

Okaloosa County District School Board

Financial Statements and
Supplementary Information

June 30, 2013

Okaloosa County District School Board
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INDEPENDENT AUDITOR'S REPORT

To the Okaloosa County District School Board
and Mary Beth Jackson, Superintendent of Schools
Fort Walton Beach, Florida

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 (hereinafter referred to as "District"), as of and for the year ended June 30, 2013, 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 Okaloosa Academy, Inc. or Liza Jackson Preparatory School Inc., as described in Note 1 to the financial statements, which represent 0.60% of the total assets of the District. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for Okaloosa Academy, Inc. and Liza Jackson Preparatory School Inc., is 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 of 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, 2013, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, Budgetary Comparison Schedules, and Schedule of Funding Progress for Other Post-Employment Benefits, 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.

Other 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 Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. 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 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 dated March 14, 2014, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Carr, Riggs & Ingram, L.L.C.

Miramar Beach, Florida
March 14, 2014

Management's Discussion and Analysis

OKALOOSA COUNTY DISTRICT SCHOOL BOARD 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, 2013. 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 the financial statements.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2012-2013 fiscal year are as follows:

- The District's total net position decreased by \$5,136,171, or 2.59% from the 2011-2012 fiscal year.
- General revenues total \$236,465,682 or 93.83% of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total \$15,540,729, or 6.24% of all revenues.
- Expenses total \$257,142,582. Only \$15,540,729 of these expenses were offset by program specific charges with the remainder paid from general revenues.
- Total long-term liabilities decreased \$5,952,151, or 6.27%. Within long-term liabilities, the long-term liability for compensated absences increased \$190,849, or .78%; the liability for estimated insurance claims payable increased \$36,000, or .95%; the liability for debt decreased \$6,244,000, or 9.44%; and the liability for post employment healthcare benefits payable increased \$65,000, or 17.02% in the sixth year after establishing this liability.
- The unassigned fund balance of the General Fund represents the net current financial resources available for general appropriation by the Board and totals \$13,371,055 at June 30, 2013, or 6.27% of total General Fund expenditures as compared to 2011-2012 unassigned fund balance of \$11,226,755.
- General Fund expenditures exceeded revenues by \$10,501,526.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements consist of three components:

1. Government-wide financial statements.
2. Fund financial statements.
3. Notes to the 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 and liabilities, using an economic resources measurement focus. The difference between the assets and liabilities, the net position, 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 non-financial 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, Inc., although also a legally separate entity, was formed to facilitate the financing for the acquisition of facilities and equipment for the District. Due to the substantive economic relationship between the School Board 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 entity-wide perspective contained in the government-wide statements. All of the District's funds may be classified within one of two broad categories:

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

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

The governmental funds balance sheet and the 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, the Special Revenue - Other Federal Programs Fund, and the American Recovery and Reinvestment Act (ARRA) Economic Stimulus Fund. Data from the other governmental funds are combined into a single, aggregated presentation.

The District adopts an annual appropriated budget for its governmental funds. A budgetary comparison statement has been provided for the General Fund, the Special Revenue - Other Federal Programs Fund, and the ARRA Economic Stimulus Fund to demonstrate compliance with the budget.

Fiduciary Funds: Fiduciary funds are used to report assets, such as student activity funds, held in a trustee or fiduciary capacity for the benefit of external parties. 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 an agency fund to account for resources held for student activities and groups and for resources held for Employees IRS Section 125 Cafeteria Plan.

Notes to Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. The following is a summary of the District's net position as of June 30, 2013, as compared to June 30, 2012:

Net Position, End of Year

	Governmental Activities		
	6/30/2013	6/30/2012	Increase (Decrease)
Current and Other Assets	\$ 74,634,982	\$ 78,237,926	\$ (3,602,944)
Capital Assets	211,267,399	219,281,880	(8,014,481)
Total Assets	285,902,381	297,519,806	(11,617,425)
Long-term Liabilities	88,906,263	94,858,414	(5,952,151)
Other Liabilities	3,754,482	4,283,585	(529,103)
Total Liabilities	92,660,745	99,141,999	(6,481,254)
Net Investment in Capital Assets	152,519,034	155,040,792	(2,521,758)
Restricted	17,039,515	20,827,925	(3,788,410)
Unrestricted	23,683,087	22,509,090	1,173,997
Total Net Position	\$ 193,241,636	\$ 198,377,807	\$ (5,136,171)

The largest portion of the District's net position (78.93%) reflects its investment in capital assets (e.g., land, improvements other than buildings; buildings and fixed equipment; furniture, fixtures and equipment; motor vehicles; construction in progress; and audio visual materials and computer software), less any

related debt still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending.

The restricted portion of the District's net position (8.82%) represents resources that are subject to external restrictions on how they may be used. The unrestricted net position (12.26%) may be used to meet the District's ongoing obligations to students, employees, and creditors.

The key elements of the changes in the District's net position for the fiscal year ended June 30, 2013, as compared to June 30, 2012, are as follows:

Operating Results for the Year

	Governmental Activities		
	6/30/2013	6/30/2012	Increase (Decrease)
Program Revenues:			
Charges for Services	\$ 6,808,767	\$ 6,655,794	\$ 152,973
Operating Grants and Contributions	6,837,230	6,546,245	290,985
Capital Grants and Contributions	1,894,732	1,881,732	13,000
General Revenues:			
Property Taxes Levied for Operational Purposes	84,762,934	90,133,898	(5,370,964)
Property Taxes Levied for Capital Projects	21,268,830	21,604,759	(335,929)
Grants and Contributions not Restricted to Specific Purposes	125,152,814	115,116,755	10,036,059
Unrestricted Investment Earnings	840,609	560,203	280,406
Miscellaneous	4,440,495	3,105,985	1,334,510
Total Revenues	252,006,411	245,605,371	6,401,040
Functions/Program Expenses:			
Instruction	153,356,825	147,333,050	6,023,775
Pupil Personnel Services	6,090,664	6,139,256	(48,592)
Instructional Media Services	1,147,670	1,037,203	110,467
Instruction and Curriculum Development Services	6,621,982	6,525,599	96,383
Instructional Staff Training	1,441,870	1,221,730	220,140
Instruction Related Technology	1,004,351	745,396	258,955
School Board	1,152,847	1,458,665	(305,818)
General Administration	782,693	934,098	(151,405)
School Administration	14,870,437	13,182,154	1,688,283
Facilities Acquisition and Construction	7,796,354	9,924,341	(2,127,987)
Fiscal Services	1,623,140	1,557,470	65,670
Food Services	10,873,021	10,140,124	732,897
Central Services	2,674,496	2,549,526	124,970
Pupil Transportation Services	10,864,889	10,726,783	138,106
Operation of Plant	14,462,712	16,036,768	(1,574,056)
Maintenance of Plant	7,115,519	6,720,917	394,602
Administrative Technology Services	2,567,561	2,596,798	(29,237)
Community Services	1,103,678	1,135,313	(31,635)
Interest on Long-term Debt	2,863,157	2,955,740	(92,583)
Unallocated Depreciation Expense	8,728,716	9,127,534	(398,818)
Total Functions/Program Expenses	257,142,582	252,048,465	5,094,117
Increase (Decrease) in Net Position	\$ (5,136,171)	\$ (6,443,094)	\$ 1,306,923

The largest revenue source is the State of Florida (42.81%). Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data, and is designed to maintain equity in funding across all Florida school districts, taking into consideration the District's funding ability based on the local property tax base.

Grants and contributions not restricted to specific programs represent 50.23% of total governmental revenues in the 2012-2013 fiscal year. Grants and contributions not restricted to specific programs increased by \$10,036,059, or 8.72%, due to an increase in Florida Education Finance Program, Class Size Reduction funds, Florida School Recognition funds and Federal Impact Aid funds as well as an increase in enrollment over 2011-2012.

Instructional expenses represent 60.31% of total governmental expenditures in the 2012-2013 fiscal year. Instructional expenditures increased by \$6,023,776, or 4.09% over the 2011-2012 level due to an increase in the number of teachers in order to comply with the Class Size Reduction mandate, the introduction of handheld devices and digital learning resources, as well as the increase in enrollment over 2011-2012.

Property tax revenues decreased by \$5,706,893, or 5.11%, as a result of a decrease in taxable assessed values of \$437 million and a 5.31% decrease in the total millage rate.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Major Governmental Funds

The General Fund is the chief operating fund of the District. At the end of the 2012-2013 fiscal year, the total fund balance was \$64,788,384, an increase of \$1,066,999 over the 2011-2012 fiscal year. Of the total fund balance, \$1,030,869 is nonspendable, \$13,371,055 is unassigned, \$38,291,427 has been assigned and \$12,095,033 has been restricted for state required carryover programs. Key factors affecting the operations of this fund were as follows:

- State revenues increased \$12,647,449 in the 2012-2013 fiscal year primarily due to a significant increase in enrollment in 2012-2013 which offset the continuing impact of a reduced local property tax base on funding received from the Florida Education Finance Program. The Florida Education Finance Program formula utilizes student enrollment and is designed to maintain equity in funding across all Florida school districts, taking into consideration the school districts' funding ability based on the local property tax base.
- Total expenditures increased by \$8,149,770 or 3.97%; instruction expenditures increased \$6,191,797 due to the District's commitment to comply with the State Constitutional Class Size Reduction Mandate; Instruction and Curriculum Development Services increased by \$560,237 as a result of preparing to implement principal and teacher evaluation system, end of course exams and common core standards. School Administration increased by \$1,723,097 due to many issues including the opening of the new STEM (Science|Technology|Engineering|Math|Medical) school; the hiring of new assistant principals at each high school to assist in implementing the initiative as mentioned above; the increase in fixed charges; the increase in retirement percentage rate; and the Board approved salary increase of 3%. The increases were partially offset by a decrease in Operation of Plant of \$1,594,003. The decrease is primarily due to the School Board's efficiencies in implementing energy management control systems and retro fitting lighting resulting in decreased utility costs throughout the District.

