

**Okaloosa County
District School Board**

FINANCIAL STATEMENTS

June 30, 2014



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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, 2014, 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 0.70% 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, 2014, 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 February 27, 2015, 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.

CARR, RIGGS & INGRAM, LLC

Miramar Beach, Florida
February 27, 2015



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, 2014. 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 2013-14 fiscal year are as follows:

- The District's total net position decreased by \$4,116,179, or 2.13 percent from the 2012-13 fiscal year.
- General revenues total \$251,158,239 or 94.07 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total \$15,793,883, or 5.92 percent of all revenues.
- Expenses total \$271,068,301. Only \$15,793,883 of these expenses was offset by program specific charges with the remainder paid from general revenues.
- Total long-term liabilities decreased \$5,371,909, or 6.04 percent. Within long-term liabilities, the long-term liability for compensated absences increased \$634,091, or 2.56 percent; the liability for estimated insurance claims payable increased \$594,000, or 15.49 percent; the liability for debt decreased \$6,733,000, or 11.24 percent; and the liability for post-employment healthcare benefits payable increased \$133,000 or 29.75 percent in the seventh 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 \$14,093,856 at June 30, 2014, or 6.16 percent of total General Fund expenditures as compared to 2012-13 unassigned fund balance of \$13,371,055.
- General Fund expenditures exceeded revenues by \$13,616,743.

Okaloosa County District School Board Management's Discussion and Analysis

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements consist of three components:

- Government-wide financial statements.
- Fund financial statements.
- 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.

Okaloosa County District School Board Management's Discussion and Analysis

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, ARRA Economic Stimulus Fund, and the Capital Projects – Other 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 and 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.

Okaloosa County District School Board Management's Discussion and Analysis

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, 2014, as compared to June 30, 2013:

Net Position, End of Year

	Governmental Activities		
	6/30/2014	6/30/2013	Increase (Decrease)
Current and Other Assets	\$ 73,600,528	\$ 74,634,983	\$ (1,034,455)
Capital Assets	203,788,381	211,267,399	(7,479,018)
Total Assets	277,388,909	285,902,382	(8,513,473)
Long-term Liabilities	83,534,354	88,906,263	(5,371,909)
Other Liabilities	4,729,097	3,754,482	974,615
Total Liabilities	88,263,451	92,660,745	(4,397,294)
Net Investment in Capital Assets	151,105,842	152,519,034	(1,413,192)
Restricted	15,657,122	17,039,515	(1,382,393)
Unrestricted	22,362,494	23,683,088	(1,320,594)
Total Net Position	\$ 189,125,458	\$ 193,241,637	\$ (4,116,179)

The largest portion of the District's net position (79.90 percent) reflects its investment in capital assets (e.g., land, improvements other than buildings; buildings and fixed equipment; furniture, fixtures and equipment; motor vehicles; construction in progress; and audio visual materials and computer software), less any related debt still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending.

The restricted portion of the District's net position (8.28 percent) represents resources that are subject to external restrictions on how they may be used. The unrestricted net position (11.82 percent) may be used to meet the District's ongoing obligations to students, employees, and creditors.

The key elements of the changes in the District's net position for the fiscal year ended June 30, 2014, as compared to June 30, 2013, are as follows:

Okaloosa County District School Board Management's Discussion and Analysis

Operating Results for the Year

	Governmental Activities		
	6/30/2014	6/30/2013	Increase (Decrease)
Program Revenues:			
Charges for Services	\$ 6,655,254	\$ 6,808,767	\$ (153,513)
Operating Grants and Contributions	7,151,674	6,837,230	314,444
Capital Grants and Contributions	1,986,955	1,894,732	92,223
General Revenues:			
Property Taxes Levied for Operational Purposes	86,821,500	84,762,934	2,058,566
Property Taxes Levied for Capital Projects	21,515,352	21,268,830	246,522
Grants and Contributions Not Restricted to Specific Purposes	138,364,227	125,152,814	13,211,413
Unrestricted Investment Earnings	442,347	840,609	(398,262)
Miscellaneous	4,014,813	4,440,495	(425,682)
Total Revenues	266,952,122	252,006,411	14,945,711
Functions/Program Expenses:			
Instruction	161,967,238	153,356,826	8,610,412
Pupil Personnel Services	7,586,173	6,090,663	1,495,510
Instructional Media Services	1,249,075	1,147,670	101,405
Instruction and Curriculum Development Services	8,708,121	6,621,982	2,086,139
Instructional Staff Training	1,363,932	1,441,871	(77,939)
Instruction Related Technology	856,992	1,004,350	(147,358)
Board of Education	1,476,958	1,152,847	324,111
General Administration	889,219	782,693	106,526
School Administration	16,063,472	14,870,437	1,193,035
Facilities Acquisition and Construction	3,388,171	7,796,354	(4,408,183)
Fiscal Services	1,821,238	1,623,140	198,098
Food Services	10,981,297	10,873,021	108,276
Central Services	3,576,743	2,674,496	902,247
Pupil Transportation Services	11,609,261	10,864,889	744,372
Operation of Plant	15,406,860	14,462,712	944,148
Maintenance of Plant	8,169,472	7,115,519	1,053,953
Administrative Technology Services	2,841,377	2,567,561	273,816
Community Services	1,201,375	1,103,678	97,697
Interest on Long-Term Debt	2,269,714	2,863,157	(593,443)
Unallocated Depreciation Expense	9,641,613	8,728,716	912,897
Total Functions/Program Expenses	271,068,301	257,142,582	13,925,719
Increase (Decrease) in Net Position	\$ (4,116,179)	\$ (5,136,171)	\$ 1,019,992

Okaloosa County District School Board Management's Discussion and Analysis

The largest revenue source is the State of Florida (45.16 percent). Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data, and is designed to maintain equity in funding across all Florida school districts, taking into consideration the District's funding ability based on the local property tax base.

