The procedures result in the collection of essentially all taxes prior to June 30 of the year following the year of assessment.

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.

4. 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.

5. Compensated Absences

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 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. The liability for compensated absences include salary-related benefits, where applicable.

H. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures/expenses during the fiscal year. Actual results could differ from those estimates.

II. ACCOUNTING CHANGES

Governmental Accounting Standards Board Statement No. 68.

The District and Liza Jackson Preparatory School, Inc., (School), a District-sponsored charter school, participate in the FRS defined benefit pension plan and the HIS defined benefit pension plan administered by the Florida Division of Retirement. As participating employers, the District and School implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which requires employers participating in cost-sharing multiple-employer defined benefit pension plans to report the employers' proportionate share of the net pension liabilities and related pension amounts of the defined benefit

pension plans. The beginning net position of the District and the School was decreased by $95,464,811 and $1,911,676, respectively, due to the adoption of this Statement.

III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Cash Deposits with Financial Institutions

Custodial Credit Risk – Deposits. In the case of deposits, this is the risk that, in the event of a bank failure, the District's deposits may not be returned to the District. The District does not have a policy for custodial credit risk. All bank balances of the District are fully insured or collateralized as required by Chapter 280, Florida Statutes.

Cash balances from all funds are combined and invested to extent available. Earnings are allocated monthly to each fund balance based on average daily balances.

B. Investments

As of June 30, 2015, the District had the following investments:

Investments	Maturities	Fair Value
SBA:		
Florida PRIME (1)	34 Day Average	$ 6,205,390.62
Debt Service Accounts	6 Months	51,376.47
Florida Education Investment Trust Fund (1)	32 Day Average	503,007.46
Dreyfus Treasury Prime Cash Management (1)(2)	35 Day Average	254,473.15
Total Investments		$ 7,014,247.70

Notes: (1) Investments reported as a cash equivalents for financial statement reporting purposes. See Note I.F.1.
(2) Pursuant to the trust agreements, the trustee for the District's Certificates of Participation, Series 2006, 2007, and 2012, holds these investments. See Note III.I.1.

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 states that the highest priorities shall be given to the safety and liquidity of funds. The policy limits the types of authorized investments as a means of managing the exposure to fair value losses from increasing interest rates.

Florida PRIME, the Florida Education Investment Trust Fund (FEITF), and Dreyfus Treasury Prime Cash Management use a weighted average days to maturity (WAM). 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.

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 SBE 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 investments in Florida PRIME, the FEITF, and Dreyfus Treasury Prime Cash Management are rated AAAm by Standard & Poor's.

C. 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	$ 11,769,797.64	$ 487,339.00	$ 7,222.32	$ 12,249,914.32
Construction in Progress	1,011,908.99	11,257.39	1,011,908.99	11,257.39
Total Capital Assets Not Being Depreciated	12,781,706.63	498,596.39	1,019,131.31	12,261,171.71
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	14,228,184.50	1,649,904.86	169,040.38	15,709,048.98
Buildings and Fixed Equipment	292,900,244.69	510,797.59	4,085,475.38	289,325,566.90
Furniture, Fixtures, and Equipment	23,605,016.78	1,214,887.83	740,834.78	24,079,069.83
Motor Vehicles	15,068,334.45	2,201,273.00	17,722.00	17,251,885.45
Computer Software	2,779,984.60	51,123.95	864,523.21	1,966,585.34
Audio-Visual Materials	11,826.29	-	-	11,826.29
Total Capital Assets Being Depreciated	348,593,591.31	5,627,987.23	5,877,595.75	348,343,982.79
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	12,512,810.76	329,835.36	169,040.38	12,673,605.74
Buildings and Fixed Equipment	109,517,009.74	8,188,589.65	4,085,475.38	113,620,124.01
Furniture, Fixtures, and Equipment	19,349,760.20	1,228,868.38	740,834.78	19,837,793.80
Motor Vehicles	13,520,596.66	607,858.34	17,722.00	14,110,733.00
Computer Software	2,677,475.67	48,383.40	864,523.21	1,861,335.86
Audio-Visual Materials	9,263.93	2,365.26	-	11,629.19
Total Accumulated Depreciation	157,586,916.96	10,405,900.39	5,877,595.75	162,115,221.60
Total Capital Assets Being Depreciated, Net	191,006,674.35	(4,777,913.16)	-	186,228,761.19
Governmental Activities Capital Assets, Net	$ 203,788,380.98	$ (4,279,316.77)	$ 1,019,131.31	$ 198,489,932.90

Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Instruction	$ 2,812,632.14
Student Transportation Services	120,242.61
Maintenance of Plant	84,926.16
Unallocated	7,388,099.48
Total Depreciation Expense - Governmental Activities	$ 10,405,900.39

D. Retirement Plans

1. Florida Retirement System (FRS) – Defined Benefit Pension Plans

General Information about the FRS

The FRS was created in Chapter 121, Florida Statutes, to provide a defined benefit pension plan for participating public employees. The FRS was amended in 1998 to add the Deferred Retirement Option Program (DROP) under the defined benefit plan and amended in 2000 to provide a defined contribution plan alternative to the defined benefit plan for FRS members effective July 1, 2002. This integrated defined contribution pension plan is the FRS Investment Plan. Chapter 112, Florida Statutes, established the HIS Program, a cost-sharing multiple-employer defined benefit pension plan, to assist retired members of any State-administered retirement system in paying the costs of health insurance.

Essentially all regular employees of the District are eligible to enroll as members of the State-administered 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. Such provisions may be amended at any time by further action from the Florida Legislature. The FRS is a single retirement system administered by the Florida Department of Management Services, Division of Retirement, and consists of the two cost-sharing, multiple-employer defined benefit plans and other nonintegrated programs. A comprehensive annual financial report of 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 Web site (www.dms.myflorida.com).

The District's FRS and HIS pension expense totaled $5,951,364 for the fiscal year ended June 30, 2015.

FRS Pension Plan

Plan Description. The FRS Pension Plan (Plan) is a cost-sharing multiple-employer defined benefit pension plan, with a DROP for eligible employees. The general classes of membership are as follows:

- *Regular Class* – Members of the FRS who do not qualify for membership in the other classes.

- *Elected County Officers Class* – Members who hold specified elective offices in local government.

Employees enrolled in the Plan prior to July 1, 2011, vest at 6 years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at 8 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. Employees enrolled in the Plan 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 to eligible participants.

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 participating 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. The net pension liability does not include amounts for DROP participants, as these members are considered retired and are not accruing additional pension benefits.

Benefits Provided. Benefits under the Plan are computed on the basis of age and/or years of service, average final compensation, and service credit. Credit for each year of service is expressed as a percentage of the average final compensation. For members initially enrolled before July 1, 2011, the average final compensation is the average of the 5 highest fiscal years' earnings; for members initially enrolled on or after July 1, 2011, the average final compensation is the average of the 8 highest fiscal years' earnings. The total percentage value of the benefit received is determined by calculating the total value of all service, which is based on the retirement class to which the member belonged when the service credit was earned. Members are eligible for in-line-of-duty or regular disability and survivors' benefits. The following chart shows the percentage value for each year of service credit earned:

Class, Initial Enrollment, and Retirement Age/Years of Service	Percent Value
Regular Class members initially enrolled before July 1, 2011	
Retirement up to age 62 or up to 30 years of service	1.60
Retirement at age 63 or with 31 years of service	1.63
Retirement at age 64 or with 32 years of service	1.65
Retirement at age 65 or with 33 or more years of service	1.68
Regular Class members initially enrolled on or after July 1, 2011	
Retirement up to age 65 or up to 33 years of service	1.60
Retirement at age 66 or with 34 years of service	1.63
Retirement at age 67 or with 35 years of service	1.65
Retirement at age 68 or with 36 or more years of service	1.68
Elected County Officers	3.00

As provided in Section 121.101, Florida Statutes, if the member is initially enrolled in the FRS before July 1, 2011, and all service credit was accrued before July 1, 2011, the annual cost-of-living adjustment is 3 percent per year. If the member is initially enrolled before July 1, 2011, and has service credit on or after July 1, 2011, there is an individually calculated cost-of-living adjustment. The annual cost-of-living adjustment is a proportion of 3 percent determined by dividing the sum of the pre-July 2011 service credit by the total service credit at retirement multiplied by 3 percent. Plan members initially enrolled on or after July 1, 2011, will not have a cost-of-living adjustment after retirement.

Contributions. The Florida Legislature establishes contribution rates for participating employers and employees. Contribution rates during the 2014-15 fiscal year were as follows:

	Percent of Gross Salary	
Class	**Employee**	**Employer** (1)
FRS, Regular	3.00	7.37
FRS, Elected County Officers	3.00	43.24
DROP - Applicable to Members from All of the Above Classes	0.00	12.28
FRS, Reemployed Retiree	(2)	(2)

Notes: (1) Employer rates include 1.26 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.04 percent for administrative costs of the Investment Plan.
(2) Contribution rates are dependent upon retirement class in which reemployed.

The District's contributions to the Plan totaled $9,352,316 for the fiscal year ended June 30, 2015.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2015, the District reported a liability of $23,551,648 for its proportionate share of the Plan's net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014. The District's proportionate share of the net pension liability was based on the District's 2013-14 fiscal year contributions relative to the 2013-14 fiscal year contributions of all participating members. At June 30, 2014, the District's proportionate share was 0.385999535 percent, which was an increase of 0.013705997 from its proportionate share of 0.372293538 percent measured as of June 30, 2013.