The Special Revenue - Other Federal Programs Fund accounts for the financial resources of certain Federal grant programs. Revenues and expenditures totaled \$13,791,130 during the 2012-2013 fiscal year, which was an 8.62% decrease from the 2011-2012 fiscal year.

The ARRA Federal Economic Stimulus Fund was established during the 2008-2009 fiscal year to account for certain Federal grant program resources related to the American Recovery and Reinvestment Act. Revenues and Expenditures totaled \$579,036 during the 2012-2013 fiscal year which is a reduction when compared to the prior year revenues and expenditures which totaled \$857,583, primarily attributable to fully exhausting the Education Jobs Funds in 2011-2012 and the Race To The Top fund in 2012-2013.

GENERAL FUND BUDGET 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 course of the 2012-2013 fiscal year, the District amended its General Fund budget several times, which resulted in an increase in total budgeted revenues amounting to \$2,675,237, or 1.35%. At the same time, final budgeted appropriations were more than originally budgeted by \$1,058,537, or .46%. Final budgeted ending fund balance was \$2,000,639, or 4.89% more than the original budgeted fund balance.

Actual revenues are .84% greater than the final budgeted amounts while actual expenditures were \$20,352,814, or 8.71% less than final budgeted amounts. The actual ending fund balance exceeded the estimated fund balance contained in the final amended budget by \$21,913,787, whereas the actual fund balance increased by \$1,066,999 or 1.67%.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets for its governmental activities as of June 30, 2013, amounts to \$211,267,399 (net of accumulated depreciation). The investment in capital assets includes land; improvements other than buildings; buildings and fixed equipment; furniture, fixtures and equipment; motor vehicles; construction in progress; and audio visual material and computer software.

As a result of the decline in property tax values, the elimination of state PECO funding, and the shifting of 0.50 mills from capital outlay to General Fund, the District was unable to provide funding for any major construction projects.

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

Debt Administration-

At June 30, 2013, the District had total long-term debt outstanding of \$59,896,000. This amount was comprised of \$6,320,000 of bonds payable and \$53,576,000 of certificates of participation payable. During the 2012-2013 fiscal year, retirement of debt amounted to \$6,244,000.

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

OTHER MATTERS OF SIGNIFICANCE

The School Board of Okaloosa County remains in a stable financial condition, however it continues to face uncertain economic times. The District's current operations depend on State revenue sources, primarily Florida Education Finance Program (FEFP) moneys administered by the Florida Department of Education (Department) 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 and related data to the Department. The District has experienced a moderate increase in FTE for fiscal year 2012-2013 and anticipates another increase in fiscal year 2013-2014.

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 to 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 School Board of Okaloosa County Continues to prepare for the Florida Department of Education's new initiatives which include the following:

- Common Core State Standards. These standards are to be fully implemented by the 2014-2015 school year and provide clear educational standards, while allowing local districts and schools the flexibility needed to deliver quality instruction in the classroom. The standards are designed to ensure all students, regardless of demography, who graduate high school, are prepared to enter college or the workforce. The standards are internationally benchmarked and provide our students with an edge in the global jobs market by ensuring mastery of knowledge and skills needed to perform today's high-skill, high-wage occupations.
- Principal and Teacher Performance Evaluation System. Pursuant to section 1012.34, Florida Statutes, the purpose of district evaluation systems is to increase student learning growth by improving the quality of instructional, administrative, and supervisory services in public schools of the state.
- Florida End-of-Course (EOC) Assessments. The Florida EOC assessments are part of Florida's Next Generation Strategic Plan for the purpose of increasing the student achievement and improving college and career readiness. EOC assessments are computer-based, criterion-referenced assessments that measure the Next Generation Sunshine State Standards for specific courses.

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., Ft. Walton Beach, Florida, 32548 or telephone 850-833-5840.

Basic Financial Statements

Okaloosa County District School Board

Statement of Net Position

June 30,

2013

	Primary Governmental Activities	Component Units
Assets		
Cash and cash equivalents	\$ 67,077,102	\$ 577,559
Investments	1,565,962	44,465
Accounts receivable	1,393,875	38,446
Interest receivable	5,079	-
Due from other agencies	3,205,996	34,679
Inventory	239,994	-
Prepaid items	306,000	143,642
Deposits	447,800	45,000
Cash with fiscal agent	393,174	-
Capital assets, net	211,267,399	954,182
Total assets	\$ 285,902,381	\$ 1,837,973
Liabilities and Net Position		
Salaries and wages payable	\$ 2,445,659	\$ 113,879
Accounts payable and accrued expenses	858,649	14,869
Construction contracts payable	325,591	-
Construction contracts retainage payable	31,622	-
Deposits payable	2,000	-
Unearned revenues	90,961	4,938
Due to other agencies	-	16,436
Long-term liabilities:		
Portion due within one year	11,862,442	-
Portion due after one year	77,043,821	-
Total liabilities	92,660,745	150,122
Net position		
Net investment in capital assets	152,519,034	943,555
Restricted for:		
State categorical programs	12,095,033	-
Capital projects	3,586,907	-
Debt service	118,557	-
Other projects	1,239,018	84,006
Unrestricted	23,683,087	660,290
Total net position	193,241,636	1,687,851
Total liabilities and net position	\$ 285,902,381	\$ 1,837,973

See accompanying notes to financial statements.

Functions/Programs	Expenses	Charges for Services	Program Revenue Operating Grants and Contributions
Primary government			
Governmental Activities			
Instruction	\$ 153,356,826	\$ 2,207,369	\$ -
Pupil personnel services	6,090,663	-	-
Instructional media services	1,147,670	-	-
Instruction and curriculum development	6,621,982	-	-
Instructional staff training	1,441,871	-	-
Instruction related technology	1,004,350	-	-
School board	1,152,847	-	-
General administration	782,693	-	-
School administration	14,870,437	-	-
Facilities acquisition and construction	7,796,354	-	-
Fiscal services	1,623,140	-	-
Food services	10,873,021	4,173,712	6,837,230
Central services	2,674,496	-	-
Pupil transportation services	10,864,889	427,686	-
Operation of plant	14,462,712	-	-
Maintenance of plant	7,115,519	-	-
Administrative technology services	2,567,561	-	-
Community services	1,103,678	-	-
Interest on long-term debt	2,863,157	-	-
Unallocated depreciation/amortization expense	8,728,716	-	-
Total governmental activities	\$ 257,142,582	\$ 6,808,767	\$ 6,837,230
Component Units			
Charter schools/Foundation	\$ 8,227,366	\$ 307,274	\$ 853,731

General revenues:

Taxes:

Property taxes, levied for general purposes

Property taxes, levied for capital projects

Grants and contributions not restricted to specific programs

Investment earnings

Miscellaneous

Special items

Total general revenues and special items

Change in net position

Net position - beginning

Net position - ending

See accompanying notes to financial statements.

Okaloosa County District School Board

Statement of Activities

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Capital Grants and Contributions	Governmental Activities	Component Units	
\$	-	\$ (151,149,457)	\$ -
	-	(6,090,663)	-
	-	(1,147,670)	-
	-	(6,621,982)	-
	-	(1,441,871)	-
	-	(1,004,350)	-
	-	(1,152,847)	-
	-	(782,693)	-
	-	(14,870,437)	-
728,251		(7,068,103)	-
	-	(1,623,140)	-
	-	137,921	-
	-	(2,674,496)	-
	-	(10,437,203)	-
	-	(14,462,712)	-
	-	(7,115,519)	-
	-	(2,567,561)	-
	-	(1,103,678)	-
1,166,481		(1,696,676)	-
	-	(8,728,716)	-
\$ 1,894,732		(241,601,853)	-

\$ 70,887 - (6,995,474)

84,762,934	-
21,268,830	-
125,152,814	6,845,777
840,609	111
4,440,495	67,682
-	(1,510)
236,465,682	6,912,060
(5,136,171)	(83,414)
198,377,807	1,771,265
\$ 193,241,636	\$ 1,687,851

See accompanying notes to financial statements.