Grants and contributions not restricted to specific programs represent 51.83 percent of total governmental revenues in the 2013-14 fiscal year. Grants and contributions not restricted to specific programs increased by \$13,211,413, or 10.56 percent, due to an increase in Florida Education Finance Program, Class Size Reduction funds, Title II and Individuals with Disability Education Act (IDEA) funds.

Instructional expenditures represent 59.75 percent of total governmental expenditures in the 2013-14 fiscal year. Instructional expenditures increased by \$8,610,412, or 5.61 percent over the 2012-13 level due to an increase in the number of teachers in order to comply with the Class Size Reduction mandate, salary increases, professional development, the introduction of handheld devices and digital learning resources.

Property tax revenues increased by \$2,305,088, or 2.17 percent, as a result of an increase in taxable assessed values of \$235 million and a 1.00 percent increase 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 2013-14 fiscal year, the total fund balance was \$62,882,301, a decrease of \$1,906,083 over the 2012-13 fiscal year. Of the total fund balance, \$370,647 is nonspendable, \$14,093,856 is unassigned, \$38,269,348 has been assigned and \$10,148,450 has been restricted for state required carryover programs. Key factors affecting the operations of this fund were as follows:

- State revenues increased \$12,158,022 in the 2013-14 fiscal year due primarily to an increase in student enrollment, increase in base student allocation in 2013-14 and a new categorical called "Teacher Salary Allocation" from the State. 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 \$15,378,899 or 7.21 percent; instruction expenditures increased \$7,530,806 due to the District's commitment to comply with the State Constitutional Class Size Reduction Mandate, increases in instructional salaries and hiring additional teachers and aides; Pupil Personnel Services increased by \$1,351,644 due to hiring additional guidance counselors, and salary increases; Instruction and Curriculum Development Services increased by \$1,829,400 as a result of preparing to implement principal and teacher evaluation system, end of course exams and Next Generation

Okaloosa County District School Board Management's Discussion and Analysis

Sunshine State Standards. School Administration increased by \$ 1,153,518 due to many issues including the opening of the new STEMM (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 retirement percentage rate; and salary increase of 3 percent. Pupil Transportation Services increased \$720,062 due to salary increases and fuel price increase; Operation of Plant increased \$928,707 due to an increase in positions and increase in electricity cost; and Maintenance of Plant increased \$1,044,756 due to an increase in insurance claim deductibles and salary increases.

The ARRA 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 \$785,410 during the 2013-14 fiscal year which is an increase of 35.64 percent when compared to the prior year revenues and expenditures which totaled \$579,036, attributable to expending a larger percentage of the Race To The Top budgeted funds in 2013-14.

The Capital Projects – Other Fund has a total fund balance of \$1,436,651, all of which must be used for the acquisition, construction, and maintenance of capital assets. The fund balance decreased by \$192,099, or 11.79 percent in the 2013-14 fiscal year. Expenditures increased by \$618,784 or 67.78 percent from 2012-13 fiscal year due to an increase in facilities acquisition and construction activity due to replacing a sewer plant system at a rural school where there is no public sewer access.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

During the course of the 2013-14 fiscal year, the District amended its General Fund budget several times, which resulted in an increase in total budgeted revenues amounting to \$1,894,219 or 0.89 percent. At the same time, final budgeted appropriations were more than originally budgeted by \$9,950,790, or 4.13 percent. Final budgeted ending fund balance was \$7,650,709, or 16.10 percent more than the original budgeted fund balance.

Actual revenues are 0.45 percent greater than the final budgeted amounts while actual expenditures were \$22,236,390, or 8.86 percent less than final budgeted amounts. The actual ending fund balance exceeded the estimated fund balance contained in the final amended budget by \$23,026,108, whereas the actual fund balance increased by \$1,906,083 or 2.94 percent.

Okaloosa County District School Board Management's Discussion and Analysis

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets for its governmental activities as of June 30, 2014, amounts to \$203,788,381 (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.

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

Debt Administration

At June 30, 2014, the District had total long-term debt outstanding of \$53,163,000. This amount was comprised of \$5,455,000 of bonds payable and \$47,708,000 of certificates of participation payable. During the 2013-14 fiscal year, net retirement of debt amounted to \$6,733,000.

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. The District has experienced a moderate increase in FTE for fiscal year 2013-14 and anticipates another increase in fiscal year 2014-15.

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 District will change budgeting models in fiscal year 2014-2015. Schools will shift from a "site based budgeting model" to a "centralized hybrid budgeting model."

Okaloosa County District School Board Management's Discussion and Analysis

Although the District will receive approximately \$500,000 in PECO Maintenance funding for the first time in four years, adequate Capital Outlay funding continues to be a great concern for the District. The District's capital maintenance requirements are significant since approximately 40% of its facilities are more than 50 years old and another 40% are more than 40 years old.