For the fiscal year ended June 30, 2015, the District recognized Plan pension expense of $2,600,237. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 1,457,447
Change of assumptions	4,078,755	-
Net difference between projected and actual earnings on FRS pension plan investments	-	39,288,058
Changes in proportion and differences between District FRS contributions and proportionate share of contributions	1,984,902	-
District FRS contributions subsequent to the measurement date	9,352,316	-
Total	$ 15,415,973	$ 40,745,505

The deferred outflows of resources related to pensions, totaling $9,352,316, resulting from District contributions to the Plan subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending June 30	Amount
2016	$ (8,952,919)
2017	(8,952,919)
2018	(8,952,918)
2019	(8,952,918)
2020	869,096
Thereafter	260,730
Total	$ (34,681,848)

Actuarial Assumptions. The total pension liability in the July 1, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60 percent
Salary increases	3.25 percent, average, including inflation
Investment rate of return	7.65 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the Generational RP-2000 with Projection Scale BB.

The actuarial assumptions used in the July 1, 2014, valuation were based on the results of an actuarial experience study for the period July 1, 2008, through June 30, 2013.

The long-term expected rate of return on pension plan investments was not based on historical returns, but instead is based on a forward-looking capital market economic model. The allocation policy's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes an adjustment for the inflation assumption. The target allocation and

best estimates of arithmetic and geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation (1)	Annual Arithmetic Return	Compound Annual (Geometric) Return	Standard Deviation
Cash	1.00%	3.11%	3.10%	1.65%
Intermediate-Term Bonds	18.00%	4.18%	4.05%	5.15%
High Yield Bonds	3.00%	6.79%	6.25%	10.95%
Broad U.S. Equities	26.50%	8.51%	6.95%	18.90%
Developed Foreign Equities	21.20%	8.66%	6.85%	20.40%
Emerging Market Equities	5.30%	11.58%	7.60%	31.15%
Private Equity	6.00%	11.80%	8.11%	30.00%
Hedge Funds / Absolute Return	7.00%	5.81%	5.35%	10.00%
Real Estate (Property)	12.00%	7.11%	6.35%	13.00%
Total	100.00%			
Assumed Inflation - Mean		2.60%		2.00%

Note: (1) As outlined in the Plan's investment policy.

Discount Rate. The discount rate used to measure the total pension liability was 7.65 percent. The Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.65 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.65 percent) or 1 percentage point higher (8.65 percent) than the current rate:

	1% Decrease (6.65%)	Current Discount Rate (7.65%)	1% Increase (8.65%)
District's proportionate share of the net pension liability	$ 100,733,527	$ 23,551,648	$ (40,648,948)

Pension Plan Fiduciary Net Position. Detailed information about the Plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State-Administered Systems Comprehensive Annual Financial Report.

HIS Pension Plan

Plan Description. The HIS Pension Plan (HIS Plan) is a cost-sharing multiple-employer defined benefit pension plan established under Section 112.363, Florida Statutes, and may be amended by the Florida Legislature at any time. The benefit is a monthly payment to assist retirees of

State-administered retirement systems in paying their health insurance costs and is administered by the Florida Department of Management Services, Division of Retirement.

Benefits Provided. For the fiscal year ended June 30, 2015, eligible retirees and beneficiaries received a monthly HIS payment of $5 for each year of creditable service completed at the time of retirement, with a minimum HIS payment of $30 and a maximum HIS payment of $150 per month, pursuant to Section 112.363, Florida Statutes. To be eligible to receive a HIS Plan benefit, a retiree under a State-administered retirement system must provide proof of health insurance coverage, which may include Medicare.

Contributions. The HIS Plan is funded by required contributions from FRS participating employers as set by the Florida Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the fiscal year ended June 30, 2015, the contribution rate was 1.26 percent of payroll pursuant to Section 112.363, Florida Statutes. The District contributed 100 percent of its statutorily required contributions for the current and preceding 3 years. HIS Plan contributions are deposited in a separate trust fund from which payments are authorized. HIS Plan benefits are not guaranteed and are subject to annual legislative appropriation. In the event the legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or canceled.

The District's contributions to the HIS Plan totaled $1,902,845 for the fiscal year ended June 30, 2015.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources Related to Pensions. At June 30, 2015, the District reported a net pension liability of $45,866,679 for its proportionate share of the HIS Plan's net pension liability. The current portion of the net pension liability is the District's proportionate share of benefit payments expected to be paid within 1 year, net of the District's proportionate share of the pension plan's fiduciary net position available to pay that amount. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014. The District's proportionate share of the net pension liability was based on the District's 2013-14 fiscal year contributions relative to the total 2013-14 fiscal year contributions of all participating members. At June 30, 2014, the District's proportionate share was 0.490539910 percent, which was an increase of 0.013736838 from its proportionate share measured as of June 30, 2013.

For the fiscal year ended June 30, 2015, the District recognized HIS Plan pension expense of $3,351,127. In addition, the District reported deferred outflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources
Change of assumptions	$ 1,632,118
Net difference between projected and actual earnings on HIS pension plan investments	22,017
Changes in proportion and differences between District HIS contributions and proportionate share of HIS contributions	1,029,865
District contributions subsequent to the measurement date	1,902,845
Total	$ 4,586,845

The deferred outflows of resources, totaling $1,902,845, related to pensions resulting from District contributions to the HIS Plan subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending June 30	Amount
2016	$ 434,856
2017	434,856
2018	434,856
2019	434,856
2020	429,353
Thereafter	515,223
Total	$ 2,684,000

Actuarial Assumptions. The total pension liability in the July 1, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60 percent
Salary increases	3.25 percent, average, including inflation
Municipal bond rate	4.29 percent

Mortality rates were based on the Generational RP-2000 with Projected Scale BB.

While an experience study had not been completed for the plan, the FRS Actuarial Assumptions Conference reviewed the actuarial assumptions for the plan.

Discount Rate. The discount rate used to measure the total pension liability was 4.29 percent. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the HIS Plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable municipal bond index.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 4.29 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (3.29 percent) or 1 percentage point higher (5.29 percent) than the current rate:

	1% Decrease (3.29%)	Current Discount Rate (4.29%)	1% Increase (5.29%)
District's proportionate share of the net pension liability	$ 52,169,633	$ 45,866,679	$ 40,605,516

Pension Plan Fiduciary Net Position. Detailed information about the HIS Plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State-Administered Systems Comprehensive Annual Financial Report.

2. FRS – Defined Contribution Pension Plan

The SBA administers the defined contribution plan officially titled the FRS Investment Plan (Investment Plan). The Investment Plan is reported in the SBA's annual financial statements and in the State of Florida Comprehensive Annual Financial Report.

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 the Investment Plan. Employer and employee contributions, including amounts contributed to individual member's accounts, are defined by law, but the ultimate benefit depends in part on the performance of investment funds. Benefit terms, including contribution requirements, for the Investment Plan are established and may be amended by the Florida Legislature. The Investment Plan is funded with the same employer and employee contribution rates that are based on salary and membership class (Regular Class, Elected County Officers, etc.), as the FRS defined benefit plan. Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Costs of administering the plan, including the FRS Financial Guidance Program, are funded through an employer contribution of 0.04 percent of payroll and by forfeited benefits of plan members. Allocations to the investment member's accounts during the 2014-15 fiscal year were as follows:

Class	Percent of Gross Compensation
FRS, Regular	6.30
FRS, Elected County Officers	11.34

For all membership classes, employees are immediately vested in their own contributions and are vested after 1 year of service for employer contributions and investment earnings. If an accumulated benefit obligation for service credit originally earned under the FRS Pension Plan is

transferred to the Investment Plan, the member must have the years of service required for FRS Pension Plan vesting (including the service credit represented by the transferred funds) to be vested for these funds and the earnings on the funds. Nonvested employer contributions are placed in a suspense account for up to 5 years. If the employee returns to FRS-covered employment within the 5-year period, the employee will regain control over their account. If the employee does not return within the 5-year period, the employee will forfeit the accumulated account balance. For the fiscal year ended June 30, 2015, the information for the amount of forfeitures was unavailable from the SBA; however, management believes that these amounts, if any, would be immaterial to the District.

After termination and applying to receive benefits, the member may rollover vested funds to another qualified plan, structure a periodic payment under the Investment Plan, receive a lump-sum distribution, leave the funds invested for future distribution, or any combination of these options. Disability coverage is provided; the member may either transfer the account balance to the FRS Pension Plan when approved for disability retirement to receive guaranteed lifetime monthly benefits under the FRS Pension Plan, or remain in the Investment Plan and rely upon that account balance for retirement income.

The District's Investment Plan pension expense totaled $590,895 for the fiscal year ended June 30, 2015.

E. Other Postemployment Benefit Obligations

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, dental, and life insurance 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.

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. As of July 2014, the most recent valuation date, there were 234 retirees receiving medical benefits, and 1,496 that received life benefits. The District provided required contributions of $1,036,000 toward the annual OPEB cost, net of retiree contributions totaling $1,225,000, which represents 0.85 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 1 year)	$ 552,000
Amortization of Unfunded Actuarial Accrued Liability	616,000
Interest on Normal Cost and Amortization	53,000
Annual Required Contribution	1,221,000
Interest on Net OPEB Obligation	26,000
Adjustment to Annual Required Contribution	(26,000)
Annual OPEB Cost (Expense)	1,221,000
Contribution Toward the OPEB Cost	(1,036,000)
Increase in Net OPEB Obligation	185,000
Net OPEB Obligation, Beginning of Fiscal Year	580,000
Net OPEB Obligation, End of Fiscal Year	$ 765,000

The District's annual OPEB cost, amount contributed, the percentage of annual OPEB cost contributed to the OPEB Plan, and the net OPEB obligation as of June 30, 2015, and the 2 preceding fiscal years, were as follows:

Fiscal Year	Annual OPEB Cost	Amount Contributed	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2012-13	$ 981,000	$ 916,000	93.37%	$ 447,000
2013-14	1,191,000	1,058,000	88.83%	580,000
2014-15	1,221,000	1,036,000	84.85%	765,000

Funded Status and Funding Progress. As of July 1, 2014, the actuarial accrued liability for benefits was $16,129,000, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability of $16,129,000, and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was $144,320,983 for the 2014-15 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 11.18 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.