Okaloosa County District School Board

Balance Sheet - Governmental Funds

June 30,

2013

	General Fund	Special Revenue - Other Federal Programs	ARRA Economic Stimulus Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 62,253,665	\$ -	\$ -	\$ 4,823,437	\$ 67,077,102
Investments	611,611	-	-	954,351	1,565,962
Accounts receivable, net	1,333,569	-	-	60,306	1,393,875
Interest receivable	-	-	-	5,079	5,079
Due from other agencies	1,151,954	1,626,774	204,545	222,723	3,205,996
Due from other funds	1,786,103	-	-	-	1,786,103
Inventory	113,258	-	-	126,736	239,994
Prepaid expenditures	306,000	-	-	-	306,000
Deposits	447,800	-	-	-	447,800
Cash with fiscal agent	-	-	-	393,174	393,174
Total assets	\$ 68,003,960	\$ 1,626,774	\$ 204,545	\$ 6,585,806	\$ 76,421,085
Liabilities and fund balances					
Liabilities:					
Salaries, benefits and payroll taxes payable	\$ 2,445,659	\$ -	\$ -	\$ -	\$ 2,445,659
Accounts payable	678,956	72,771	-	106,922	858,649
Construction contracts payable	-	-	-	325,591	325,591
Construction contracts - retainage payable	-	-	-	31,622	31,622
Deposits payable	-	-	-	2,000	2,000
Due to other funds	-	1,554,003	204,545	27,555	1,786,103
Unearned revenues	90,961	-	-	-	90,961
Total liabilities	3,215,576	1,626,774	204,545	493,690	5,540,585
Fund balances:					
Nonspendable:					
Inventory	113,258	-	-	126,736	239,994
Prepaid expenditures	306,000	-	-	-	306,000
Fund B investments	611,611	-	-	847,382	1,458,993
Restricted for:					
State required carryover programs	12,095,033	-	-	-	12,095,033
Debt service funds	-	-	-	117,294	117,294
Capital projects	-	-	-	3,888,422	3,888,422
School food service	-	-	-	1,112,282	1,112,282
Assigned for:					
Noncategorical project carryover	22,618,042	-	-	-	22,618,042
School/department carryover	7,511,685	-	-	-	7,511,685
Insurance claims	3,835,000	-	-	-	3,835,000
Self-insurance	3,814,376	-	-	-	3,814,376
Retirement	512,324	-	-	-	512,324
Unassigned	13,371,055	-	-	-	13,371,055
Total fund balances	64,788,384	-	-	6,092,116	70,880,500
Total liabilities and fund balances	\$ 68,003,960	\$ 1,626,774	\$ 204,545	\$ 6,585,806	\$ 76,421,085

See accompanying notes to financial statements.

Okaloosa County District School Board

Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Position

<u>June 30,</u>	<u>2013</u>
Total fund balances, governmental funds	\$ 70,880,500
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.	211,267,399
Long term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(88,906,263)
<u>Total net position - governmental activities</u>	<u>\$ 193,241,636</u>

See accompanying notes to financial statements.

Okaloosa County District School Board

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

Year ended June 30,

2013

	General Fund	Special Revenue - Other Federal Programs	ARRA Economic Stimulus Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Intergovernmental:					
Federal direct	\$ 4,402,206	\$ 1,124,932	\$ -	\$ -	\$ 5,527,138
Federal through state	592,408	12,666,198	579,036	6,722,114	20,559,756
State sources	105,804,378	-	-	1,993,505	107,797,883
Local sources	92,021,803	-	-	25,896,734	117,918,537
Total revenues	202,820,795	13,791,130	579,036	34,612,353	251,803,314
Expenditures					
Current:					
Instruction	143,345,527	9,874,158	186,795	-	153,406,480
Pupil personnel services	5,679,833	403,354	-	-	6,083,187
Instructional media services	1,121,474	24,820	-	-	1,146,294
Instructional and curriculum development	3,983,365	2,508,187	122,185	-	6,613,737
Instructional staff training	916,228	370,793	153,762	-	1,440,783
Instruction related technology	899,250	-	104,653	-	1,003,903
School board	1,152,335	-	-	-	1,152,335
General administration	314,025	457,576	10,708	-	782,309
School administration	14,848,174	1,816	-	-	14,849,990
Facilities acquisition and construction	395,974	-	-	6,800,213	7,196,187
Fiscal services	1,620,889	-	-	-	1,620,889
Food services	54,515	-	-	10,815,426	10,869,941
Central services	2,635,687	-	-	-	2,635,687
Pupil transportation services	10,820,590	2,172	933	-	10,823,695
Operation of plant	14,454,843	-	-	-	14,454,843
Maintenance of plant	7,067,810	-	-	-	7,067,810
Administrative technology services	2,566,339	-	-	-	2,566,339
Community services	1,102,667	-	-	-	1,102,667
Fixed capital outlay:					
Facilities acquisition and construction	13,820	-	-	501,776	515,596
Other capital outlay	328,976	148,254	-	127,053	604,283
Debt Service:					
Retirement of principal	-	-	-	6,475,000	6,475,000
Interest and fiscal charges	-	-	-	2,753,893	2,753,893
Dues, fees, and issuance costs	-	-	-	109,264	109,264
Total expenditures	213,322,321	13,791,130	579,036	27,582,625	255,275,112
Excess (deficiency) of revenues over expenditures	(10,501,526)	-	-	7,029,728	(3,471,798)
Other financing sources (uses)					
Certificates of participation issued	-	-	-	8,081,000	8,081,000
Payments to refunding escrow agent	-	-	-	(7,850,000)	(7,850,000)
Loss recoveries	166,957	-	-	-	166,957
Transfers in	11,525,208	-	-	16,656,682	28,181,890
Transfers out	(123,640)	-	-	(28,058,250)	(28,181,890)
Total other financing sources and (uses)	11,568,525	-	-	(11,170,568)	397,957
Net change in fund balances	1,066,999	-	-	(4,140,840)	(3,073,841)
Fund balances, July 1, 2012	63,721,385	-	-	10,232,956	73,954,341
Fund balances, June 30, 2013	\$ 64,788,384	\$ -	\$ -	\$ 6,092,116	\$ 70,880,500

See accompanying notes to financial statements.

Okaloosa County District School Board

Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities

<i>Year ended June 30,</i>	2013
Net change in fund balances - total governmental funds:	\$ (3,073,841)
Amounts reported for Governmental Activities in the Statement of Activities are different because:	
Capital outlays are reported in governmental funds as an expenditure. 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 by which depreciation expense exceeds capital outlay in the current period.	(8,050,623)
The net effect of miscellaneous transactions involving capital assets (i.e., donations and disposals) is to decrease capital assets.	36,142
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of principal on notes, bonds, and certificates of participation are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. This is the amount by which the debt repayments exceeded the proceeds in the current period.	6,244,000
In the Statement of Activities, certain operating expenses - compensated absences and special termination benefits - are measured by the amounts earned during the year. However, expenditures for these items are measured by the amount of financial resources used (essentially, the amount paid). This is the amount which accrued special termination benefits decreased.	(190,849)
In the Statement of Activities, other post employment benefit (OPEB) obligations are reported as a liability per governmental accounting standards which requires that the cost of OPEB be recognized sooner (as promised benefits are being earned) rather than later (when promised benefits are actually paid). This is the amount which other post employment benefits decreased.	(65,000)
In the Statement of Activities, certain operating expenses - insurance claims - include additional amounts for increases in long-term insurance claims liabilities. However, expenditures for these items are measured by the amount of financial resources used (essentially, the amount paid). This is the amount which estimated insurance claims liability decreased.	(36,000)
Change in net position of governmental activities	\$ (5,136,171)

See accompanying notes to financial statements.

Okaloosa County District School Board
Statement of Fiduciary Assets and Liabilities

<i>June 30,</i>	2013
	Agency Funds
Assets	
Cash and cash equivalents	\$ 4,236,852
Other receivables	282,936
Total assets	\$ 4,519,788
Liabilities	
Accounts payable	\$ 111,706
Internal accounts payable	4,408,082
Total liabilities	\$ 4,519,788

See accompanying notes to financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

- Blended Component Units. The Okaloosa School Board Leasing Corporation was formed to facilitate financing for the acquisition of facilities and equipment as further discussed in Note 5. Due to the substantive economic relationship between the Okaloosa County District School Board 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 column in the basic financial statements includes the aggregate financial data of the District's other component units as follows:

The Okaloosa Public Schools Foundation, Inc., is a separate not-for-profit corporation organized and operated as direct-support organization under Section 1001.453, Florida Statutes, to receive, hold, invest, and administer property and to make expenditures to or for the benefit of the District. Because of the nature and significance of its relationship with the District, the Foundation is considered to be a component unit. An audit of the Okaloosa Public Schools Foundation, Inc. for the fiscal year ended June 30, 2013, was conducted, and the audit report is on file at the District's administrative office.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Charter schools are separate not-for-profit corporations organized pursuant to Chapter 617, Florida Statutes, the Florida Not-For-Profit Corporation Act. 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 District entered into a charter with the following schools pursuant to Section 1002.33, Florida Statutes:

- The Okaloosa Academy, Inc. 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. An audit of the Charter School for the fiscal year ended June 30, 2013, was conducted and is on file at the District’s administrative office.
- The Liza Jackson Preparatory School, Inc. 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. An audit of the Charter School for the fiscal year ended June 30, 2013, was conducted and is on file at the District’s administrative office.

Basis of Presentation

Government-wide Financial Statements – Government-wide financial statements, including the statement of net position and statement of activities, present information about the District as a whole. These statements include the nonfiduciary financial activity of the primary government and its component units.

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

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

The effects of interfund activity, as well as the transactions associated with internal service funds, have been eliminated from the government-wide financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The District reports the following major governmental funds:

- General Fund – to account for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.
- Special Revenue – Other Federal Programs Fund – to account for certain Federal grant program resources.
- Special Revenue – Federal Economic Stimulus Fund – to account for certain Federal grant program resources related to the American Recovery and Reinvestment Act (ARRA) and other Federal stimulus programs.

Additionally, the District reports the following fund type:

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

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

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

Governmental fund financial statements are prepared using the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers revenues to be available if they are collected within 30 days of the end of the

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

fiscal year. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made. Under the modified accrual basis of accounting, expenditures are generally recognized when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, postemployment healthcare benefits, and compensated absences, which are recognized when due. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Fiduciary Funds are used to account for assets held in trustee or agency capacity for others and therefore cannot be used to support the District's basic programs. The District utilizes agency funds to account for individual schools' internal funds, which are used to administer moneys collected at the schools in connection with school, student athletic, class, and club activities.

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

The Okaloosa Public Schools Foundation, Inc., shown as a discretely presented component unit, 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.