The School Board of Okaloosa County Continues to prepare for the full implementation of the Florida Legislature's initiatives which include the following:

- Next Generation Sunshine State Standards. These standards are to be fully implemented by the 2014-15 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, graduate high school 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**

<i>June 30,</i>	2014	
	Primary Governmental Activities	Component Units
Assets		
Cash and cash equivalents	\$ 69,725,301	\$ 738,875
Investments	779,813	44,604
Accounts receivable	176,764	47,509
Due from other agencies	1,872,559	41,528
Inventory	370,394	-
Prepaid items	-	129,570
Deposits	447,698	45,000
Cash with fiscal agent	227,999	-
Capital assets, net	203,788,381	917,064
Total assets	\$ 277,388,909	\$ 1,964,150
Liabilities and Net Position		
Salaries and wages payable	\$ 2,792,810	\$ 157,727
Accounts payable and accrued expenses	1,344,974	24,533
Construction contracts payable	517,822	-
Construction contracts retainage payable	71,462	-
Deposits payable	1,000	-
Unearned revenues	1,029	2,922
Due to other agencies	-	20,298
Long-term liabilities:		
Portion due within one year	12,146,962	-
Portion due after one year	71,387,392	-
Total liabilities	88,263,451	205,480
Net position		
Net investment in capital assets	151,105,842	917,064
Restricted for:		
State categorical programs	10,148,450	-
Capital projects	3,961,793	-
Debt service	89,199	-
Other projects	1,457,680	103,274
Unrestricted	22,362,494	738,332
Total net position	189,125,458	1,758,670
Total liabilities and net position	\$ 277,388,909	\$ 1,964,150

The accompanying footnotes are an integral part of these financial statements.

**Okaloosa County District School Board
Statement of Activities**

Year ended June 30,

2014

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	
					Governmental Activities	Component Units
Primary government						
Governmental Activities						
Instruction	\$161,967,238	\$ 2,161,617	\$ -	\$ -	\$(159,805,621)	\$ -
Pupil personnel services	7,586,173	-	-	-	(7,586,173)	-
Instructional media services	1,249,075	-	-	-	(1,249,075)	-
Instruction and curriculum development	8,708,121	-	-	-	(8,708,121)	-
Instructional staff training	1,363,932	-	-	-	(1,363,932)	-
Instruction related technology	856,992	-	-	-	(856,992)	-
School board	1,476,958	-	-	-	(1,476,958)	-
General administration	889,219	-	-	-	(889,219)	-
School administration	16,063,472	-	-	-	(16,063,472)	-
Facilities acquisition and construction	3,388,171	-	-	827,046	(2,561,125)	-
Fiscal services	1,821,238	-	-	-	(1,821,238)	-
Food services	10,981,297	4,045,045	7,151,674	-	215,422	-
Central services	3,576,743	-	-	-	(3,576,743)	-
Pupil transportation services	11,609,261	448,592	-	-	(11,160,669)	-
Operation of plant	15,406,860	-	-	-	(15,406,860)	-
Maintenance of plant	8,169,472	-	-	-	(8,169,472)	-
Administrative technology services	2,841,377	-	-	-	(2,841,377)	-
Community services	1,201,375	-	-	-	(1,201,375)	-
Interest on long-term debt	2,269,714	-	-	1,159,909	(1,109,805)	-
Unallocated depreciation/amortization expense	9,641,613	-	-	-	(9,641,613)	-
Total governmental activities	\$271,068,301	\$ 6,655,254	\$ 7,151,674	\$ 1,986,955	(255,274,418)	-

(continued)

The accompanying footnotes are an integral part of these financial statements.

**Okaloosa County District School Board
Statement of Activities (Continued)**

Component Units							
Charter schools/Foundation	\$ 8,484,331	\$ 285,259	\$ 1,195,993	\$ -	-	-	(7,003,079)
	General revenues:						
	Taxes:						
				86,821,500			-
				21,515,352			-
				138,364,227	7,062,978		-
				442,347		140	
				4,014,813		8,349	
				251,158,239	7,071,467		
				(4,116,179)		68,388	
				193,241,637		1,690,282	
				\$ 189,125,458	\$ 1,758,670		

The accompanying footnotes are an integral part of these financial statements.

Okaloosa County District School Board Balance Sheet - Governmental Funds

June 30,

2014

	ARRA				
	General Fund	Economic Stimulus Fund	Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 63,906,763	\$ -	\$ 1,362,340	\$ 4,456,198	\$ 69,725,301
Investments	234,693	-	470,791	74,329	779,813
Accounts receivable, net	114,628	-	-	62,136	176,764
Due from other agencies	1,340,893	-	-	531,666	1,872,559
Due from other funds	470,891	-	-	-	470,891
Inventory	135,954	-	-	234,440	370,394
Deposits	447,698	-	-	-	447,698
Cash with fiscal agent	-	-	225,205	2,794	227,999
Total assets	\$ 66,651,520	\$ -	\$ 2,058,336	\$ 5,361,563	\$ 74,071,419
Liabilities and fund balances					
Liabilities:					
Salaries, benefits and payroll taxes payable	\$ 2,792,810	\$ -	\$ -	\$ -	\$ 2,792,810
Accounts payable	920,438	-	-	424,536	1,344,974
Construction contracts payable	52,805	-	339,091	125,926	517,822
Construction contracts - retainage	3,166	-	56,208	12,088	71,462
Deposits payable	-	-	-	1,000	1,000
Due to other funds	-	-	226,386	244,505	470,891
Unearned revenues	-	-	-	1,029	1,029
Total liabilities	3,769,219	-	621,685	809,084	5,199,988
Fund balances:					
Nonspendable:					
Inventory	135,954	-	-	234,440	370,394
Fund B investments	234,693	-	470,791	702	706,186
Restricted for:					
State required carryover programs	10,148,450	-	-	-	10,148,450
Debt service funds	-	-	-	88,496	88,496
Capital projects	-	-	965,860	3,005,601	3,971,461
School food service	-	-	-	1,223,240	1,223,240
Assigned for:					
Noncategorical project carryover	27,929,424	-	-	-	27,929,424
School/department carryover	1,584,224	-	-	-	1,584,224
Insurance claims	4,429,000	-	-	-	4,429,000
Self-insurance	3,814,376	-	-	-	3,814,376
Retirement	512,324	-	-	-	512,324
Unassigned	14,093,856	-	-	-	14,093,856
Total fund balances	62,882,301	-	1,436,651	4,552,479	68,871,431
Total liabilities and fund balances	\$ 66,651,520	\$ -	\$ 2,058,336	\$ 5,361,563	\$ 74,071,419

The accompanying footnotes are an integral part of these financial statements.