Patient Protection and Affordable Care Act and the GASB 45 Accrued Liability

The District's OPEB report incorporates the provisions of the Patient Protection and Affordable Care Act (Act) recently signed into law. Starting in 2014, individuals who fail to maintain health coverage face financial penalties, and starting in 2018, a 40 percent excise tax is applied to the value of retiree health coverage exceeding the $11,850 limit. The individual mandate and the planned introduction of insurance exchanges may affect the number of future retirees that elect to remain on the District plan. However, the exchanges are expected to be a more attractive offer for some retirees, particularly if they qualify for premium assistance and the emerging experience suggest fewer retirees are electing to stay on the plan. Consequently, the actuary reduced the pre-65 participation assumption from 30 percent to 20 percent. The coverage and cost sharing rules in the Act eliminate lifetime limits for plan years starting 6 months after March 23, 2010, and no annual limits on or after July 1, 2013. Future District health costs may be adjusted for these cost-sharing changes. The excise tax has been valued and is included in the actuarially accrued liability.

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 June 30, 2014, used the projected unit credit actuarial cost method to estimate the unfunded actuarial liability as of June 30, 2015, and the District's 2014-15 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. The actuarial assumptions also included a payroll growth rate of 3.5 percent per year, and an annual healthcare cost trend rate of 8.5 percent, reduced by 0.5 percent per year, to an ultimate rate of 5 percent. The unfunded actuarial accrued liability is being amortized using a level percentage of projected payroll on an open basis over a 30-year period.

F. 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 fiscal year are carried forward and the next fiscal year's appropriations are likewise encumbered.

The following is a schedule of encumbrances at June 30, 2015:

General Fund	Nonmajor Governmental Funds	Total Governmental Funds
$ 1,710,398.97	$ 1,947,114.64	$ 3,657,513.61

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

Project	Contract Amount	Completed to Date	Balance Committed
HVAC:			
Fort Walton Beach Phase 3/Baker School	$ 954,722.00	$ 631,769.77	$ 322,952.23
Fort Walton Beach Phase 4	951,063.00	327,676.60	623,386.40
CHOICE/Ruckel Roof Replacement	468,826.00	187,336.97	281,489.03
Total	$ 2,374,611.00	$ 1,146,783.34	$ 1,227,827.66

G. 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, worker's 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 (FSBIT). FSBIT 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 worker's compensation, automotive liability, crime, and errors and omissions by purchasing commercial insurance policies which covers losses exceeding specified limits up to certain policy maximums. Health, life, and dental 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 3 fiscal years.

The District reports all of its risk management activities in the General Fund. At June 30, 2015, an actuarially determined liability of $4,170,000 ($232,000 for the property program, undiscounted, and $3,938,000 for the casualty program, discounted using a 4 percent rate of return) is reported as estimated insurance claims payable on the District's statement of net position.

The following schedule represents the changes in claims liability for the past 2 fiscal years for the District's self-insurance program:

Fiscal Year	Beginning Balance	Current Fiscal Year Claims and Changes in Estimates	Claims Payments	Ending Balance
2013-14	$ 3,835,000	$ 3,017,397	$ (2,423,397)	$ 4,429,000
2014-15	4,429,000	3,144,945	(3,403,945)	4,170,000

H. Operating Lease Commitments

The District leases its computer hardware assets. The Board approved a new agreement on May 12, 2014, for the periods July 1, 2014, through June 30, 2019. This agreement may be renewed one time for up to 5 years at the end of the term. Total expenditures under the operating lease for the fiscal year ended June 30, 2015, were $5,802,392.18. The following table represents future minimum lease payments:

Fiscal Year Ending June 30	Amount
2016	$ 5,775,305.28
2017	5,721,109.08
2018	5,667,664.20
2019	5,614,564.92
Total Minimum Payments Required	$ 22,778,643.48

I. Long-Term Liabilities

1. Certificates of Participation

The District entered into a financing arrangement on November 1, 2003, which 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.

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.

On December 20, 2012, the District entered into a financing arrangement under and pursuant to the master lease-purchase agreement, whereby the District advance refunded the Certificates of Participation, Series 2003. The refinancing was accomplished through the issuance of an

$8,081,000 Certificate of Participation, Series 2012, to be repaid from the proceeds of rents paid by the District.

As a condition of the financing arrangements, the District has given a ground lease on certain District property to the Leasing Corporation. The ground lease associated with the Certificate of Participation, Series 2012, which refunded Certificates of Participations, Series 2003, which refunded Certificates of Participation, Series 1992, is a term certificate that ends as of the earlier of the date on which the Certificate of Participation, Series 2012, has been paid in full or provision for its payment has been made, or July 1, 2019. 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 leases 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 leases.

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

- Certificate of Participation, Series 2012 (includes properties associated with Certificates of Participation, Series 2003 and Series 1992) include properties at Baker School, Bluewater 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 K-8 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, include properties at Shoal River Middle School, Northwood Elementary School, Richbourg Middle School, and Choctawhatchee High School, and land purchases for new school sites.

The lease payments are payable by the District semiannually, on July 1 and January 1 at interest rates ranging from 3.625 percent to 4 percent for the Certificates of Participation, Series 2006; interest rates ranging from 4 percent to 4.25 percent for the Certificates of Participation, Series 2007; and an interest rate of 1.33 percent for the Certificate of Participation, Series 2012. The following is a schedule by fiscal years of future minimum lease payments under the lease agreement 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 2006			
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	2,714,000.00	2,320,000.00	394,000.00
2019	2,711,200.00	2,410,000.00	301,200.00
2020	2,714,800.00	2,510,000.00	204,800.00
2021	2,714,400.00	2,610,000.00	104,400.00
Subtotal Minimum Lease Payments	16,280,837.50	14,240,000.00	2,040,837.50
Certificates of Participation, Series 2007			
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	3,686,815.00	3,010,000.00	676,815.00
2019	3,686,415.00	3,130,000.00	556,415.00
2020	3,687,302.50	3,260,000.00	427,302.50
2021-2022	7,373,065.00	6,930,000.00	443,065.00
Subtotal Minimum Lease Payments	25,810,227.50	22,010,000.00	3,800,227.50
Certificate of Participation, Series 2012			
2016	1,395,793.40	1,324,000.00	71,793.40
2017	1,395,184.20	1,341,000.00	54,184.20
2018	1,395,348.90	1,359,000.00	36,348.90
2019	1,392,274.20	1,374,000.00	18,274.20
Subtotal Minimum Lease Payments	5,578,600.70	5,398,000.00	180,600.70
Total Minimum Lease Payments	$ 47,669,665.70	$ 41,648,000.00	$ 6,021,665.70

2. Bonds Payable

Bonds payable at June 30, 2015, are as follows:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 2008A	$ 720,000.00	4.25 - 5	2028
Series 2009A, Refunding	135,000.00	5	2019
Series 2010A	145,000.00	3.5 - 5	2030
Series 2014B, Refunding	911,000.00	2 - 5	2020
District Revenue Bonds:			
Series 2011	2,585,000.00	2.7 - 5.5	2040
Total Bonds Payable	$ 4,496,000.00		

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 SBE 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 SBE and the SBA.

District Revenue Bonds

The District authorized the issuance of the Refunding and Revenue Bonds, Series 2011, to provide funds to pay the costs of certain capital improvements and to refund the outstanding Refunding Revenue Bonds, Series 1994. These bonds are authorized by Chapters 63-587 and 78-569, Laws of Florida, Special Acts of 1978, and are secured by sales tax revenues distributed to the District pursuant to Section 212.20(6)(d)6.a., Florida Statutes. 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 $4,698,007.50 of sales tax revenues in connection with the 2011 District Revenue Bonds, described above. During the 2014-15 fiscal year, the District recognized sales tax revenues totaling $190,750 and expended $190,445 (99.8 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.

Annual requirements to amortize all bonded debt outstanding as of June 30, 2015, are as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2016	$ 746,169.39	$ 649,000.00	$ 97,169.39
2017	391,065.00	330,000.00	61,065.00
2018	182,565.00	138,000.00	44,565.00
2019	129,665.00	92,000.00	37,665.00
2020	95,165.00	62,000.00	33,165.00
2021-2025	470,075.00	350,000.00	120,075.00
2026-2030	319,125.00	290,000.00	29,125.00
Total State School Bonds	2,333,829.39	1,911,000.00	422,829.39
District Revenue Bonds:			
2016	189,095.00	60,000.00	129,095.00
2017	187,475.00	60,000.00	127,475.00
2018	185,675.00	60,000.00	125,675.00
2019	188,650.00	65,000.00	123,650.00
2020	186,212.50	65,000.00	121,212.50
2021-2025	940,962.50	380,000.00	560,962.50
2026-2030	936,287.50	475,000.00	461,287.50
2031-2035	940,875.00	615,000.00	325,875.00
2036-2040	942,775.00	805,000.00	137,775.00
Total District Revenue Bonds	4,698,007.50	2,585,000.00	2,113,007.50
Total	$ 7,031,836.89	$ 4,496,000.00	$ 2,535,836.89

3. Defeased Debt

On December 2, 2014, the Florida Department of Education issued State School Bonds, Series 2014B, (Refunding Bonds) which were used to refund $770,000 and $190,000 of the District's State School Bonds, Series 2005A and 2005B (Refunded Bonds), respectively. The District's pro rata share of the net proceeds of the Refunding Bonds totaling $972,831 (which included a $63,395 premium and is after deduction of $1,563 for the District's pro rata share of underwriting fees, insurance, and other issuance cost) were used to call the District's portion of the remaining outstanding bonds on January 1, 2015. The Refunding Bonds reduced the District's total debt service payments over the next 5 years by $41,596.