New Pronouncements

In November 2010, the GASB issued Statement 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*. GASB 61 provides additional criteria for classifying entities as component units to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financial accountable or that are determined by the government to be misleading to exclude. This statement is effective for periods beginning after June 15, 2012. The District has implemented this statement for fiscal year 2013.

In June 2011, the GASB issued Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in the statement of financial position and related disclosures. The statement of net assets is renamed the statement of net position and includes four components: assets, deferred outflows of resources, liabilities and deferred inflows of resources. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. The District has implemented this statement for fiscal year 2013. The adoption of GASB 63 did not have any significant impact on the District's financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)***New Pronouncements (Continued)***

In March 2012, the GASB issued Statement 65, *Items Previously Reporting as Assets and Liabilities*. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows or resources, certain items that were previously reporting as assets and liabilities and recognizes, as outflows or resources or inflows or resources, certain items that were previously reported as assets and liabilities. This Statement is effective for periods beginning after December 15, 2012. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

Deposits and Investments

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

Cash deposits are held by banks qualified as public depositories under Florida law or through the Federally Insured Cash Account (FICA) 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.

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

The District's investments in Florida PRIME, which the State Board of Administration indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, as of June 30, 2013, 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 Fund B Surplus Funds Trust Fund are accounted for as a fluctuating net asset value pool, with a fair value factor of 1.11845939 at June 30, 2013. Fund B is not subject to participant withdrawal requests. Distributions from Fund B, as determined by the State Board of Administration, are effected by transferring eligible cash or securities to Florida PRIME, consistent with the pro rata allocation of pool shareholders of record at the creation of Fund B. One hundred percent of such distributions from Fund B are available as a liquid balance within Florida PRIME.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The District’s investments in the Florida Education Investment Trust Fund (FEITF), which the FEITF indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, as of June 30, 2013, 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 and are reported at fair value. Types and amounts of investments held at fiscal year-end are described in a subsequent note on investments.

Inventories

Inventories consist of expendable supplies held for consumption in the course of District operations. Inventories, except for 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 when purchased, a fund balance reserve is established at fiscal year-end to indicate that inventories do not constitute available expendable resources even though inventories are a component of current assets.

Capital Assets

Expenditures for capital assets acquired or constructed for general District purposes are reported in the governmental fund that financed the acquisition or construction. The capital assets so acquired are reported at cost in the government-wide statement of net assets but are not reported in the governmental fund financial statements. Capital assets are defined by the District as those costing more than \$1,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at fair value at the date of donation. Interest costs incurred during construction of capital assets are not considered material and are not capitalized as part of the costs of construction.

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

Description	Estimated Lives
Improvements other than buildings	8 - 40 years
Buildings and fixed equipment	10 - 50 years
Furniture, fixtures and equipment	3 - 15 years
Motor vehicles	5 - 10 years
Audio-visual materials and computer software	3 - 5 years

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long-Term Liabilities

Long-term obligations that will be financed from resources to be received in the future by governmental fund types are reported as liabilities in the government-wide Statement of Net Position. Bond premiums, discounts, and issuance costs, are deferred and amortized over the life of the related debt.

In the governmental fund financial statements, bonds and other long-term obligations are not recognized as liabilities until due and payable. Governmental fund types recognize debt premiums and discounts, and debt issuance costs, during the current period. The face amount of debt issued and premiums on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

In the government-wide financial statements, compensated absences (i.e., paid absences for employee vacation leave and sick leave) are recorded as liabilities to the extent that it is probable that the benefits will result in termination payments. A liability for these amounts is reported in the governmental fund financial statements to the extent that the amounts are due and payable.

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

Federal Revenue Sources

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

State Revenue Sources

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The State provides financial assistance to administer certain categorical educational programs. Florida Department of Education rules require that revenue earmarked for certain programs be expended only for the program for which the money is provided and require that money not expended as of the close of the fiscal year be carried forward into the following year to be expended for the same categorical educational programs. The Department generally requires that categorical educational program revenues be accounted for in the General Fund. A portion of the fund balance of the General Fund is restricted for the unencumbered balance of categorical educational program resources.

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

District Property Taxes

The Board is authorized by State law to levy property taxes for District school operations, capital improvements, and debt service. Property taxes consist of ad valorem taxes on real and personal property within the District. Property values are determined by the Okaloosa County Property Appraiser, and property taxes are collected by the Okaloosa County Tax Collector.

The School Board adopted the 2012 tax levy on September 12, 2012. 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 four percent for early payment.

Taxes become an enforceable lien on property as of 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 funds 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. Because any delinquent taxes collected after June 30 would not be significant, delinquent taxes receivable are not accrued and no delinquent tax revenue deferral is recorded.

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

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 and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Okaloosa County District School Board

Notes to Financial Statements

NOTE 2 – BUDGETARY COMPLIANCE AND ACCOUNTABILITY

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

- Budgets are prepared, public hearings are held, and original budgets are adopted annually for all governmental fund types in accordance with procedures and time intervals prescribed by law and Florida Department of Education rules.
- Appropriations are controlled at the object level (e.g., salaries, purchased services, and capital outlay) within each activity (e.g., instruction, pupil personnel services, and school administration) and may be amended by resolution at any Board meeting prior to the due date for the annual financial report.
- 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 year's appropriations. However certain state categorical funds and other designated projects carry forward.

The reported budgetary data represents the final appropriated budget after amendments and adoption by the School Board.

NOTE 3 – INVESTMENTS

As of June 30, 2013, the District had the following investments and maturities:

Investment	Maturities	Fair Value
State Board of Administration:		
Florida PRIME (1)(3)	40 Day Average	\$ 2,614,202
Fund B (2)(3)	3.98 Year Avg	1,458,995
Debt Service Accounts	6 Months	106,969
FEITF (1)	44 Day Average	2,501,021
Total investments, primary government		\$ 6,681,187

Notes:

- 1) Investments reported as cash equivalents in the accompanying financial statements.
- 2) Fund B Surplus Funds Trust Funds currently has a fair market value above cost and is therefore, reported at the higher fair market value.

NOTE 3 – INVESTMENTS (CONTINUED)

- 3) Pursuant to the trust agreements, the trustee for the District's Certificates of Participation, Series 2003, 2006, 2007, and 2012 holds all or part of these investments in trust accounts as follows: Florida PRIME \$393,174 and Fund B \$847,382. The Florida PRIME funds are reported at full value as Cash Equivalents with Fiscal Agent and the Fund B portion is reported as an investment at fair market value.

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 State Board of Administration Florida PRIME, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperative 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; investments in interest-bearing time deposits or savings accounts 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 State Board of Administration Debt Service accounts are to provide for debt service payments on bond debt issued by the State Board of Education for the benefit of the District. The District relies on policies developed by the State Board of Administration for managing interest rate risk and credit risk for this account.
- As of June 30, 2013, the District's investment in Florida PRIME is rated AAAM by Standard & Poor's. Fund B is unrated. The District's investment in the FEITF is rated AAAM by Standard & Poor's.

Custodial Credit Risk

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

NOTE 3 – INVESTMENTS (CONTINUED)

Interest Rate Risk

- Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Section 218.415(17), Florida Statutes, limits investment maturities to provide sufficient liquidity to pay obligations as they come due. The District's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses from increasing interest rates.
- Florida PRIME had a weighted average days to maturity (WAM) of 40 days at June 30, 2013. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the portfolio to interest rate changes.
- Due to the nature of securities in Fund B, the interest rate risk information required by GASB Statement No. 40 (i.e., specific identification, duration, weighted average maturity, segmented time distribution, or simulation model) is not available. An estimate of the weighted average life (WAL) is available. In the calculation of the WAL, the time at which an expected principal amount is to be received, measured in years is weighted by the principal amount received at that time divided by the sum of all expected principal payments. The principal amounts used in the WAL calculation are not discounted to present value as they would be in a weighted average duration calculation. At June 30, 2013, based on expected future cash flows, the WAL of Fund B is estimated at 3.98 years. However, because Fund B consists of restructured or defaulted securities, there is a considerable uncertainty regarding the WAL. Participation in Fund B is involuntary.
- The FEIFT (Florida Education Investment Trust Fund) is designed to maintain a \$1 per share net asset value and provide immediate liquidity to meet cash flow needs and has a WAM of 44 days at June 30, 2013.

Okaloosa County District School Board

Notes to Financial Statements

NOTE 4 – CHANGES IN CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2013 are shown below:

	Balance 7/1/2012	Additions	Deletions	Balance 6/30/2013
Governmental Activities				
<i>Capital assets not being depreciated:</i>				
Land	\$ 11,751,821	\$ 46,337	\$ -	\$ 11,798,158
Construction in progress	46,014	291,071	-	337,085
Total capital assets not being depreciated	11,797,835	337,408	-	12,135,243
<i>Capital assets being depreciated:</i>				
Improvements other than buildings	14,201,070	102,586	-	14,303,656
Buildings and fixed equipment	293,987,487	264,911	-	294,252,398
Furniture, fixtures and equipment	25,093,555	431,653	(2,122,309)	23,402,899
Motor vehicles	15,099,743	-	(150,315)	14,949,428
Audio-visual materials and computer software	3,188,652	19,460	(341,580)	2,866,532
Total capital assets being depreciated	351,570,507	818,610	(2,614,204)	349,774,913
<i>Less accumulated depreciation for:</i>				
Improvements other than buildings	11,757,383	488,943	-	12,246,326
Buildings and fixed equipment	98,292,345	6,207,500	-	104,499,845
Furniture, fixtures and equipment	18,582,247	1,743,291	(2,122,309)	18,203,229
Motor vehicles	12,502,589	615,162	(150,315)	12,967,436
Audio-visual materials and computer software	2,951,898	115,603	(341,580)	2,725,921
Total accumulated depreciation	144,086,462	9,170,499	(2,614,204)	150,642,757
Total capital assets being depreciated, net	207,484,045	(8,351,889)	-	199,132,156
Governmental activities - capital assets, net	\$ 219,281,880	\$ (8,014,481)	\$ -	\$ 211,267,399

Depreciation expense was charged to functions as follows:

Function	Amount
Instruction	\$ 369,869
Pupil transportation services	30,084
Maintenance of plant	41,830
Unallocated	8,728,716
	\$ 9,170,499

NOTE 5 – 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 School Board Leasing Corporation (the 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 \$8,081,000 in a 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 ground leases on District property to the Okaloosa School Board Leasing Corporation. The ground lease associated with the 2012 Certificate, which refunded Series 2003 Certificates, which refunded the 1992 Certificates, is a term certificate that ends on the earlier of the date on which the 2012 Certificate 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 of 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 lease terms.