**Okaloosa County District School Board
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Position**

<i>June 30,</i>	2014
Total fund balances, governmental funds	\$ 68,871,431
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.	203,788,381
Long term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(83,534,354)
Total net position - governmental activities	\$ 189,125,458

The accompanying footnotes are an integral part of these financial statements.

Okaloosa County District School Board

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

Year ended June 30,

2014

	General Fund	ARRA Economic Stimulus Fund	Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Intergovernmental:					
Federal direct	\$ 4,020,729	\$ -	\$ -	\$ 1,087,323	\$ 5,108,052
Federal through state	610,613	785,410	-	20,949,495	22,345,518
State sources	117,962,400	-	704,469	1,382,417	120,049,286
Local sources	92,490,735	-	154,661	25,702,062	118,347,458
Total revenues	215,084,477	785,410	859,130	49,121,297	265,850,314
Expenditures					
Current:					
Instruction	150,876,333	190,780	-	10,744,480	161,811,593
Pupil personnel services	7,031,477	-	-	527,934	7,559,411
Instructional media services	1,227,045	-	-	18,040	1,245,085
Instructional and curriculum development	5,812,765	102,898	-	2,761,817	8,677,480
Instructional staff training	786,335	243,364	-	331,249	1,360,948
Instruction related technology	751,156	104,653	-	-	855,809
School board	1,475,407	-	-	-	1,475,407
General administration	361,649	21,342	-	505,120	888,111
School administration	16,001,692	-	-	-	16,001,692
Facilities acquisition and construction	257,052	-	680,583	1,745,754	2,683,389
Fiscal services	1,814,413	-	-	-	1,814,413
Food services	39,287	-	-	10,932,739	10,972,026
Central services	2,973,981	-	-	-	2,973,981
Pupil transportation services	11,540,652	-	-	2,729	11,543,381
Operation of plant	15,383,550	-	-	-	15,383,550
Maintenance of plant	8,112,566	-	-	-	8,112,566
Administrative technology services	2,755,783	82,000	-	-	2,837,783
Community services	1,198,332	-	-	-	1,198,332

(continued)

The accompanying footnotes are an integral part of these financial statements.

Okaloosa County District School Board

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds (Continued)

Fixed capital outlay:					
Facilities acquisition and construction	24,573	-	799,937	984,600	1,809,110
Other capital outlay	277,172	40,373	51,202	417,366	786,113
Debt Service:					
Retirement of principal	-	-	-	6,733,000	6,733,000
Interest and fiscal charges	-	-	-	2,236,845	2,236,845
Dues, fees, and issuance costs	-	-	-	32,869	32,869
Total expenditures	228,701,220	785,410	1,531,722	37,974,542	268,992,894
Excess (deficiency) of revenues over expenditures	(13,616,743)	-	(672,592)	11,146,755	(3,142,580)
Other financing sources (uses)					
Proceeds from sale of capital assets	-	-	1,010,436	-	1,010,436
Loss recoveries	123,075	-	-	-	123,075
Transfers in	11,762,111	-	174,526	7,812,565	19,749,202
Transfers out	(174,526)	-	(704,469)	(18,870,207)	(19,749,202)
Total other financing sources and (uses)	11,710,660	-	480,493	(11,057,642)	1,133,511
Net change in fund balances	(1,906,083)	-	(192,099)	89,113	(2,009,069)
Fund balances, July 1, 2013	64,788,384	-	1,628,750	4,463,366	70,880,500
Fund balances, June 30, 2014	\$ 62,882,301	\$ -	\$ 1,436,651	\$ 4,552,479	\$ 68,871,431

The accompanying footnotes are an integral part of these 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>	2014
Net change in fund balances - total governmental funds:	\$ (2,009,069)
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.	(7,447,314)
The net effect of miscellaneous transactions involving capital assets (i.e., donations and disposals) is to decrease capital assets.	(31,704)
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.	6,733,000
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 increased.	(634,092)
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 increased.	(133,000)
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 increased.	(594,000)
Change in net position of governmental activities	\$ (4,116,179)

The accompanying footnotes are an integral part of these financial statements.

**Okaloosa County District School Board
Statement of Fiduciary Assets and Liabilities**

<i>June 30,</i>	2014	
	Agency Funds	
Assets		
Cash and cash equivalents	\$	4,295,059
Other receivables		255,743
Total assets	\$	4,550,802
Liabilities		
Accounts payable	\$	109,961
Internal accounts payable		4,440,841
Total liabilities	\$	4,550,802

The accompanying footnotes are an integral part of these financial statements.

Okaloosa County District School Board

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Government-wide Financial Statements

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

The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Santa Rosa County School District's ("District") governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are thereby clearly identifiable to a particular function. Depreciation expense that is clearly identifiable to a function is allocated to the function, and the remaining depreciation expense is reported as unallocated.

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, operates under the general direction of the Florida Department of Education, and is governed by State law and State Board of Education (SBE) rules. The governing body of the 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 these criteria, the following component units are included within the District's reporting entity:

Blended Component Units - The Okaloosa School Board Leasing Corporation (Leasing Corporation) was formed to facilitate financing for the acquisition of facilities and equipment as further discussed in Note 5. Due to the substantive economic relationship between the 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.