4. 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	$ 5,455,000.00	$ 911,000.00	$ 1,870,000.00	$ 4,496,000.00	$ 709,000.00
Certificates of Participation Payable	47,708,000.00	-	6,060,000.00	41,648,000.00	6,264,000.00
Estimated Insurance Claims Payable	4,429,000.00	3,144,945.23	3,403,945.23	4,170,000.00	2,575,000.00
Compensated Absences Payable	25,362,353.39	2,435,840.80	2,995,375.48	24,802,818.71	2,566,490.00
Net Pension Liability (1)	105,600,263.45	14,699,019.88	50,880,956.33	69,418,327.00	1,539,757.72
Other Postemployment Benefits Payable	580,000.00	1,221,000.00	1,036,000.00	765,000.00	-
Total Governmental Activities	$189,134,616.84	$ 22,411,805.91	$ 66,246,277.04	$145,300,145.71	$ 13,654,247.72

Note: (1) The beginning balance resulted from the implementation of GASB Statement No. 68.

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

J. Fund Balance Reporting

In addition to committed and assigned fund balance categories discussed in the **Fund Balance Policies** note disclosure, fund balances may be classified as follows:

- **Nonspendable Fund Balance**. Nonspendable fund balance is 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.
- **Restricted Fund Balance**. Restricted fund balance is 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.
- **Unassigned Fund Balance**. The unassigned fund balance is 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 fiscal year's budget adoption.

K. Interfund Receivables and Payables

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

	Interfund	
Funds	**Receivables**	**Payables**
Major:		
General	$ 753,183.88	$ -
Special Revenue:		
Other Federal Programs	-	371,299.44
Nonmajor Governmental	-	249,387.60
Agency Fund	-	132,496.84
Total	$ 753,183.88	$ 753,183.88

General Fund receivables represent temporary loans to other funds to cover disbursements and will be repaid within 1 year without interest.

L. Revenues

1. Schedule of State Revenue Sources

The following is a schedule of the District's State revenue sources for the 2014-15 fiscal year:

Source	Amount
Florida Education Finance Program	$ 73,129,365.00
Categorical Educational Programs:	
Class Size Reduction	32,896,706.00
Transportation	6,068,485.00
Instructional Materials	2,402,724.00
School Recognition Funds	2,052,628.00
Digital Classrooms	490,576.00
Voluntary Prekindergarten	438,605.52
Discretionary Lottery Funds	107,809.00
Virtual Education Contribution	66,693.00
Workforce Development Program	2,205,403.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	1,096,974.35
Charter School Capital Outlay	646,212.00
Gross Receipts Tax (Public Education Capital Outlay)	576,542.00
Department of Juvenile Justice Supplemental	230,846.00
Food Service Supplement	108,261.00
Mobile Home License Tax	44,396.09
Miscellaneous	608,113.18
Total	$ 123,170,339.14

Accounting policies relating to certain State revenue sources are described in Note I.G.2.

2. Property Taxes

The following is a summary of millages and taxes levied on the 2014 tax roll for the 2014-15 fiscal year:

	Millages	Taxes Levied
General Fund		
Nonvoted School Tax:		
Required Local Effort	5.193	$ 80,366,163.37
Basic Discretionary Local Effort	0.748	11,574,557.32
Capital Projects - Local Capital Improvement Fund		
Nonvoted Tax:		
Local Capital Improvements	1.500	23,215,215.21
Total	7.441	$ 115,155,935.90

M. Interfund Transfers

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

	Interfund	
Funds	**Transfers In**	**Transfers Out**
Major:		
General	$ 11,800,960.15	$ 167,004.14
Nonmajor Governmental	167,004.14	11,800,960.15
Total	$ 11,967,964.29	$ 11,967,964.29

Transfers to the General Fund were for maintenance and repair of school facilities, for the lease of computers for instructional purposes, and to fund charter school capital outlays. Transfers to the Nonmajor Governmental Funds were for the construction of tennis courts and sign at Ruckel Middle School, playground at Bluewater Elementary School, portable restroom at Elliott Point Elementary School, walking track at Florosa Elementary School, playground shade at Plew Elementary School, and batting cages at Niceville High School from donations received.

IV. RELATED PARTY TRANSACTIONS

On July 14, 2014, the Board declared that a parcel of land and improvements located in Fort Walton Beach, Florida, which includes the W.E. Combs campus owned by the District, was no longer necessary for educational or ancillary purposes. On August 25, 2014, the Board authorized a real property exchange between the District and Okaloosa Academy, Inc. (Academy), a component unit of the District. The agreement authorized the exchange of the District-owned land and improvements for an Academy-owned parcel of land and 11 portable buildings located in Crestview, Florida.

The purpose of the exchange is to facilitate the consolidation of the Academy's north and south county charter school locations into one permanent facility. Although the difference in the appraised values of the property exchanged was $173,000, GASB No. 48, *Intra-entity Transfers of Assets and Future Revenues*, requires the assets exchanged be recorded at historical cost together with the accumulated depreciation on each entity's financial statements. As a result, the reported loss to the District and gain to the Academy is $1,446,066.75 which is reported on the Statement of Activities as special items. The exchange agreement provides that if the property acquired by the Academy in the exchange ceases to be occupied and used for the operation of the Academy, the property shall revert to the District.

V. 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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Budgetary Comparison Schedule
General and Major Special Revenue Funds
For the Fiscal Year Ended June 30, 2015

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	$ 3,702,970.00	$ 3,576,160.45	$ 4,314,949.48	$ 738,789.03
Federal Through State and Local	500,000.00	600,316.82	600,316.82	-
State	125,248,492.07	120,567,897.08	120,567,897.08	-
Local:				
Property Taxes	88,253,482.00	88,120,015.00	89,280,573.37	1,160,558.37
Miscellaneous	3,567,400.31	6,746,615.78	6,639,169.92	(107,445.86)
Total Local Revenues	91,820,882.31	94,866,630.78	95,919,743.29	1,053,112.51
Total Revenues	221,272,344.38	219,611,005.13	221,402,906.67	1,791,901.54
Expenditures				
Current - Education:				
Instruction	163,831,035.17	165,506,354.34	158,904,307.44	6,602,046.90
Student Personnel Services	8,139,376.46	8,552,911.34	8,368,999.12	183,912.22
Instructional Media Services	1,424,344.62	1,565,128.04	1,415,197.72	149,930.32
Instruction and Curriculum Development Services	6,036,933.72	6,007,616.70	4,979,579.70	1,028,037.00
Instructional Staff Training Services	1,273,043.42	1,435,668.70	1,029,895.30	405,773.40
Instructional - Related Technology	921,265.99	694,220.77	654,096.50	40,124.27
Board	3,546,928.98	2,386,422.89	1,581,854.68	804,568.21
General Administration	452,225.18	429,650.94	356,431.95	73,218.99
School Administration	18,238,285.04	20,032,448.36	19,392,864.52	639,583.84
Facilities Acquisition and Construction	467,290.94	554,939.42	256,707.80	298,231.62
Fiscal Services	2,170,851.49	2,171,965.40	1,822,376.07	349,589.33
Food Services	-	36,558.87	36,558.87	-
Central Services	5,512,756.28	5,244,461.41	3,211,780.41	2,032,681.00
Student Transportation Services	14,029,520.43	12,865,815.62	12,176,181.29	689,634.33
Operation of Plant	17,438,385.24	17,601,677.26	16,209,991.69	1,391,685.57
Maintenance of Plant	8,528,783.31	8,792,049.10	7,839,988.37	952,060.73
Administrative Technology Services	3,234,095.50	3,302,597.53	2,880,625.95	421,971.58
Community Services	1,945,212.17	2,146,573.78	1,213,598.30	932,975.48
Fixed Capital Outlay:				
Facilities Acquisition and Construction	-	7,091.85	7,091.85	-
Other Capital Outlay	-	2,868,572.65	2,868,572.65	-
Total Expenditures	257,190,333.94	262,202,724.97	245,206,700.18	16,996,024.79
Excess (Deficiency) of Revenues Over Expenditures	(35,917,989.56)	(42,591,719.84)	(23,803,793.51)	18,787,926.33
Other Financing Sources (Uses)				
Transfers In	11,976,515.00	11,800,960.15	11,800,960.15	-
Loss Recoveries	7,900.00	613,310.62	613,310.62	-
Transfers Out	-	(167,004.14)	(167,004.14)	-
Total Other Financing Sources (Uses)	11,984,415.00	12,247,266.63	12,247,266.63	-
Net Change in Fund Balances	(23,933,574.56)	(30,344,453.21)	(11,556,526.88)	18,787,926.33
Fund Balances, Beginning	62,882,301.34	62,882,301.34	62,882,301.34	-
Fund Balances, Ending	$ 38,948,726.78	$ 32,537,848.13	$ 51,325,774.46	$ 18,787,926.33