NOTE 5 – CERTIFICATES OF PARTICIPATION (CONTINUED)

The District properties included in the ground leases under these arrangements include:

Series 2006

- Richbourg Middle School
- Riverside Elementary School – Portion of Land, Building, and Site work

Series 2007

- Choctawhatchee High School – Chiller Piping Replacement
- Northwood Elementary – School Renovation and Expansion
- Richbourg Middle School – Reconfiguration
- Shoal River Middle School – Portion of Land, Building, Site work
- Land Purchases – New School Sites

Series 2012 (Refunding Series 2003 and Series 1992)

- Baker School – ESE Suites
- Bluewater Elementary School
- Bob Sikes Elementary School
- Choctawhatchee High School – Additions
- Choctawhatchee High School – CHOICE renovations, addition and equipment
- Crestview High School – Additions
- Crestview High School – CHOICE renovations, addition, equipment and classroom construction/renovation
- Fort Walton Beach High School – Additions
- Lewis Middle School – New band room and ESE Suites
- Niceville High School – Additions
- Niceville High School – CHOICE renovations, addition and equipment
- Okaloosa Applied Technology Center – CHOICE classroom and school entrance construction and renovation
- Richbourg Middle School – ESE Suites
- Silver Sands School – ESE Classroom
- Walker Elementary School

The lease payments are payable by the District, semiannually, on January 1 and July 1 at an interest rate ranging from 3.60% to 4.00% for Certificates of Participation, Series 2006; interest rates ranging from 4.00% to 4.25% for Certificates of Participation, Series 2007; and at an interest rate of 1.33% for the Certificate of Participation, Series 2012.

Okaloosa County District School Board

Notes to Financial Statements

NOTE 5 – CERTIFICATES OF PARTICIPATION PAYABLE (CONTINUED)

The following is a schedule by years of future minimum lease payments under the lease agreement together with the present value of minimum lease payments as of June 30:

Certificates of Participation - 2006

Fiscal Year Ending June 30,	Principal	Interest	Total
2014	\$ 2,005,000	\$ 706,205	\$ 2,711,205
2015	2,080,000	634,025	2,714,025
2016	2,155,000	558,625	2,713,625
2017	2,235,000	477,813	2,712,813
2018	2,320,000	394,000	2,714,000
2019-2021	7,530,000	610,400	8,140,400
Subtotal	18,325,000	3,381,068	21,706,068

Certificates of Participation - 2007

Fiscal Year Ending June 30,	Principal	Interest	Total
2014	2,575,000	1,114,015	3,689,015
2015	2,675,000	1,011,015	3,686,015
2016	2,785,000	904,015	3,689,015
2017	2,895,000	792,615	3,687,615
2018	3,010,000	676,815	3,686,815
2019-2022	13,320,000	1,426,783	14,746,783
Subtotal	27,260,000	5,925,258	33,185,258

Certificates of Participation - 2012

Fiscal Year Ending June 30,	Principal	Interest	Total
2014	1,288,000	106,280	1,394,280
2015	1,305,000	89,150	1,394,150
2016	1,324,000	71,793	1,395,793
2017	1,341,000	54,184	1,395,184
2018	1,359,000	36,349	1,395,349
2019	1,374,000	18,274	1,392,274
Subtotal	7,991,000	376,030	8,367,030
Total	\$ 53,576,000	\$ 9,682,356	\$ 63,258,356

NOTE 6 – BONDS PAYABLE

Outstanding bonds payable at June 30, 2013 are as follows:

Bond Type	Interest Rates (Percent)	Annual Maturity To	Amount Outstanding
State School Bonds:			
Series 2005-A	5.000	2016	\$ 2,155,000
Series 2005-B, Refunding	5.000	2018	345,000
Series 2008-A	3.250 - 5.000	2028	770,000
Series 2009-A, Refunding	2.000 - 5.000	2019	195,000
Series 2010-A	3.000 - 5.000	2030	155,000
District Revenue Bonds:			
Series 2011	2.000 - 5.500	2040	2,700,000
Total bonds payable			\$ 6,320,000

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

State School Bonds

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

District Revenue Bonds

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

Okaloosa County District School Board

Notes to Financial Statements

NOTE 6 – BONDS PAYABLE (CONTINUED)

The District has pledged a combined total of \$2,700,000 of sales tax revenues in connection with the 2011 District Revenue Bonds, described above. During the 2012-13 fiscal year, the District recognized sales tax revenues totaling \$190,750 and expended \$187,645 (98%) 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% of this revenue stream has been pledged in connection with debt service on the revenue bonds.

Amounts payable for the planned extended repayment of bonds payable at June 30, 2013 are as follows:

Year Ending June 30,	Total	Principal	Interest
State School Bonds:			
2014	\$ 988,800	\$ 810,000	\$ 178,800
2015	988,675	850,000	138,675
2016	991,175	895,000	96,175
2017	191,425	140,000	51,425
2018	189,425	145,000	44,425
2019-2023	486,775	335,000	151,775
2024-2028	491,425	425,000	66,425
2029-2030	21,200	20,000	1,200
Total State School Bonds	4,348,900	3,620,000	728,900
District Revenue Bonds:			
2014	186,545	55,000	131,545
2015	190,445	60,000	130,445
2016	189,095	60,000	129,095
2017	187,475	60,000	127,475
2018	185,675	60,000	125,675
2019-2023	936,775	345,000	591,775
2024-2028	939,738	435,000	504,738
2029-2033	940,925	555,000	385,925
2034-2038	939,175	720,000	219,175
2039-2040	379,150	350,000	29,150
Total District Revenue Bonds	5,074,998	2,700,000	2,374,998
Total	\$ 9,423,898	\$ 6,320,000	\$ 3,103,898

Okaloosa County District School Board

Notes to Financial Statements

NOTE 7 – CHANGES IN LONG-TERM LIABILITIES

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

Description	Balance 7/1/2012	Additions	Deductions	Balance 6/30/2013	Due in One Year
Bonds payable	\$ 7,150,000	\$ -	\$ (830,000)	\$ 6,320,000	\$ 865,000
Certificates of participation payable	58,990,000	8,081,000	(13,495,000)	53,576,000	5,868,000
Estimated insurance claims payable	3,799,000	1,799,529	(1,763,529)	3,835,000	2,496,000
Compensated absences payable	24,537,414	3,015,869	(2,825,020)	24,728,263	2,633,442
Other post employment benefits payable	382,000	981,000	(916,000)	447,000	-
Total	\$ 94,858,414	\$ 13,877,398	\$ (19,829,549)	\$ 88,906,263	\$ 11,862,442

For the governmental activities, estimated insurance claims, compensated absences and post-employment healthcare benefits are generally liquidated with resources of the General Fund.

NOTE 8 – DEFEASED DEBT

On December 20, 2012, the District issued \$8,081,000 in Certificate of Participation, Series 2012 with a term certificate interest rate of 1.33% and maturity of July 2019. The proceeds were used to refund a portion of the principal amount of the District's outstanding \$8,990,000 of the Series 2003 Certificates of Participation. \$8,003,971 of the net proceeds (after payment of \$77,029 in underwriter's fees and other issuance costs) were used to purchase State and Local Government Securities that were subscribed for on December 12, 2012. The net proceeds plus interest earned on funds and an additional \$159,050 District funds were required to meet the redemption price and interest of the refunded Series 2003 Certificates of Participation in June 2013.

As a result, \$7,850,000 of the Series 2003 is considered defeased and the liability for these certificates has been removed from long term debt. Accordingly the trust account assets and liability for the portion of the Series 2003 are not included in the District's financial statements.

As a result of the refunding, the District reduced its total debt service requirements by \$665,736 which resulted in an economic gain (difference between the present value of debt service payment of the old and the new debt) of \$635,113.