Okaloosa County District School Board Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Discretely Presented Component Units - The component units column in the government-wide financial statements includes the aggregate financial data of the District's other component units as follows:

The Okaloosa Public Schools Foundation, Inc. (Foundation), 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. The financial information contained in this report is based on the audited financial statements for the year ended June 30, 2014.

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. The financial information contained in this report is based on the audited financial statements for the year ended June 30, 2014.
- 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. The financial information contained in this report is based on the audited financial statements for the year ended June 30, 2014.

Basis of Presentation: Government-wide Financial Statements

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

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

Basis of Presentation: Fund Financial Statements

The fund financial statements provide information about the District's funds, including the fiduciary funds and blended component units. Separate statements for each fund category – governmental and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual government funds are reported as separate columns in the fund financial statements.

Okaloosa County District School Board Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.
- ARRA Economic Stimulus Fund – to account for certain Federal grant program resources related to the American Recovery and Reinvestment Act (ARRA) and other Federal stimulus programs.
- Capital Projects – Other Fund – to account for various financial resources generated by the issuance of certificates of participation and other moneys set aside by the Board for education capital outlay needs, including new construction and renovation and remodeling projects.

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.

During the course of operations, the District has activity between funds for various purposes. Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in and out. While reported in fund financial statements, transfers between the funds included in governmental activities are eliminated in the preparation of the government-wide financial statements.

Basis of Accounting

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

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

Okaloosa County District School Board Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers revenues to be available if they are collected within 30 days of the end of the fiscal year. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 30 days of year-end). Expenditures are generally recognized when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, claims and judgments, other postemployment benefits and compensated absences, are only recorded when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources. Allocations of cost, such as depreciation, are not recognized in governmental funds.

The agency fund has no measurement focus but utilizes the accrual basis of accounting for reporting its assets and liabilities.

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 become available. 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 discreetly 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.

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term, highly liquid investments with original maturities of 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 (SBA) in Florida PRIME, formerly known as the Local Government Surplus Funds Trust Fund Investment Pool.

Okaloosa County District School Board Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

The District's investments in Florida PRIME, which the SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, as of June 30, 2014, 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 are accounted for as a fluctuating net asset value pool, with a fair value factor of 1.844384080 at June 30, 2014. Fund B is not subject to participant withdrawal requests. Distributions from Fund B, as determined by SBA, are effected by transferring eligible cash or securities to Florida PRIME, consistent with the pro rata allocation of pool shareholders of record at the creation of Fund B. One hundred percent of such distributions from Fund B are available as a liquid balance within Florida PRIME.

The District's investments in the FEITF, which the FEITF indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. Investments made locally consist of money market funds which are reported at fair value. Types and amounts of investments held at fiscal year-end are described in a subsequent note on investments.

Inventories

Inventories consist of expendable supplies held for consumption in the course of District operations. Inventories are stated at cost on the first-in, first-out basis, except 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

Okaloosa County District School Board

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 position but are not reported in the governmental fund financial statements. Capital assets are defined by the District as those costing more than \$1,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at fair value at the date of donation. Interest costs incurred during 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
Improvement 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.

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

In government-side 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 only if it has matured, such as for occurrences of employee resignations and retirements.

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

Okaloosa County District School Board Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program Revenues

Amounts reported as program revenues include charges paid by the recipient of the goods or services offered by the program, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than program revenues. Revenues that are not classified as program revenues are presented as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

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.

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.

Okaloosa County District School Board Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

District Property Taxes (continued)

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 2013 tax levy on September 9, 2013. 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 a lien on the property on January 1, and are delinquent on April 1, of the year following the year of assessment. State law provides for enforcement of collection of personal property taxes by seizure of the property to satisfy unpaid taxes, and for enforcement of collection of real property taxes by the sale of interest bearing tax certificates to satisfy unpaid taxes. The procedures result in the collection of essentially all taxes prior to June 30 of the year following the year of assessment.

Property tax revenues are recognized in the government-wide financial statements when the Board adopts the tax levy. Property tax revenues are recognized in the governmental 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

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

Federal Revenue Sources

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

New Pronouncements

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 of resources, certain items that were previously reported as assets and liabilities. This Statement is effective for periods beginning after December 15, 2012. The District implemented this statement for fiscal year 2014. The adoption of GASB 65 did not have any significant impact on the District's financial statements.

Okaloosa County District School Board Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Pronouncements (continued)

In March 2012, the GASB issued Statement 66, *Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62*. GASB 66 improves accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement is effective for periods beginning after December 15, 2012. The District implemented this statement for fiscal year 2014. The adoption of GASB 66 did not have any significant impact on the District's financial statements.

In June 2012, the GASB issued Statement 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement 25*. GASB 67 improves financial reporting by state and local governmental pension plans. The requirements of this Statement will improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by the pension plans that are within its scope. This Statement is effective for financial statements for fiscal years beginning after June 15, 2013. This statement will not impact the District's financial statements.

In April 2013, the GASB issued Statement 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. GASB 70 improves accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. This Statement is effective for fiscal years beginning after June 15, 2013. The District implemented this statement for fiscal year 2014. The adoption of GASB 70 did not have any significant impact on the District's financial statements.

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.

Net Position Flow Assumption

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

Okaloosa County District School Board Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance Flow Assumption

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

Fund Balance Policies

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

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. The Board is the highest level of decision-making authority for the District that can commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken to remove or revise the limitation. In July 2013, the Board gave its approval to commit certain project balances during the budget process.