Special Revenue - Other Federal Programs Fund

Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
$ 2,865,670.79	$ 3,677,867.05	$ 1,739,704.26	$ (1,938,162.79)
17,515,291.83	15,933,646.60	14,116,741.22	(1,816,905.38)
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
20,380,962.62	19,611,513.65	15,856,445.48	(3,755,068.17)
13,171,973.66	11,370,806.86	10,075,972.81	1,294,834.05
571,372.98	713,637.50	625,733.27	87,904.23
32,370.34	24,849.90	19,779.16	5,070.74
3,571,494.36	3,598,663.09	3,058,135.38	540,527.71
532,614.80	411,201.67	317,281.13	93,920.54
-	-	-	-
-	-	-	-
2,475,897.99	2,233,626.55	545,907.43	1,687,719.12
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
25,238.49	72,091.78	27,000.00	45,091.78
-	-	-	-
-	-	-	-
-		-	-
-	812,196.36	812,196.36	-
-	-	-	-
-	374,439.94	374,439.94	-
20,380,962.62	19,611,513.65	15,856,445.48	3,755,068.17
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
$ 0.00	$ 0.00	$ 0.00	$ 0.00

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]
07/01/12	$ -	$ 14,462,000	$ 14,462,000	0.00%	$ 131,864,333	10.97%
07/01/13	-	15,940,000	15,940,000	0.00%	139,200,318	11.45%
07/01/14	-	16,129,000	16,129,000	0.00%	144,320,983	11.18%

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

Schedule of the District's Proportionate Share of the Net Pension Liability – Florida Retirement System Pension Plan (1)

	2014	2013
District's proportion of the FRS net pension liability	0.385999535%	0.372293538%
District's proportionate share of the FRS net pension liability	$ 23,551,648	$ 64,088,287
District's covered-employee payroll (2)	$ 145,656,503	$ 138,484,841
District's proportionate share of the FRS net pension liability as a percentage of its covered-employee payroll	16.17%	46.28%
FRS Plan fiduciary net position as a percentage of the total pension liability	96.09%	88.54%

Notes: (1) The amounts presented for each fiscal year were determined as of June 30.
(2) Covered-employee payroll includes defined benefit plan actives, investment plan members, and members in DROP.

Schedule of District Contributions – Florida Retirement System Pension Plan (1)

	2015	2014
Contractually required FRS contribution	$ 9,352,316	$ 8,455,028
FRS contributions in relation to the contractually required contribution	9,352,316	8,455,028
FRS contribution deficiency (excess)	$ -	$ -
District's covered-employee payroll (2)	$ 150,972,191	$ 145,656,503
FRS contributions as a percentage of covered-employee payroll	6.19%	5.80%

Notes: (1) The amounts presented for each fiscal year were determined as of June 30.
(2) Covered-employee payroll includes defined benefit plan actives, investment plan members, and members in DROP.

Schedule of the District's Proportionate Share of the Net Pension Liability – Health Insurance Subsidy Pension Plan (1)

	2014	2013
District's proportion of the HIS net pension liability	0.490539910%	0.476803072%
District's proportionate share of the HIS net pension liability	$ 45,866,679	$ 41,511,976
District's covered-employee payroll (2)	$ 145,656,503	$ 138,484,841
District's proportionate share of the HIS net pension liability as a percentage of its covered-employee payroll	31.49%	29.98%
HIS Plan fiduciary net position as a percentage of the total pension liability	0.99%	1.78%

Notes: (1) The amounts presented for each fiscal year were determined as of June 30.
(2) Covered-employee payroll includes defined benefit plan actives, investment plan members, and members in DROP.

Schedule of District Contributions – Health Insurance Subsidy Pension Plan (1)

	2015	2014
Contractually required HIS contribution	$ 1,902,845	$ 1,680,425
HIS contributions in relation to the contractually required contribution	1,902,845	1,680,425
HIS contribution deficiency (excess)	$ -	$ -
District's covered-employee payroll (2)	$ 150,972,191	$ 145,656,303
HIS contributions as a percentage of covered-employee payroll	1.26%	1.15%

Notes: (1) The amounts presented for each fiscal year were determined as of June 30.
(2) Covered-employee payroll includes defined benefit plan actives, investment plan members, and members in DROP.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

1. Budgetary Basis of Accounting

The Board follows procedures established by State statutes and State Board of Education (SBE) 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 SBE rules.
- Appropriations are controlled at the object level (e.g., salaries, purchased services, and capital outlay) within each activity (e.g., instruction, student transportation services, and school administration) and may be amended by resolution at any Board meeting prior to the due date for the annual financial report.
- Budgets are prepared using the same modified accrual basis as is used to account for governmental funds.
- Budgetary information is integrated into the accounting system and, to facilitate budget control, budget balances are encumbered when purchase orders are issued. Appropriations lapse at fiscal year-end and encumbrances outstanding are honored from the subsequent fiscal year's appropriations.

2. Schedule of Net Pension Liability and Schedule of Contributions – Florida Retirement System Pension Plan

Changes of Assumptions. As of June 30, 2014, the inflation rate assumption was decreased from 3 percent to 2.6 percent, the real payroll growth assumption was decreased from 1 percent to 0.65 percent, and the overall payroll growth rate assumption was decreased from 4 percent to 3.25 percent. The long-term expected rate of return decreased from 7.75 percent to 7.65 percent.

3. Schedule of Net Pension Liability and Schedule of Contributions – Health Insurance Subsidy Pension Plan

Changes of Assumptions. The municipal bond rate used to determine total pension liability decreased from 4.63 percent to 4.29 percent.

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Okaloosa County District School Board
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2015

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 Agriculture and Consumer Services:				
School Breakfast Program	10.553	14002	$ 1,172,805.37	$ -
National School Lunch Program	10.555 (2)	14001	5,966,465.12	-
Summer Food Service Program for Children	10.559	14006	203,570.88	-
Total Child Nutrition Cluster			7,342,841.37	-
Florida Department of Financial Services:				
Schools and Roads - Grants to States	10.665	None	7,173.82	-
Total United States Department of Agriculture			7,350,015.19	-
United States Department of Education:				
Direct:				
Impact Aid	84.041 (3)	N/A	3,496,514.03	103,213.00
Federal Pell Grant Program	84.063	N/A	813,261.36	-
Total Direct			4,309,775.39	103,213.00
Indirect:				
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027 (4)	263	6,828,158.33	-
Special Education - Preschool Grants	84.173	267	197,316.68	-
University of South Florida:				
Special Education - Grants to States	84.027 (4)	None	1,811.28	-
Total Special Education Cluster			7,027,286.29	-
Florida Department of Education:				
Title I Grants to Local Educational Agencies	84.010	212,223,226	5,413,648.18	296,857.26
Career and Technical Education - Basic Grants to States	84.048	161	324,477.53	-
Education for Homeless Children and Youth	84.196	127	34,263.38	-
English Language Acquisition State Grants	84.365	102	154,789.40	-
Improving Teacher Quality State Grants	84.367	224	1,118,269.06	-
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the- Top Incentive Grants, Recovery Act	84.395 (5)	RA111, RG311, RG411	123,694.00	-
Northwest Florida State College:				
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the- Top Incentive Grants, Recovery Act	84.395 (5)	None	44,007.38	-
Total Indirect			14,240,435.22	296,857.26
Total United States Department of Education			18,550,210.61	400,070.26

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 Defense:				
Direct:				
Public Law 110-417	None	N/A	$ 523,951.04	$ -
Air Force Junior Reserve Officers Training Corps	None	N/A	179,890.97	-
Army Junior Reserve Officers Training Corps	None	N/A	113,528.44	-
Competitive Grants: Promoting K-12 Student Achievement at Military-Connected Schools	12.556	N/A	286,689.84	-
Invitational Grants for Military-Connected Schools	12.557	N/A	561,307.21	612.08
Air Force Defense Research Sciences Program	12.800	N/A	79,510.85	-
Total United States Department of Defense			1,744,878.35	612.08
Total Expenditures of Federal Awards			$ 27,645,104.15	$ 400,682.34

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 for National School Lunch Program. Includes $524,181.56 of donated food received during the fiscal year. Donated foods are valued at fair value as determined at the time of donation.

(3) Impact Aid. Expenditures include $29,494.94 for award number S041B-2011-1256, $351,083.97 for award number S041B-2012-1256, and $3,115,935.12 for award number S041B-2015-1256.

(4) Special Education – Grants to States. Expenditures total $6,829,969.61 for CFDA No. 84.027.

(5) ARRA – State Fiscal Stabilization Fund (SFSF) – Race-to-the-Top Incentive Grants, Recovery Act. Expenditures total $167,701.38 for CFDA No. 84.395.

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

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

We have audited, 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, 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, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 16, 2016, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the school internal funds and the aggregate discretely presented component units, as described in our report on the District's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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. A *significant deficiency* is a deficiency, or a 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.

Our consideration of internal control 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from 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 accompanying **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**.

District's Response to Findings

District's response to the findings identified in our audit is described in the accompanying **MANAGEMENT'S RESPONSE**. District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of the **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*** is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,

Sherrill F. Norman

Sherrill F. Norman, CPA
Tallahassee, Florida
March 16, 2016

AUDITOR GENERAL
STATE OF FLORIDA

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Auditor General

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Report on Compliance for Each Major Federal Program

We have audited the Okaloosa County District School Board's compliance with the types of compliance requirements described in the *OMB 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, 2015. The District's major Federal programs are identified in the **SUMMARY OF AUDITOR'S RESULTS** section of the accompanying **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major Federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major Federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of 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, 2015.

Report on Internal Control Over Compliance

District management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program 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. 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.

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 over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,

Sherrill F. Norman, CPA
Tallahassee, Florida
March 16, 2016

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	No
Identification of major programs:	

CFDA Numbers:	Name of Federal Program or Cluster:
10.553, 10.555, and 10.559	Child Nutrition Cluster
84.063	Federal Pell Grant Program
84.367	Improving Teacher Quality State Grants

Dollar threshold used to distinguish between Type A and Type B programs:	$829,353
Auditee qualified as low-risk auditee?	Yes

ADDITIONAL MATTERS

Finding 1: Background Screenings

State law[1] requires that each person hired or contracted to serve in an instructional or noninstructional capacity that requires direct contact with students undergo background screenings. In addition, State law[2] provides that instructional and noninstructional employees who are permitted access on school grounds when students are present or who have direct contact with students must undergo a level 2 background screening[3] at least once every 5 years. To promote compliance with the statutory background screening requirements, District procedures require the Human Resources Department to ensure employees who have access to school grounds undergo required background screenings.