Okaloosa County District School Board

Notes to Financial Statements

NOTE 9 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

Funds	Interfund	
	Receivables	Payables
Major funds:		
General	\$ 1,786,103	\$ -
Special Revenue - Other Fund	-	1,554,003
Special Revenue - ARRA Fund	-	204,545
Nonmajor governmental funds	-	27,555
Total	\$ 1,786,103	\$ 1,786,103

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

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

Funds	Interfund	
	Transfers In	Transfers Out
Major funds:		
General (1)(2)(4)	\$ 11,525,208	\$ 123,640
Nonmajor governmental funds (1)(2)(3)(4)(5)(6)	16,656,682	28,058,250
Total	\$ 28,181,890	\$ 28,181,890

Notes:

- (1) Transfers made from the Nonmajor Governmental Funds to the General Fund were for maintenance and repair of school facilities and for the lease of computers for instructional purposes.
- (2) Transfers made from Other Capital Projects to General Fund to fund Charter School Capital Outlay
- (3) Transfers made from the Nonmajor Governmental Capital Funds to Nonmajor Governmental Debt Service Funds were made to fund the current debt service payment on Certificates of Participation.
- (4) Transfers made from the General Fund to Nonmajor Governmental Capital Funds were for the construction of tennis courts at Ruckel Middle School from donations received.
- (5) Transfers made from the Nonmajor Governmental Debt Service Funds to Nonmajor Governmental Debt Service Funds were made to refund the Certificate of Participation Series 2003 with the Certificate of Participation Series 2012.
- (6) Transfers made within the Nonmajor Governmental Capital Funds were based on the fiscal year 2011-2012 audit finding which disallowed bus purchases resulting in the restoration of the Local Capital Improvement Tax Construction Fund (2 Mil).

NOTE 10 – FUND BALANCE REPORTING

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

- **Nonspendable** - The net current financial resources that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. Generally, not in spendable form means that an item is not expected to be converted to cash.
- **Restricted** - The portion of fund balance on which constraints have been placed by creditors, grantors, contributors, laws or regulations of other governments, constitutional provisions, or enabling legislation. Restricted fund balance places the most binding level of constraint on the use of fund balance. The District classifies most of its fund balance, other than General Fund, as well as unspent State categorical and earmarked educational funding reported in the General Fund, which is legally or otherwise restricted, as restricted.
- **Committed** - The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the highest level of decision-making authority (i.e., the district school board). These amounts cannot be used for any other purpose unless the district school board removes or changes the specified use by taking the same action it employed to previously commit the amounts. The District did not have any committed fund balances at June 30, 2013.
- **Assigned** - The portion of fund balance that is intended to be used for specific purposes, but is neither restricted nor committed. Assigned amounts include those that have been set aside for a specific purpose by an authorized government body or official, but the constraint imposed does not satisfy the criteria to be classified as restricted or committed. This category includes any remaining positive amounts, for governmental funds other than the General Fund, not classified as nonspendable, restricted, or committed. The District also classifies amounts as assigned that are constrained to be used for specific purposes based on actions of the Board and not included in other categories.
- **Unassigned** - The portion of fund balance that is the residual classification for the General Fund. This balance represents amounts that have not been assigned to other funds and that have not been restricted, committed, or assigned for specific purposes. The District has a contingency reserve of \$2,567,000 established informally through the budget process that is included in the unassigned fund balance. The contingency reserve is intended to help sustain the financial stability of the District during times of emergency spending for items such as disaster recovery and revenue shortfalls that could potentially occur after the current year's budget adoption.

Okaloosa County District School Board

Notes to Financial Statements

NOTE 11 – SCHEDULE OF STATE REVENUE SOURCES

The following is a schedule of the District’s State revenue for the 2012-2013 fiscal year:

Sources	Amount
Florida education finance program	\$ 59,922,953
Categorical educational programs:	
Class size reduction	32,157,651
Transportation	5,696,536
Instructional materials	2,338,772
School recognition funds	2,344,974
Virtual education contribution	24,624
Voluntary prekindergarten	460,764
Workforce development	2,055,129
Department of juvenile justice supplemental	345,730
Motor vehicles license tax (General Fund, Capital Outlay and Debt Service)	1,104,072
Charter school capital outlay	599,911
Racing commission funds (Debt Service)	190,750
Food service supplement	106,624
Mobile home license tax	44,978
Miscellaneous	404,415
Total	\$ 107,797,883

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

NOTE 12 – PROPERTY TAXES

The following is a summary of millages and taxes levied on the 2012 tax roll for the 2012-2013 fiscal year:

	Millages	Taxes Levied
<u>General Fund</u>		
Nonvoted School Tax:		
Required local effort	5.218	\$ 76,228,442
Prior period funding adjustment	0.010	\$ 145,110
Basic discretionary local effort	0.748	10,928,102
<u>Capital Projects Funds</u>		
Nonvoted Tax:		
Local capital improvements	1.500	21,918,612
Total	7.476	\$ 109,220,266

NOTE 13 – STATE RETIREMENT PROGRAM

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

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

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

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

NOTE 13 – STATE RETIREMENT PROGRAM (CONTINUED)

FRS Retirement Contribution Rates

The Florida Legislature establishes, and may amend, contribution rates for each membership class of FRS. During the 2012-2013 fiscal year, contribution rates were as follows:

Class or Plan	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	3.00	5.18
Florida Retirement System, Elected County Officers	3.00	10.23
Deferred Retirement Option Program - Applicable to Members From All of the Above Classes or Plans	-	5.44
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes:

- (A) Employer rates include 1.11% for the post-employment health insurance supplement. The FRS investment Plan administration fee is 0.03%.
- (B) Contribution rates are dependent upon the retirement class in which reemployed.

The District's liability for participation in the Plan is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the District. The District's contributions, including employee contributions, for the fiscal years ended June 30, 2011, June 30, 2012, and June 30, 2013, totaled \$15,138,272, \$10,020,334, and \$10,877,078, respectively, which were equal to the required contributions for each fiscal year.

The financial statements and other required supplemental information of the FRS are included in the comprehensive annual financial report of the State of Florida which may be obtained by contacting the Florida Department of Financial Services. Also, an annual report on FRS, which includes its financial statements, required supplemental information, actuarial report, and other relevant information may be obtained from the Florida Department of Management Services, Division of Retirement.

NOTE 14 – POSTEMPLOYMENT HEALTHCARE BENEFITS

Plan Description

The Postemployment Healthcare 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, former employees who retire from the District, and eligible dependents, may continue to participate in the District's health and hospitalization plan for medical, and prescription drug coverage. The District subsidizes the premium rates paid by retirees by allowing them to participate in the plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the plan on average than those of active employees.

NOTE 14 – POSTEMPLOYMENT HEALTHCARE BENEFITS (CONTINUED)

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 rates paid by the retirees eligible for Medicare are reduced by the Medicare premium. The OPEB Plan does not issue a stand-alone report, and it 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 Other Postemployment Benefit (OPEB) costs or the net OPEB obligation, and the OPEB Plan is financed on a pay-as-you-go basis. As of July 2012, the most recent valuation date, there were 289 retirees receiving medical benefits, and 1,575 received life benefits. The District provided required contributions of \$916,000 toward the annual OPEB cost, comprised of premium payments made on behalf of retirees, net of retiree contributions totaling \$981,000, which represents 0.74% of covered payroll.

Funded Status and Funding Progress

As of July 1, 2012, the actuarial accrued liability for benefits was \$14,462,000 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$14,462,000. The covered payroll (annual payroll of active participating employees) was \$131,864,333 for the 2012-2013 fiscal year, and the ratio of unfunded actuarial accrued liability to the covered payroll was 10.97%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and termination, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The required schedule of funding progress immediately following the notes to financial statements presents multiyear trend information about whether the actuarial value of the Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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.

NOTE 14 – POSTEMPLOYMENT HEALTHCARE BENEFITS (CONTINUED)

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

Year ended June 30,	2013
Normal Cost (service cost for one year)	\$ 384,000
Amortization of Unfunded Actuarial Accrued Liability (UAAL)	552,000
Interest on Normal Cost and Amortization	42,000
Annual Required Contribution (ARC)	978,000
Interest on Net OPEB Obligation	17,000
Adjustment to Annual Required Contribution	(14,000)
Annual OPEB Cost (Expense)	981,000
Contributions made	(916,000)
Increase (decrease) in Net OPEB Obligation	65,000
Net OPEB Obligation, beginning of year	382,000
Net OPEB Obligation, end of year	\$ 447,000

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2013 and the previous two fiscal years were as follows:

Fiscal year Ending	Annual OPEB Cost	Amount Contributed	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2011	\$ 1,030,000	\$ 1,133,000	110.00%	\$ 203,000
6/30/2012	952,000	773,000	81.20%	382,000
6/30/2013	981,000	916,000	93.37%	447,000

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

The District's OPEB report incorporates provisions of the Patient Protection and Affordable Care Act recently signed into law. Starting in 2014, individuals who fail to maintain health coverage face financial penalties, and starting in 2018, a 40% 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, but no change in the participation assumption has been made at this time. The excise tax has been valued and is included in the actuarial accrued liability.

NOTE 14 – POSTEMPLOYMENT HEALTHCARE BENEFITS (CONTINUED)***Actuarial Method and Assumptions***

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

The District's OPEB actuarial valuation as of July 1, 2011 projected to July 1, 2012, used the projected unit credit actuarial method with amortization on a level percentage basis to estimate the unfunded and funded actuarial liability as of June 30, 2013 and to estimate the District's 2012-2013 fiscal year ARC. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4.5% discount rate. The actuarial assumptions also included a payroll growth rate of 3.5% per year, and an annual healthcare cost trend rate of 9.5% initially for the 2012-2013 fiscal year, reduced by 0.5% per year, to an ultimate rate of 5% after five years. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis.

NOTE 15 – CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS***Construction Contracts***

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

Project	Contract Amount	Completed to Date	Balance Committed
Classroom Renovations:			
Richbourg/Northwood Elementary School	\$ 1,085,853	\$ 844,301	\$ 241,552
HVAC:			
Niceville High School/Mary Esther Elementary School	1,059,560	473,155	586,405
Total	\$ 2,145,413	\$ 1,317,456	\$ 827,957

NOTE 15 – CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS (CONTINUED)

Encumbrances

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

The Florida Department of Education requires that fund balances be assigned or committed at fiscal year-end to report an amount likely to be expended from the 2013-2014 fiscal year budget as a result of purchase orders outstanding at June 30, 2013.