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

Compensated Absences

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

Okaloosa County District School Board
Notes to Financial Statements

NOTE 2 – CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

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

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

NOTE 3 – INVESTMENTS

As of June 30, 2014, the District had the following investments and maturities:

Investment	Maturities	Fair Value
State Board of Administration (SBA):		
Florida PRIME (1)(3)	40 Day Average	\$ 21,724,478
Fund B (2)(3)	2.86 Year Avg	706,186
Debt Service Accounts	6 Months	73,627
FEITF (1)	51 Day Average	502,438
Total investments, primary government		\$ 23,006,729

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.
- 3) Pursuant to the trust agreements, the trustee for the District’s Certificates of Participation, Series 2006, 2007, and 2012 holds all or part of these investments in trust accounts as follows: Florida PRIME \$227,999 and Fund B \$471,494. The Florida PRIME funds are reported at full value as Cash Equivalents with Fiscal Agent and the Fund B portion is reported as an investment at fair market value.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Section 218.415(17), Florida Statutes, limits investment maturities to provide sufficient liquidity to pay obligations as they come due. The District’s investment policy states that the highest priority shall be given to the safety and liquidity of funds. The policy limits the types of authorized investments as a means of managing the exposure to fair value losses from increasing interest rates.

Okaloosa County District School Board Notes to Financial Statements

NOTE 3 – INVESTMENTS (CONTINUED)

Florida PRIME had a weighted average days to maturity (WAM) of 40 days at June 30, 2014. 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, 2014, based on expected future cash flows, the WAL of Fund B is estimated at 2.86 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 51 days at June 30, 2014.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Section 218.415(17), Florida Statutes, limits investments to the SBA 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 SBA Debt Service accounts are to provide for debt service payments on bond debt issued by the State Board of Education for the benefit of the District. The District relies on policies developed by the SBA for managing interest rate risk and credit risk for this account.

As of June 30, 2014, 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.

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, 2014 are shown below:

	Balance 7/1/13	Additions	Deletions	Balance 6/30/14
Governmental Activities				
<i>Capital assets not being depreciated:</i>				
Land	\$ 11,798,158	\$ -	\$ (28,360)	\$ 11,769,798
Construction in progress	337,085	674,824	-	1,011,909
Total capital assets not being depreciated	12,135,243	674,824	(28,360)	12,781,707
<i>Capital assets being depreciated:</i>				
Improvements other than buildings	14,303,656	128,918	(204,390)	14,228,184
Buildings and fixed equipment	294,252,398	1,087,423	(2,439,577)	292,900,244
Furniture, fixtures and equipment	23,402,899	526,505	(324,388)	23,605,016
Motor vehicles	14,949,428	118,906	-	15,068,334
Computer software	2,854,707	55,304	(130,026)	2,779,985
Audio-visual material	11,826	-	-	11,826
Total capital assets being depreciated	349,774,914	1,917,056	(3,098,381)	348,593,589
<i>Less accumulated depreciation for:</i>				
Improvements other than buildings	12,246,327	470,873	(204,390)	12,512,810
Buildings and fixed equipment	104,499,845	7,456,741	(2,439,577)	109,517,009
Furniture, fixtures and equipment	18,203,229	1,470,919	(324,388)	19,349,760
Motor vehicles	12,967,436	553,161	-	13,520,597
Computer software	2,719,023	88,479	(130,026)	2,677,476
Audio-visual material	6,898	2,365	-	9,263
Total accumulated depreciation	150,642,758	10,042,538	(3,098,381)	157,586,915
Total capital assets being depreciated, net	199,132,156	(8,125,482)	-	191,006,674
Governmental activities - capital assets, net	\$ 211,267,399	\$ (7,450,658)	\$ (28,360)	\$ 203,788,381

Okaloosa County District School Board
Notes to Financial Statements

NOTE 4 – CHANGES IN CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions as follows:

Function	Amount
Instruction	\$ 328,374
Pupil transportation services	32,784
Maintenance of plant	39,767
Unallocated	9,641,613
Total depreciation expense - governmental activities	\$ 10,042,538

On July 30, 2013, the District sold the Ocean City Elementary School property for \$1,010,436. The property, including all improvements and fixed assets, had a remaining book value of \$1,249,040. The property had been vacant for 5 years and significant costs would have been needed to maintain it and to make it a functional facility if it were to be re-opened. With continued declining enrollment in the south of the District, there was no current plan to re-occupy the property in the future.

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 Leasing Corporation whereby the District secured financing of various educational facilities.

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

On May 1, 2007, the District entered into a lease schedule under and pursuant to the master lease-purchase agreement, whereby the District secured financing for the acquisition of land and the 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 Certificates of Participation, Series 2012, to be repaid from the proceeds of rents paid by the District.

Okaloosa County District School Board Notes to Financial Statements

NOTE 5 – CERTIFICATES OF PARTICIPATION (CONTINUED)

As a condition of the financing arrangements, the District has given ground leases on District property to the 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 as of 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 Certificate of Participation, Series 2006, and the Certificate of Participation, Series 2007, 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 secures 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.

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

- Certificates of Participation, Series 2012 (includes properties associated with Certificates of Participation, Series 2003 and Series 1992) include properties at Baker School, Bluewater Bay Elementary School, Bob Sikes Elementary School, Choctawhatchee Senior High School, CHOICE Institute at Choctawhatchee High School, Crestview High School, CHOICE Institute at Crestview High School, Fort Walton Beach High School, Lewis Middle School, Niceville High School, CHOICE Institute at Niceville High School, CHOICE Institute at Okaloosa Applied Technology Center, Richbourg Middle School, Silver Sands School, and Walker Elementary School.
- Certificates of Participation, Series 2006, includes properties at Riverside Elementary School and Richbourg Middle School.
- Certificates of Participation, Series 2007, includes properties at Shoal River Middle School, Northwood Elementary School, Richbourg Middle School, and Choctawhatchee High School, and land purchases for new school sites.