During the 2014-15 fiscal year, the District employed 2,199 instructional personnel and 1,460 noninstructional personnel. To determine whether required background screenings had been timely performed for these employees, we examined District records, as of September 1, 2015, for 60 selected employees.[4] We found that the required background screenings had not been performed at least once in the past 5 years for 16 of the 60 employees. District personnel indicated that background screenings were not performed for these employees due, in part, to the transition to a new fingerprinting system and also stated that the District no longer employed 2 of the 16 employees. Subsequent to our inquiry, District personnel obtained background screenings in October and November 2015 for the 14 employees and noted no inappropriate backgrounds. However, the dates of the background screenings ranged from 1 year and 9 months to 3 years and 10 months after the applicable 5-year period had elapsed.

Absent effective controls to ensure that required background screenings are timely performed, there is an increased risk that individuals with unsuitable backgrounds may be allowed access to students.

Recommendation: The District should take immediate action to identify employees who have not obtained the required background screenings, ensure the screenings are promptly obtained and evaluated, and make decisions, as necessary, based on evaluations of the screenings. In the future, the District should ensure that required background screenings are timely performed for District employees.

Finding 2: Collection and Use of Social Security Numbers

The Legislature has acknowledged in State law[5] 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

[1] Section 1012.32(2), Florida Statutes.

[2] Sections 1012.56(10), 1012.465, and 1012.467, Florida Statutes.

[3] A level 2 background screening includes fingerprinting for Statewide criminal history records checks through the Florida Department of Law Enforcement, national criminal history records checks through the Federal Bureau of Investigation, and may include local criminal records checks through local law enforcement agencies.

[4] The 60 selected employees included 36 instructional and 24 noninstructional employees.

[5] Section 119.071(5)(a)1., Florida Statutes.

individuals or cause other financial or personal harm. Therefore, public entities are required to provide extra care in collecting and maintaining SSNs.

State law[6] also 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 the District is specifically authorized by law to do so, or it is imperative for the performance of the District's duties and responsibilities as prescribed by State law. Additionally, if the District collects an individual's SSN, it must provide that individual with a written statement indicating the purpose for collecting the SSN and 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. SSNs collected by the District may not be used for any purpose other than the purpose provided in the written statement, and the District is to review whether its collection of SSNs is in compliance with the above requirements and, if not, immediately discontinue the collection of SSNs for that purpose.

The District obtains SSNs from students, employees, volunteers, and vendors for purposes such as employee insurance, withholding taxes, background screenings, and registration of new students and vendors. However, we noted instances in which, contrary to State law, the District did not provide written statements indicating the purpose for collecting the SSNs. Specifically, certain District forms requested an individual's SSN (including an administrative/managerial applicant form, student dual-enrollment and transcript request forms, and a volunteer affidavit form) without a written statement on the forms, or accompanying the forms, indicating the purpose for collecting the SSN. The District did have a written SSN usage policy that was posted on the District's Web site, which District personnel believed satisfied the statutory requirements. 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. Similar findings were noted in our report Nos. 2010-108 and 2013-121.

Recommendation: The District should provide individuals with a written statement indicating whether the collection of their 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 the SSN for each purpose for which the SSN is being collected.

Finding 3: Construction Administration – Total Program Manager Services

Pursuant to State law,[7] boards may select a program management entity that would act as an agent of the Board and would be responsible for schedule control, cost control, and coordination in providing or procuring planning, design, and construction services. In August 2013, the Board contracted with a total program manager (TPM) to coordinate and manage the District's facilities construction program. The Board-approved TPM contract requires that construction services be performed by qualified construction contractors and suppliers. The contract also requires that the TPM select contractor and supplier services using a competitive bid process, except for certain services, such as emergency projects or TPM-performed services.

[6] Section 119.071(5)(a)2., 3. and 4., Florida Statutes.

[7] Section 1013.45(1)(d), Florida Statutes.

The Board typically requires the TPM, for certain construction projects considered of higher cost or complexity, to offer a guaranteed maximum price (GMP) contract. A GMP contract allows for the difference between the actual cost of the construction project and the GMP amount, or the net cost savings, to be shared by the District (60 percent) and the TPM (40 percent). As such, good business practice dictates that the District closely monitor the TPM's competitive bids of subcontractors to ensure subcontractor services are obtained at the lowest cost consistent with acceptable quality and to maximize cost savings for GMP contracts.

During the 2014-15 fiscal year, the District paid the TPM a total of $2,080,731. Our review of District records for one payment to the TPM totaling $561,923, including $448,472 for amounts paid by the TPM to four subcontractors associated with GMP contracts, and inquiries of District personnel disclosed that:

- District personnel did not always attend subcontractor bid openings conducted by the TPM or obtain evidence that bids were properly solicited and awarded, but instead relied on the TPM to competitively select subcontractors when required. In response to our inquiry, District personnel obtained applicable TPM subcontractor bids and other records relating to the four subcontractors. Based on the documentation obtained from the TPM and provided for our review, it appears that the TPM properly solicited bids and awarded a $585,000 contract to a waste water treatment plant replacement subcontractor and a $326,000 contract to a heating, ventilation, and air conditioning replacement subcontractor. The documentation also indicated that, due to the emergency nature of two other projects, the TPM awarded contracts of $142,500 and $13,000, respectively, to two storm damage repair subcontractors without bid solicitations. While the District obtained evidence that the TPM followed the provisions in the District's TPM contract to solicit competitive bids when required, without District personnel attendance at subcontractor bid openings to ensure bids are properly solicited and awarded, there is an elevated risk that subcontractors selected by the TPM may not be the best choice and value for the District.
- State law[8] establishes certain certification requirements for persons engaged in construction contracting, including licensing requirements for specialty contractors such as electrical, air conditioning, plumbing, and roofing contractors. District personnel indicated they did not verify that the four subcontractors who worked on the projects were licensed, but instead relied upon the TPM to verify the subcontractors' licenses. Subsequent to our inquiry, District personnel obtained documentation of each subcontractor's licenses, and we confirmed that each subcontractor was properly licensed. Monitoring of the TPM's verification of subcontractor licenses provides the District additional assurance that subcontractors working on District facilities meet the qualifications to perform the work for which they are engaged.
- Prior to making payments to the TPM, the District reconciled subcontractor bills with the TPM's requests for payment. However, District personnel did not obtain copies of the TPM's subcontractor bid awards and contracts to ensure that the amounts requested by the TPM for subcontractor services were consistent with the subcontractors' bid award and contract provisions. Ensuring that subcontractor bills, bid awards, and contracts are consistent with established TPM contract provisions and related payment requests would provide the District with assurance that cost savings under GMP contracts are properly realized and may also reduce the risk of contract disputes. A similar finding was noted in our report No. 2013-121.

Recommendation: The District should improve construction administration controls for the services subcontracted by the TPM. Such controls should ensure that District personnel:

- **Attend TPM bid openings for subcontractor services to verify that subcontractors are properly selected;**

[8] Chapter 489, Florida Statutes.

- **Before subcontractors who contract with the TPM commence work on District facilities, verify that the subcontractors are appropriately licensed to perform the work for which they are engaged; and**
- **Before payments are made to the TPM for subcontractor services, compare and reconcile subcontractor bills, bid awards, and contracts to established TPM contract provisions and related pay requests.**

Finding 4: Virtual Instruction Program – Policies and Procedures

State law[9] provides that school districts are to prescribe and adopt standards and policies to provide each student the opportunity to receive a complete education. Education methods to implement such standards and policies may include the delivery of learning courses through traditional school settings, blended courses consisting of both traditional classroom and online instructional techniques, participation in a virtual instruction program (VIP), or other methods. State law[10] establishes VIP requirements and requires school districts to include mandatory provisions in VIP provider contracts; make available optional types of virtual instruction; provide timely, written parental notification of VIP options; ensure the eligibility of students participating in VIPs; and provide computer equipment, Internet access, and instructional materials to eligible students.

During the 2014-15 fiscal year, the District enrolled 262 full-time and 675 part-time VIP students. The District had written procedures addressing various VIP requirements including student eligibility, VIP student progression requirements, and VIP student mandated testing. However, the District did not have comprehensive, written VIP policies and procedures to identify the processes necessary to ensure compliance with statutory requirements, document personnel responsibilities, provide consistent guidance to staff during personnel changes, ensure sufficient and appropriate training of personnel, or establish a reliable standard to measure the effectiveness and efficiency of operations.

In response to our inquiry, District personnel indicated that they had not developed comprehensive, written VIP policies and procedures due to the limited number of staff in the VIP Department. Notwithstanding this response, the absence of comprehensive, written VIP policies and procedures may have contributed to the instances of District noncompliance and control deficiencies discussed in Findings 5 through 9.

Recommendation: To enhance the effectiveness of VIP operations and related activities, the District should develop and maintain comprehensive, written VIP policies and procedures.

Finding 5: Virtual Instruction Program – Options

State law[11] requires that the District, because it is not located in a sparsely populated county eligible for special funding pursuant to State law,[12] provide students at least three options for part-time and full-time virtual instruction. For example, the District may choose to establish a District-operated VIP, contract with a Florida Department of Education (FDOE) approved VIP provider, and also contract with the Florida

[9] Section 1001.41(3), Florida Statutes.