Because revenues of grants accounted for in the Special Revenues - ARRA Economic Stimulus Fund are not recognized until expenditures are incurred, these grant funds generally do not accumulate fund balances. Accordingly, no encumbered amounts are reported for grant funds.

The following is a schedule of encumbrances at June 30, 2013:

Major Fund General Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ 1,080,419	\$ 463,848	\$ 1,544,267

NOTE 16 – OPERATING LEASE COMMITMENTS

The District leases its computer hardware assets. The lease expires on December 31, 2013. Total expense under this operating lease for the fiscal year ended June 30, 2013 was \$5,982,656. The following is a schedule by year of future lease payments required under the operating lease:

Fiscal Year Ending June 30,	Amount
2014	\$ 3,182,504

NOTE 17 – LITIGATION

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

NOTE 18 – 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 for 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 insurance with varying deductibles, sub-limits, 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 cover losses exceeding specified limits up to certain policy maximums. Health, life and dental insurance coverage for District employees are also provided through commercially purchased insurance.

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

The District reports all of its risk management activities in the General Fund. At June 30, 2013, an actuarially determined liability discounted to a present value of \$3,835,000 (\$62,000 for the property program, undiscounted, and \$3,773,000 for the casualty program, discounted using a 4% rate of return) is reported as estimated insurance claims payable on the District's statement of net position. At June 30, 2013, \$3,835,000 of the District's fund balance was assigned to fund future insurance claims.

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

	Beginning-of-Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year End
2011 - 2012	\$ 3,774,000	\$ 1,817,966	\$ (1,792,966)	\$ 3,799,000
2012 - 2013	3,799,000	1,799,529	(1,763,529)	3,835,000

Required Supplementary Information
(Other Than MD&A)

Okaloosa County District School Board
Budgetary Comparison Schedule
General Fund

Year ended June 30,

2013

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental:				
Federal direct	\$ 3,755,677	\$ 3,749,050	\$ 4,402,206	\$ 653,156
Federal through state	449,142	592,408	592,408	-
State sources	106,576,197	105,804,378	105,804,378	-
Local sources	87,679,929	90,990,346	92,021,803	1,031,457
Total revenues	198,460,945	201,136,182	202,820,795	1,684,613
Expenditures				
Instruction	150,366,874	150,920,507	143,345,527	7,574,980
Pupil personnel services	5,914,226	5,864,564	5,679,833	184,731
Instructional media services	1,205,492	1,239,551	1,121,474	118,077
Instructional and curriculum development	6,099,444	5,336,293	3,983,365	1,352,928
Instructional staff training	869,765	955,043	916,228	38,815
Instruction related technology	895,938	975,515	899,250	76,265
Board of education	3,223,062	3,704,704	1,152,335	2,552,369
General administration	421,403	414,514	314,025	100,489
School administration	14,546,067	15,500,624	14,848,174	652,450
Facilities acquisition and construction	399,910	651,947	395,974	255,973
Fiscal services	1,917,277	1,813,958	1,620,889	193,069
Food services	-	54,515	54,515	-
Central services	5,728,133	5,375,122	2,635,687	2,739,435
Pupil transportation services	11,178,230	11,337,803	10,820,590	517,213
Operation of plant	17,853,650	16,942,580	14,454,843	2,487,737
Maintenance of plant	7,516,523	8,045,126	7,067,810	977,316
Administrative technology services	2,776,766	2,648,223	2,566,339	81,884
Community services	1,703,838	1,894,546	1,102,667	791,879
Fixed capital outlay:				
Facilities acquisition and construction	-	-	13,820	(13,820)
Other capital outlay	-	-	328,976	(328,976)
Total expenditures	232,616,598	233,675,135	213,322,321	20,352,814
Excess (deficiency) of revenues over expenditures	(34,155,653)	(32,538,953)	(10,501,526)	22,037,427
Other financing sources (uses)				
Loss recoveries	5,992	166,957	166,957	-
Transfers in	11,302,234	11,525,208	11,525,208	-
Transfers out	-	-	(123,640)	123,640
Total other financing sources and (uses)	11,308,226	11,692,165	11,568,525	123,640
Net change in fund balances	(22,847,427)	(20,846,788)	1,066,999	21,913,787
Fund balances - beginning	63,721,385	63,721,385	63,721,385	-
Fund balances - ending	\$ 40,873,958	\$ 42,874,597	\$ 64,788,384	\$ 21,913,787

Okaloosa County District School Board
 Budgetary Comparison Schedule
 Special Revenue - Other Federal Programs

Year ended June 30,

2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental:				
Federal direct	\$ 899,073	\$ 1,743,452	\$ 1,124,932	\$ (618,520)
Federal through state	18,103,085	16,359,485	12,666,198	(3,693,287)
Total revenues	19,002,158	18,102,937	13,791,130	(4,311,807)
Expenditures				
Instruction	10,917,552	11,778,265	9,874,158	1,904,107
Pupil personnel services	436,980	452,898	403,354	49,544
Instructional media services	23,271	28,278	24,820	3,458
Instructional and curriculum development	4,866,648	3,275,998	2,508,187	767,811
Instructional staff training	942,738	739,866	370,793	369,073
Instructional related technology	12,500	45,325	-	45,325
General administration	1,772,028	1,626,782	457,576	1,169,206
School administration	200	1,816	1,816	-
Pupil transportation services	29,941	61,403	2,172	59,231
Administrative technology services	300	-	-	-
Operation of plant	-	92,306	-	92,306
Fixed capital outlay:				
Other capital outlay	-	-	148,254	(148,254)
Total expenditures	19,002,158	18,102,937	13,791,130	4,311,807
Excess (deficiency) of revenues over expenditures	-	-	-	-
Other financing sources (uses)				
Loss recoveries	-	-	-	-
Transfers in	-	-	-	-
Total other financing sources and (uses)	-	-	-	-
Net change in fund balances	-	-	-	-
Fund balances - beginning	-	-	-	-
Fund balances - ending	\$ -	\$ -	\$ -	\$ -

Okaloosa County District School Board
 Budgetary Comparison Schedule
 Special Revenue Fund - ARRA Economic Stimulus Fund

Year ended June 30,

2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental:				
Federal through state	\$ 1,294,700	\$ 1,315,200	\$ 579,036	\$ (736,164)
Total revenues	1,294,700	1,315,200	579,036	(736,164)
Expenditures				
Instruction	168,621	250,124	186,795	63,329
Instructional and curriculum development	280,634	267,032	122,185	144,847
Instructional staff training	281,718	401,337	153,762	247,575
Instruction related technology	354,877	215,856	104,653	111,203
General administration	36,102	35,609	10,708	24,901
Pupil transportation	1,868	1,868	933	935
Central services	75,000	-	-	-
Administrative technology services	95,880	143,374	-	143,374
Fixed capital outlay:				
Other capital outlay	-	-	-	-
Total expenditures	1,294,700	1,315,200	579,036	736,164
Excess (deficiency) of revenues over expenditures	-	-	-	-
Other financing sources (uses)				
Loss recoveries	-	-	-	-
Transfers in	-	-	-	-
Total other financing sources and (uses)	-	-	-	-
Net change in fund balances	-	-	-	-
Fund balances - beginning	-	-	-	-
Fund balances - ending	\$ -	\$ -	\$ -	\$ -

Okaloosa County District School Board

Schedule of Funding Progress for Other Postemployment Benefits

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Entry Age (1)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
7/1/10	\$ -	\$ 16,237,000	\$ 16,237,000	0.00%	\$ 133,360,146	12.18%
7/1/11	-	14,228,000	14,228,000	0.00%	129,090,243	11.02%
7/1/12	-	14,462,000	14,462,000	0.00%	131,864,333	10.97%

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

Supplementary Information

Okaloosa County District School Board
 Schedule of Expenditures of Federal Awards (Continued)
 For The Year Ended June 30, 2013

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass- Through Grantor Number	Amount of Expenditures (Note 1)	Amount Provided to Subrecipients
United States Department of Agriculture				
Indirect:				
Florida Department of Education:				
Child Nutrition Cluster:				
School Breakfast Program	10.553	321	1,325,316	-
National School Lunch Program (Note 2(A))	10.555	300	5,209,445	-
Summer Food Service Program	10.559	323	187,352	-
Total Child Nutrition Cluster			6,722,113	-
Florida Department of Financial Services:				
Schools and Roads - Grants to States	10.665	None	2,854	-
Total United States Department of Agriculture			6,724,967	-
United States Department of Energy				
Indirect:				
University of Central Florida				
ARRA - State Energy Program (Note 2(B))	81.041	None	70,037	-
Total United States Department of Energy			70,037	-
United States Department of Education				
Direct:				
Impact Aid (Note 3)	84.041	N/A	3,419,718	92,009
Federal Pell Grant Program	84.063	N/A	845,764	-
Total Direct			4,265,482	92,009
Indirect:				
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027	263	5,658,236	-
Special Education - Preschool Grants	84.173	267	136,429	-
University of South Florida				
Special Education - Grants to States	84.027	None	1,500	-
Total Special Education Cluster			5,796,165	
Title I Grants to Local Educational Agencies	84.010	212, 222, 223, 226, 228	5,340,750	128,627
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top, Recovery Act	84.395	RL111, RD211, RG311	579,036	-
Career and Technical Education -Basic Grants to States	84.048	161	304,363	-
English Language Acquisition Grants	84.365	102	47,959	-
Improving Teacher Quality State Grants	84.367	224	1,046,703	-
Education for Homeless Children and Youth	84.196	127	37,951	-
Total Indirect			13,152,927	128,627
Total United States Department of Education			17,418,409	220,636