The lease payments are payable by the District, semiannually, on July 1 and January 1 at interest rates from 3.625 percent to 4.00 percent for the Certificates of Participation, Series 2006; and interest rates from 4.00 percent to 4.25 percent for the Certificates of Participation, Series 2007; and at an interest rate of 1.33 percent for the Certificate of Participation, Series 2012.

Okaloosa County District School Board
Notes to Financial Statements

NOTE 5 – CERTIFICATES OF PARTICIPATION (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
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	2,410,000	301,200	2,711,200
2020-2021	5,120,000	309,200	5,429,200
Subtotal	16,320,000	2,674,863	18,994,863

Certificates of Participation - 2007

Fiscal Year Ending June 30,	Principal	Interest	Total
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	3,130,000	556,415	3,686,415
2020-2022	10,190,000	870,368	11,060,368
Subtotal	24,685,000	4,811,243	29,496,243

Certificates of Participation - 2012

Fiscal Year Ending June 30,	Principal	Interest	Total
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	6,703,000	269,750	6,972,750

Total	\$ 47,708,000	\$ 7,755,856	\$ 55,463,856
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Okaloosa County District School Board
Notes to Financial Statements

NOTE 6 – BONDS PAYABLE

Outstanding bonds payable at June 30, 2014, are as follows:

Bond Type	Interest Rates (Percent)	Annual Maturity To	Amount Outstanding
State School Bonds:			
Series 2005-A	5.000	2016	\$ 1,485,000
Series 2005-B, Refunding	5.000	2018	265,000
Series 2008-A	3.250 - 5.000	2028	745,000
Series 2009-A, Refunding	2.000 - 5.000	2019	165,000
Series 2010-A	3.000 - 5.000	2030	150,000
District Revenue Bonds:			
Series 2011	2.000 - 5.500	2040	2,645,000
Total bonds payable			\$ 5,455,000

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 (2001)). 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)

District Revenue Bonds (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 2013-14 fiscal year, the District recognized sales tax revenues totaling \$190,750 and expended \$186,545 (98 percent) of these revenues for debt service directly collateralized by these revenues. The pledged sales tax revenues are committed until final maturity of the debt on July 1, 2040. Approximately 98.6 percent of this revenue stream has been pledged in connection with debt service on the revenue bonds.

Amounts payable for the planned extended repayment of bonds payable at June 30, 2014, are as follows:

<i>Year Ending June 30,</i>	Principal	Interest	Total
State School Bonds:			
2015	\$ 850,000	\$ 138,675	\$ 988,675
2016	895,000	96,175	991,175
2017	140,000	51,425	191,425
2018	145,000	44,425	189,425
2019	85,000	37,175	122,175
2020-2024	325,000	135,675	460,675
2025-2029	360,000	46,150	406,150
2030	10,000	400	10,400
Total State School Bonds	2,810,000	550,100	3,360,100
District Revenue Bonds:			
2015	60,000	130,445	190,445
2016	60,000	129,095	189,095
2017	60,000	127,475	187,475
2018	60,000	125,675	185,675
2019	65,000	123,650	188,650
2020-2024	360,000	577,050	937,050
2025-2029	455,000	483,613	938,613
2030-2034	585,000	356,975	941,975
2035-2039	760,000	179,575	939,575
2040	180,000	9,900	189,900
Total District Revenue Bonds	2,645,000	2,243,453	4,888,453
Total	\$ 5,455,000	\$ 2,793,553	\$ 8,248,553

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 7/1/13	Additions	Deductions	Balance 6/30/14	Due in One Year
Bonds payable	\$ 6,320,000	\$ -	\$ (865,000)	\$ 5,455,000	\$ 910,000
Certificates of participation payable	53,576,000	-	(5,868,000)	47,708,000	6,060,000
Estimated insurance claims payable	3,835,000	3,017,397	(2,423,397)	4,429,000	2,528,000
Compensated absences payable	24,728,263	3,435,915	(2,801,824)	25,362,354	2,648,962
Other post employment benefits payable	447,000	1,191,000	(1,058,000)	580,000	-
Total	\$ 88,906,263	\$ 7,644,312	\$ (13,016,221)	\$ 83,534,354	\$ 12,146,962

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

NOTE 8 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

Funds	Interfund	
	Receivables	Payables
Major funds:		
General	\$ 470,891	\$ -
Other Capital Projects	-	226,386
Nonmajor governmental funds	-	244,505
Total	\$ 470,891	\$ 470,891

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.

**Okaloosa County District School Board
Notes to Financial Statements**

NOTE 8 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (CONTINUED)

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)	\$ 11,762,111	\$ 174,526
Capital projects:	174,526	704,469
Nonmajor governmental funds (1)(3)	7,812,565	18,870,207
Total	\$ 19,749,202	\$ 19,749,202

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 were 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 Other Capital Projects were for the construction of tennis courts at Ruckel Middle School and batting cages at Niceville High School from donations received.

NOTE 9 – FUND BALANCE REPORTING

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

- **Nonspendable Fund Balance** – Nonspendable fund balance is the net current financial resources that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. Generally, not in spendable form means that an item is not expected to be converted to cash.

Okaloosa County District School Board
Notes to Financial Statements

NOTE 9 – FUND BALANCE REPORTING (CONTINUED)

- **Restricted Fund Balance** – Restricted fund balance is the portion of fund balance on which constraints have been placed by creditors, grantors, contributors, laws or regulations of other governments, constitutional provisions, or enabling legislation. Restricted fund balance places the most binding level of constraint on the use of fund balance.
- **Unassigned Fund Balance** – The unassigned fund balance is the portion of fund balance that is the residual classification for the General Fund. This balance represents amounts that have not been assigned to other funds and that have not been restricted, committed, or assigned for specific purposes.