[10] Section 1002.45, Florida Statutes.

[11] Section 1002.45(1)(b), Florida Statutes.

[12] Section 1011.62(7), Florida Statutes.

Virtual School (FLVS), another school district, or a virtual charter school. However, we noted that, during the 2014-15 fiscal year, the District only provided kindergarten through grade 12 students with two options for virtual instruction.

District personnel indicated that they initially believed allowing students to directly enroll in the FLVS was an allowable third option. Direct student enrollment in the FLVS is allowable; however, since the District did not contract with the FLVS for VIP services, such enrollment did not relieve the District of its responsibility to provide students with a third virtual instruction option. Without providing students with three options for virtual instruction, the District limited student access to virtual instruction and cannot demonstrate compliance with State law.

Recommendation: The District should ensure that students are offered at least three virtual instruction options.

Finding 6: Virtual Instruction Program – Written Parental Notifications

State law[13] requires each school district to provide information to parents and students about a student's right and choice to participate in a VIP. In addition, State law[14] requires school districts to provide parents with timely, written notifications of open enrollment periods for its VIP.

For the 2014-15 fiscal year, District personnel indicated various communication methods were used to provide information about the District's VIP to parents and students. Such communication methods included information posted on the District's Web site, information in pupil progression plans, packets made available and distributed in school guidance offices, and written notifications provided to parents of home-school and currently enrolled VIP students. While these communication methods demonstrate District efforts to inform parents and students about the VIP, District records did not evidence that the District provided written notifications directly to parents of students regarding the VIP and the VIP open enrollment periods.

District personnel indicated that they believed the communication methods were adequate. However, without direct notifications, timely provided in writing to parents, some parents may not be informed of available VIP options and open enrollment periods, potentially limiting student access to virtual instruction. Such direct notifications could be made in writing by letter or e-mail.

Recommendation: The District should ensure that parents are timely and directly notified in writing about student opportunities to participate in the District's VIP and open enrollment periods.

Finding 7: Virtual Instruction Program – Provider Contract

To ensure appropriate controls over student-teacher ratios established in FDOE-approved VIP provider contracts, District records need to evidence the basis upon which District personnel determined the reasonableness of the ratios. Additionally, to ensure appropriate controls over data quality, security

[13] Section 1002.45(10), Florida Statutes.

[14] Section 1002.45(1)(b), Florida Statutes.

measures, and provider contract compliance, the contracts need to contain necessary provisions to establish the District's expectations for these providers.

As part of our audit, we reviewed the contract between the District and an FDOE-approved VIP provider, along with other related records, and found that:

- Although the contract with the FDOE-approved provider established student-teacher ratios, the ratios appeared disproportionate as the ratios ranged from 65:1 (for kindergarten through grade 8) to 250:1 (for grades 9 through 12 elective courses). District personnel indicated that they reviewed the ratios in the contract; however, District records did not evidence the basis upon which District personnel determined the reasonableness of the ratios. Without records documenting the reasonableness of established ratios, there is an increased risk that the number of students in the VIP classes may be excessive and reduce the quality of the provider's virtual instruction.
- The contract did not include data quality requirements. The provider is to maintain significant amounts of education data to support the VIP administration and to meet District reporting needs for compliance with State funding, information, and accountability requirements in State law.[15] Accordingly, it is essential that accurate and complete data maintained by the provider on behalf of the District be readily available. Inclusion of data quality requirements in the provider contract would help ensure that District expectations for the timeliness, accuracy, and completeness of education data are clearly communicated to the provider.
- The contract contained requirements for the provider to develop, implement, maintain, and use appropriate administrative, technical, or physical security measures to the full extent required by Federal law[16] to maintain the confidentiality of educational records. However, the contract did not specify any minimum required security controls that the District expected to be in place to protect the confidentiality, availability, and integrity of critical and sensitive educational data. Without specifying minimum required security controls, there is an increased risk that deficiencies in information security and other information technology (IT) controls may occur.
- The contract did not provide for the District's monitoring of provider compliance with contract terms or quality of instruction. Without such a provision, District personnel may be limited in their ability to perform monitoring. Such monitoring could include confirmation or verification that the VIP provider protected the confidentiality of student records and supplied students with necessary instructional materials.

Recommendation: The District should ensure that District records document the reasonableness of the student-teacher ratios established in FDOE-approved VIP provider contracts. In addition, FDOE-approved VIP provider contracts should include provisions necessary to promote quality instruction and education data integrity and for monitoring provider compliance.

Finding 8: Virtual Instruction Program – Provider Background Screenings

The District contracted with one FDOE-approved VIP provider for VIP services. State law[17] requires VIP providers to conduct background screenings for all employees as a condition of approval by the FDOE as a VIP provider in the State. The FDOE process for approving VIP providers requires applicants to submit assurances that applicant employees have obtained the required background screenings and the

[15] Section 1008.31, Florida Statutes.

[16] The Family Educational Rights and Privacy Act (Title 20, Section 1232g, United States Code).

[17] Section 1002.45(2)(a)3., Florida Statutes.

required assurances indicate that lists of the background-screened employees are to be provided to each applicable school district. However, the District's FDOE-approved VIP provider did not initially provide the District a list of provider employees who obtained the required background screenings, and District personnel indicated that they were unware of the need to request the list.

Subsequent to our inquiry, the District obtained documentation in March and April 2015 to confirm that the provider employees obtained the required background screenings. Absent effective controls to ensure that background screenings of VIP provider employees are timely performed, there is an increased risk that individuals with unsuitable backgrounds may be interacting with students. In addition, individuals with unsuitable backgrounds may be granted access to confidential or sensitive District data and IT resources.

Recommendation: The District should ensure evidence of the performance of required background screenings for all VIP provider employees is obtained.

Finding 9: Virtual Instruction Program – Computing Resources

State law[18] requires the District to provide to each full-time VIP student who qualifies for free or reduced price school lunches, or who is on the direct certification list, and who does not have a computer or Internet access at home, with all necessary equipment, including, but not limited to, a computer, monitor, and printer (if necessary), and Internet access for online delivery of instruction. However, the District did not provide computers or Internet access to any VIP students during the 2014-15 school year.

In response to our inquiries, District personnel indicated that they relied upon the parents of VIP students to request these resources and that no requests were made for VIP computing resources during the 2014-15 fiscal year. Consequently, District records did not evidence that the parents of all eligible VIP students were contacted to determine whether the students had all the necessary computing resources to participate in the VIP. Without evidence of direct communication to parents regarding the availability of computing resources and documented determinations that families had the necessary computing resources, the District cannot demonstrate that eligible students had the necessary resources to successfully complete VIP courses.

Recommendation: The District should take appropriate measures to ensure, and document the District's determination, that all qualifying students have the necessary VIP resources.

Finding 10: Information Technology – Risk Assessment

Management of IT-related risks is a key part of enterprise IT governance. Incorporating an enterprise perspective into day-to-day governance actions helps entity personnel understand the entity's greatest security risk exposures and determine whether planned controls are appropriate and adequate to secure IT resources from unauthorized disclosure, modification, or destruction. IT risk assessments, including the identification of risks and the evaluation of the likelihood of threats and the severity of threat impact, help support management's decisions in establishing cost-effective measures to mitigate risk and, where appropriate, formally accept residual risk.

[18] Section 1002.45(3)(d), Florida Statutes.

Although the District had considered external and internal risks and obtained a vendor-performed security audit, the District had not developed a comprehensive, written IT risk assessment. A comprehensive, written IT risk assessment would consider, in addition to high-level risks, specific threats and vulnerabilities at the District, system, and application levels. A comprehensive, written IT risk assessment would also document the range of risks that the District systems and data may be subject to, including those posed by internal and external users, as well as plans for mitigation of identified risks. The absence of a comprehensive, written IT risk assessment may lessen the District's assurance that all likely threats and vulnerabilities have been identified, the most significant risks have been addressed, and appropriate decisions have been made regarding which risks to accept and which risks to mitigate through appropriate controls. In response to our inquiry, District personnel indicated the District will contract with a vendor to perform a risk assessment in February 2016.

Recommendation: District management should continue efforts to develop or obtain a comprehensive, written IT risk assessment plan to provide a documented basis for managing IT-related risks.

Finding 11: Information Technology – Security Incident Response Plan

IT security incident response plans are established by management to ensure an appropriate, effective, and timely response to security incidents. These written plans typically detail responsibilities and procedures for identifying, logging, and analyzing security violations and include a centralized reporting structure, provisions for a team trained in incident response, notification to affected parties, periodic review of critical system resources to ensure continued integrity, and incident analysis and assessment of additional actions needed.

Although District personnel indicated informal procedures existed for addressing security incidents, including procedures to identify, classify, contain, investigate, report and respond to security incidents, the District had not developed a comprehensive, written IT security incident response plan. Should an incident occur that involves the potential or actual compromise, loss, or destruction of District data or IT resources, the lack of a comprehensive, written security incident response plan may result in the District's failure to take appropriate and timely action to prevent further loss or damage to the District's data and IT resources. Subsequent to our inquiry, District personnel formalized, in January 2016, their existing informal procedures into a written, security incident response plan.

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

Finding 12: Information Technology – Security Awareness Training Program

A comprehensive security awareness training program apprises new employees of, and reemphasizes to other 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 system.

Responding to suspected computer security incidents in a timely manner helps prevent further loss or damage to the data and IT resources in the event of a security incident.

Although new employees were provided education and training on security responsibilities, including password protection and usage, copyright issues, malicious software and virus threats, workstation controls, and handling of confidential information, District management had not implemented an ongoing security training and awareness program through periodic reminders or training sessions after the initial new hire training.