Okaloosa County District School Board
 Schedule of Expenditures of Federal Awards (Continued)
 For The Year Ended June 30, 2013

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass- Through Grantor Number	Amount of Expenditures (Note 1)	Amount Provided to Subrecipients
United States Department of Homeland Security				
Indirect:				
Florida Department of Education:				
Homeland Security Communications	97.004	532	92,306	
Total United States Department of Homeland Security			92,306	
United States Department of Defense				
Direct:				
Public Law 110-417	12.	N/A	670,467	-
Public Law 106-398	12.	N/A	9,114	-
Competitive Grants: Promoting K-12 Student Achievement at Military Connected Schools	12.556	HE1254-11- 1-0059	246,469	
Air Force Defense Research Sciences Program	12.800	2-0005	34,084	-
Air Force Junior Reserve Officers Training Corps	12.	N/A	172,952	-
Army Junior Reserve Officers Training Corps	12.	N/A	128,569	-
Total United States Department of Defense			1,261,655	-
Total Expenditures of Federal Awards			\$ 25,567,374	\$ 220,636

Okaloosa County District School Board
Notes to Schedule of Expenditures of Federal Awards
For The Year Ended June 30, 2013

- Notes: (1) Basis of Presentation. The Schedule of Expenditures of Federal Awards represents amounts expended from Federal Programs during the 2012-2013 fiscal year as determined based on the modified accrual basis of accounting. The amounts reported on the Schedule have been reconciled to and are in material agreement with amounts recorded in the District's accounting records from which the basic financial statements have been reported.
- (2) Noncash Assistance –
- (A) National School Lunch Program - Represents the amount of donated food received during the fiscal year. Commodities are valued at fair value as determined at time of donation.
- (B) Donation of Federal Property - Represents the Federally-paid portion of services/materials in FY 12-13 for solar panels for Baker School totaling \$70,037.
- (3) Impact Aid - Expenditures include \$166,552 for grant number/program year S041B-2007-1256, \$175,243 for grant number/program year S041B-2008-1256, \$70,705 for grant number/program year S041B-2009-1256, \$2,294,256 for grant number/program year S041B-2013-1256, \$131,955 for grant number/program year S041B-2010-1256, \$351,373 for grant number/program year S041B-2013-1256, and \$229,634 for grant number/program year S041B-2011-1256.

**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**

To the Okaloosa County District School Board
and Mary Beth Jackson, Superintendent of Schools
Fort Walton Beach, Florida

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 ("the District") as of and for the fiscal year ended June 30, 2013, 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 14, 2014. Our report includes a reference to other auditors who audited the financial statements of several charter schools included as 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 the 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 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity'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 of material misstatement, we performed tests of its compliance with certain provisions of laws, 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*.

Purpose of this Report

The purpose of this report 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 entity'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 communication is not suitable for any other purpose.

Caru, Riggs & Ingram, L.L.C.

Miramar Beach, Florida
March 14, 2014

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Okaloosa County District School Board
and Mary Beth Jackson, Superintendent of Schools
Fort Walton Beach, Florida

Report on Compliance for Each Major Federal Program

We have audited the Okaloosa County District School Board's ("the District") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have direct and material effect on each of the District's major federal programs for the year ended June 30, 2013. 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 Okaloosa County District School Board, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2013-001. Our opinion on each major federal program is not modified with respect to this matter.

The District's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The District's response was not subject to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliances. 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 a 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2013-001, which we consider to be a significant deficiency.

The District's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of this Report

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.

Car, Riggs & Ingram, L.L.C.

Miramar Beach, Florida
March 14, 2014

Okaloosa County District School Board
Schedule of Findings and Questioned Costs
For The Year Ended June 30, 2013

Summary of Audit Results

As required by United States Office of Management and Budget *Circular A-133*, Section 505, the following is a summary of the results of the audit of the Okaloosa County District School Board for the fiscal year ended June 30, 2013:

- The auditor's report expresses an unmodified opinion on the basic financial statements of the Okaloosa County District School Board.
- No significant deficiencies relating to the audit of the basic financial statements are reported in the 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*.
- No instances of noncompliance material to the basic financial statements of the Okaloosa County District School Board which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
- One (1) significant deficiency relating to the audit of the major federal award programs are reported in the Report on Compliance for Each Major Program and on Internal Control Over Compliance in Accordance with *OMB Circular A-133*.
- The auditor's report on compliance for the major federal award programs for the Okaloosa County District School Board is unqualified on all major federal programs.
- There was one (1) audit finding relative to the major federal award programs for Okaloosa County District School Board.
- The programs tested as major programs included: Special Education Cluster (CFDA 84.027, 84.173), Federal Pell Grant Program (CFDA 84.063), and ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top, Recovery Act (CFDA 84.395).
- The threshold for distinguishing between Types A and B programs was \$767,021.
- The Okaloosa County District School Board was determined to be a low risk auditee, as defined in *OMB Circular A-133*.

Okaloosa County District School Board
Schedule of Findings and Questioned Costs (Continued)
For The Year Ended June 30, 2013

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS

Finding 2013-001: Time and Effort Reporting

Federal Agency:	U.S. Department of Education
State Agency:	Florida Department of Education
Program:	Special Education – Grants to States (IDEA, Part B)
CFDA #:	84.027
Award #:	263
Award Year:	2012-2013
Finding Type:	Noncompliance and Significant Deficiency
Questioned Costs:	N/A

Criteria

2 C.F.R. Part 225, Appendix A (also referred to as OMB Circular A-87, Attachment A), requires an employee whose salary and wages are supported, in whole or in part, with Federal funds to document his/her time spent working on Federal programs in order to ensure that charges to each Federal program reflect an accurate account of the employee's time and effort devoted to that program. When an employee works on multiple activities or cost objectives, a distribution of the employee's salary and wages must be supported by a personnel activity report (PAR) or equivalent documentation. Florida Department of Education has a Substitute System, approved by the United States Department of Education for allocating salaries to Federal projects, allowing employees to report their time and effort charged to Federal grants three months during the year instead of monthly.

When employees are expected to work solely on a single Federal award or cost objective charges for salaries and wages are to be supported by periodic certifications, prepared at least semiannually.

Finding

Five personnel selected for time and effort reporting did not have sufficient documentation of either a personnel activity report or semi-annual certification as required by 2 C.F.R, Part 225, Appendix A.

Condition

OMB 87 requirements are not being properly documented by the District.

Cause

Incomplete data gathered for personnel during the year and misunderstanding of the requirement.

Effect

The District is not in compliance with time and effort documentation requirements.

Recommendation

The District should modify its procedures for time and effort reporting and documentation requirements in order to comply with 2 C.F.R, Part 225, Appendix A.

Okaloosa County District School Board
Schedule of Findings and Questioned Costs (Continued)
For The Year Ended June 30, 2013

Response and Corrective Action Plan

Finding 2013-001: Time and Effort Reporting

District Response:

The District has revised its procedures for time and effort documentation requirements. The Finance Department will send a monthly report to the IDEA program manager that will include all employees paid from federal funds in the IDEA program. The manager will then verify that semi-annual certifications or personnel activity reports (if required) are being collected and properly documented per the federal requirements.

Okaloosa County District School Board
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2013

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

Audit Report and Schedule Paragraph No.	Program/Area	Brief Description	Status
2012-1	Special Education - Grants to States (84.027)	The District did not verify services were rendered for two therapists prior to making payments to the individuals.	Resolved

MANAGEMENT LETTER

To the Okaloosa County District School Board
and Mary Beth Jackson, Superintendent of Schools
Fort Walton Beach, Florida

We have audited the financial statements of the Okaloosa County District School Board ("District"), as of and for the year ended June 30, 2013, and have issued our report thereon dated March 14, 2014.

We conducted our audit 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*. We have issued our Independent Auditor's Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*, Independent Auditor's Report on Compliance with Requirements That Could Have a Direct Material Effect on each Major Program and on Internal Control over Compliance in accordance with OMB Circular A-133, and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated March 14, 2014, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.800, Rules of the Auditor General which governs the conduct of district school board audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditor's reports or schedule:

- Section 10.804(1)(f)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken to address findings and recommendations made in the preceding annual financial report.
- Section 10.804(1)(f)2., Rules of the Auditor General, requires a statement be included as to whether or not the district school board has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the District did not meet any of the conditions described in Section 218.503(1), Florida Statutes.
- Section 10.804(1)(f)3., Rules of the Auditor General, requires our audit to include a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the District complied with Section 218.415, Florida Statutes.

- Section 10.804(1)(f)4., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.
- Section 10.804(1)(f)5., Rules of the Auditor General, requires that we address fraud, noncompliance with provisions of laws or regulations and contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but warrant the attention of those charged with governance. In connection with our audit, we did not have any such findings.
- Pursuant to Sections 10.804(1)(f)6.a. and 10.805(6), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the District's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.
- Section 10.804(1)(f)7., Rules of the Auditor General, requires the auditor to state whether or not the district school board complied with transparency requirements (Section 1011.035, Florida Statutes, provides that district school boards include a plain language version of each proposed, tentative, and official budget that describes each budget item in terms that are easily understandable to the public). In connection with our audit, we determined that the District complied with transparency requirements.

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies, and applicable management and is not intended to be and should not be used by anyone other than these specified parties.

Caru, Riggs & Ingram, L.L.C.

Miramar Beach, Florida
March 14, 2014