The absence of ongoing security awareness training increases the risk that the District's data and IT resources may be compromised by employees while performing their assigned duties. In response to our inquiry, District management indicated that IT staff would provide ongoing security awareness training for employees through workshops, and the training would be documented as part of employees' annual agreement with the District's *Acceptable Use Policy*. Similar findings were noted in our report Nos. 2010-108 and 2013-121.

Recommendation: District management should improve the security awareness training program to include ongoing training for employees on the importance of information handling and their responsibilities for maintaining data confidentiality, integrity, and availability.

Finding 13: Information Technology – Access Privileges

Access controls are intended to protect District data and 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 inconsistent with their assigned job responsibilities. Periodic reviews of assigned IT access privileges are necessary to ensure that employees can only access those IT resources that are necessary to perform their assigned job responsibilities and that assigned access privileges enforce an appropriate separation of incompatible duties. According to District personnel and District records, to monitor the propriety of assigned IT access privileges, the District performs periodic reviews of these assignments.

Our review of selected IT access privileges to the District's business software applications, such as the finance and human resources (HR) applications, and the operating system disclosed that:

- Due to an oversight, a mobile learning analyst had operating system special authorities that were not necessary for the employee's assigned job responsibilities. These operating system special authorities allow certain operational and system, network, and security administration functions to be performed and, therefore, should be limited to employees whose responsibilities include performing such functions. Subsequent to our inquiry, District personnel removed the operating system special authorities assigned to the employee.
- Due to previous software limitations in granting access to certain functions, two payroll clerks and the payroll supervisor had the ability to update employee tax and benefit information which was not necessary for the employees' assigned job responsibilities. The ability to update this information is appropriate only for HR department personnel responsible for maintaining this information. Subsequent to our inquiry, District personnel corrected the software limitations and removed the employees' ability to update employee tax and benefit information.

- Due to an oversight, a retirement analyst had the ability to initiate payroll processing which was not necessary for the employee's assigned job responsibilities. The ability to initiate payroll processing is appropriate only for payroll department personnel responsible for processing payroll. Subsequent to our inquiry, District personnel removed the employee's ability to initiate payroll processing.

These access privileges were unnecessary for the employees to perform their assigned job responsibilities and did not provide for an appropriate separation of incompatible duties. Although the District had certain controls in place (e.g., payroll verification procedures) that somewhat compensated for the noted deficiencies, the existence of unnecessary or inappropriate IT access privileges increase the risk that unauthorized disclosure, modification, or destruction of District data and IT resources may occur. Similar findings were noted in our report Nos. 2010-108 and 2013-121.

Recommendation: The District should ensure that assigned access privileges enforce an appropriate separation of incompatible duties and restrict employees to only those functions necessary for their assigned job responsibilities.

Finding 14: Information Technology Security Controls – User Authentication, Data Loss Prevention, and Monitoring of Application Activity

Security controls are intended to protect the confidentiality, integrity, and availability of District data and IT resources. As similarly noted in our report Nos. 2010-108 and 2013-121, our audit procedures disclosed certain District security controls related to user authentication, data loss prevention, and monitoring of application activity that needed improvement. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising District data and IT resources. However, we have notified appropriate District management of the specific issues.

Without adequate security controls related to user authentication, data loss prevention, and monitoring of application activity, the risk is increased that the confidentiality, integrity, and availability of District data and IT resources may be compromised.

Recommendation: To ensure the continued confidentiality, integrity, and availability of District data and IT resources, the District should monitor the ongoing effectiveness of security controls related to user authentication and improve security controls related to data loss prevention and logging and monitoring of application activity.

PRIOR AUDIT FOLLOW-UP

The District had taken corrective actions for findings included in previous audit reports, except as noted in Findings 2, 3, 12, 13, and 14 and shown in Table 1.

Table 1
Findings Also Noted in Previous Audit Reports

Finding	2011-12 Fiscal Year Audit Report No. 2013-121, Finding	2008-09 Fiscal Year Audit Report No. 2010-108, Finding
2	3	8
3	6	Not Applicable
12	12	5
13	10	2
14	13	6

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

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.		

SCHOOL DISTRICT OF OKALOOSA COUNTY

SUPERINTENDENT OF SCHOOLS
MARY BETH JACKSON

ATTORNEY TO THE BOARD
C. JEFFREY McINNIS, Esq.

BOARD MEMBERS
DEWEY DESTIN
DR. LAMAR WHITE
CATHY THIGPEN
MELISSA THRUSH
RODNEY L. WALKER

March 11, 2016

Sherrill F. Norman, CPA
Auditor General
Claude Pepper Building, Suite G74
111 West Madison Street
Tallahassee, FL 32399-1450

RE: Preliminary and Tentative Audit Findings and Recommendations for the Fiscal Year Ended June 30, 2015

Dear Ms. Norman,

Enclosed are the District's responses to the Preliminary and Tentative Audit Findings and Recommendations for the fiscal year ended June 30, 2015.

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

Sincerely,

Mary Beth Jackson
Superintendent

RRS:rrs

C: Catherine S. Thigpen, Chairperson, School Board
Rodney L. Walker, School Board Member
Melissa Thrush, School Board Member
Dewey Destin, School Board Member
Dr. Lamar White, School Board Member
Rita R. Scallan, Chief Financial Officer

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School Board of Okaloosa County
Preliminary and Tentative Audit Findings
Fiscal Year 2014-2015
March 11, 2016

Finding No. 1: Background Screenings

District Response:

The District is reviewing all employee background screenings and resubmitting any fingerprints that were inadvertently missed as a result of the "new system implementation" and/or error. A new process has been implemented for the resubmission of employee fingerprints to ensure timely renewals.

Finding No. 2: Collection and Use of Social Security Numbers

District Response:

The District's written social security number usage policy will be updated to include the specific federal and/or state law governing the collection, use and/or release of social security numbers for each respective purpose. In addition, the following forms have been revised:

1. Administrative/Managerial Applicant Form (MIS 5242) – A social security number will no longer be requested. The applicant will only be requested to provide the last four digits of his/her social security number.
2. Dual Enrollment Request Form (MIS 4179) – This form is not used by the District; therefore, it has been removed from the MIS Form Repository.
3. Transcript Request Form (MIS 1419) – The District has removed the social security number request from this form.
4. Volunteer/Mentor Affidavit Form (MIS 1419) – Additional language will be added to include the specific Federal and/or State law governing the collection use.

Finding No. 3: Construction Administration – Total Program Manager Services

District Response:

District staff will attend TPM bid openings for subcontractor services to verify that subcontractors are properly selected, to verify that subcontractors are appropriately licensed to perform the work for which they are engaged, and to obtain copies of the TPM's subcontractor bid awards and contracts in order to verify contracted rates.

Finding No. 4: Virtual Instruction Program – Policies and Procedures

District Response:

The District has implemented a corrective action plan and developed comprehensive written VIP policies and procedures that will be in place beginning with the 2016-2017 school year.

Finding No. 5: Virtual Instruction Program - Options

District Response:

The District began offering three VIP service contract options to students prior to the start of the 2015-2016 school year and has been in compliance since that time. Copies of the VIP contracts were provided to the Auditor General during their fieldwork for the fiscal year ended June 30, 2015.

Finding No. 6: Virtual Instruction Program – Written Parental Notifications

District Response:

The District will disseminate multiple written forms of communication to notify parents of the various available VIP options. Also, the District will continue to provide the information in a variety of ways, including but not limited to the District website, information packets, and through the District Pupil Progression Plan. In March 2016, the District will send written notification to parents informing them of the VIP options available for students for the 2016-2017 school year.

Finding No. 7: Virtual Instruction Program – Provider Contract

District Response:

The District has implemented a corrective action plan to maintain records indicating its review and assurance of reasonable student-teacher ratios. The comprehensive VIP Policies and Procedures developed and referenced above in Finding No. 4 of the response outlines specific responsibilities for monitoring VIP contracts in order to promote quality instruction, to maintain educational data integrity, and to monitor provider compliance. The District will address each of these provisions each time a VIP provider contract is approved for the 2016-17 school year and future years.

Finding No. 8: Virtual Instruction Program – Provider Background Screenings

District Response:

VIP providers approved by the Florida Department of Education, as required by state statute, have had their employees validated through background screenings. The District has access to those state provided background screenings and will document its review of the screenings.

Finding No. 9: Virtual Instruction Program – Computing Resources

District Response:

The District, beginning in August 2015, has taken appropriate measures to ensure that all qualifying students have access to the necessary VIP resources and is documenting its efforts. The registration process identifies those full-time VIP students who require a computer, monitor, printer (if necessary), and Internet access for online delivery of instruction. If a need is indicated, and the student qualifies based on the free and/or reduced meal basis, then the District will provide the required resources.

Finding No. 10: Information Technology – Risk Assessment

District Response:

In February 2016, the District worked with its Seat Management vendor to conduct an initial IT risk assessment. The results of the initial risk assessment will be used to develop a comprehensive written IT risk assessment plan that will be reviewed and revised periodically.

Finding No. 11: Information Technology – Security Incident Response Plan

District Response:

In January 2016, the District implemented a corrective action plan and formalized a security incident response plan.

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

District Response:

The District is implementing a corrective action plan and will provide ongoing training to employees regarding the importance of information handling and their responsibilities for maintaining data confidentiality, integrity, and availability.

Finding No. 13: Information Technology – Access Privileges

District Response:

The District's access approval system requires the authorization of each respective supervisor in determining the employee's access privileges which are required to perform his or her duties. Information Technology will reinforce the adherence to assigned duties only.

Finding No. 14: Information Technology Security Controls – User Authentication, Data Loss Prevention, and Monitoring of Application Activity

District Response:

The District will implement a corrective action plan to address the concerns as outlined in the above referenced finding.