NOTE 10 – SCHEDULE OF STATE REVENUE SOURCES

The following is a schedule of the District’s State revenue for the 2013-2014 fiscal year:

Sources	Amount
Florida education finance program	\$ 71,645,713
Categorical educational programs:	
Class size reduction	32,765,953
Transportation	5,883,915
Instructional materials	2,411,874
School recognition funds	1,630,736
Discretionary lottery funds	297,594
Virtual education contribution	81,018
Voluntary prekindergarten	418,542
Workforce development	2,151,827
Department of juvenile justice supplemental	168,452
Motor vehicles license tax (General Fund, Capital Outlay and Debt Service)	1,091,735
Charter school capital outlay	704,469
Racing commission funds (Debt Service)	190,750
Food service supplement	116,230
Mobile home license tax	42,726
Miscellaneous	447,752
Total	\$ 120,049,286

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

Okaloosa County District School Board
Notes to Financial Statements

NOTE 11 – PROPERTY TAXES

The following is a summary of millages and taxes levied on the 2013 tax roll for the 2013-14 fiscal year:

	Millages	Taxes Levied
<u>General Fund</u>		
Nonvoted School Tax:		
Required local effort	5.303	\$ 78,706,194
Basic discretionary local effort	0.748	11,100,548
<u>Capital Projects Funds</u>		
Nonvoted Tax:		
Local capital improvements	1.500	22,264,490
Total	7.551	\$ 112,071,232

NOTE 12 – FLORIDA RETIREMENT PROGRAM

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

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

DROP, subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with an FRS employer. An employee may participate in 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 FRS Trust Fund and accrue interest.

Okaloosa County District School Board
Notes to Financial Statements

NOTE 12 – FLORIDA RETIREMENT PROGRAM (CONTINUED)

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

FRS Retirement Contribution Rates

The State of Florida establishes, and may amend, contribution rates for participating employers and employees. During the 2013-2014 fiscal year, contribution rates were as follows:

Class or Plan	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	3.00	6.95
Florida Retirement System, Elected County Officers	3.00	33.03
Deferred Retirement Option Program - Applicable to Members From All of the Above Classes or Plans	-	12.84
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes:

(A) Employer rates include the post-employment health insurance of 1.20 percent. The FRS Investment Plan administration fee is 0.03 percent.

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

The District's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the District. The District's contributions, including employee contributions, for the fiscal years ended June 30, 2014, June 30, 2013, and June 30, 2012, totaled \$14,984,249, \$10,877,078, and \$10,020,334 respectively, which were equal to the required contributions for each fiscal year.

There were 410 District participants in the Investment Plan during the 2013-2014 fiscal year. The District's contribution, including employee contributions to the Investment Plan, total \$1,377,017, which was equal to the required contribution for the 2013-14 fiscal year.

Okaloosa County District School Board Notes to Financial Statements

NOTE 12 – FLORIDA RETIREMENT PROGRAM (CONTINUED)

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

NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS PAYABLE

Plan Description

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

Funding Policy

The District has established contribution requirements for Plan members and the contributions may be amended through Board action. 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 2013, the most recent valuation date, there were 234 retirees receiving medical benefits, and 1,496 received life benefits. The District provided required contributions of \$1,058,000 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees, and net of retiree contributions totaling \$1,191,000, which represents 0.86 percent of covered payroll.

Funded Status and Funding Progress

As of July 1, 2013, the actuarial accrued liability for benefits was \$15,940,000, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$15,940,000. The covered payroll (annual payroll of active participating employees) was \$139,200,318 for the 2013-14 fiscal year and the ratio of unfunded actuarial accrued liability to the covered payroll was 11.45 percent.

Okaloosa County District School Board
Notes to Financial Statements

NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS PAYABLE (CONTINUED)

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.

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

<i>Year ended June 30,</i>	2014
Normal Cost (service cost for one year)	\$ 528,000
Amortization of Unfunded Actuarial Accrued Liability (UAAL)	609,000
Interest on Normal Cost and Amortization	51,000
Annual Required Contribution (ARC)	1,188,000
Interest on Net OPEB Obligation	20,000
Adjustment to Annual Required Contribution	(17,000)
Annual OPEB Cost (Expense)	1,191,000
Contributions made	(1,058,000)
Increase (decrease) in Net OPEB Obligation	133,000
Net OPEB Obligation, beginning of year	447,000
Net OPEB Obligation, end of year	\$ 580,000

Okaloosa County District School Board
Notes to Financial Statements

NOTE 13 – OTHER POSTEMPLOYMENT BENEFITS PAYABLE (CONTINUED)

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, 2014, 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
6/30/2012	\$ 952,000	\$ 773,000	81.20%	\$ 382,000
6/30/2013	981,000	916,000	93.37%	447,000
6/30/2014	1,191,000	1,058,000	88.83%	580,000

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

The District OPEB report incorporates the 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. However, the Exchanges are expected to be a more attractive offer for some retirees, particularly if they qualify for premium assistance and the emerging experience suggest fewer retirees are electing to stay on the plan. Consequently, the actuary reduced the pre-65 participation assumption from 30% to 20%. The coverage and cost sharing rules in the Act eliminate lifetime limits for plan years starting six months after March 23, 2010, and no all limits on or after July 1, 2013. Future District health costs may be adjusted for these costs sharing changes. The excise tax has been valued and is included in the actuarially accrued liability.

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 June 30, 2013, used the unit credit method to estimate the unfunded actuarial liability as of June 30, 2014, and to estimate the District's 2013-2014 fiscal year ARC. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4.5 percent rate of return on invested assets. The actuarial assumptions also included a payroll growth rate of 3.5 percent per year, and an annual healthcare cost trend rate of 9.0 reduce by 0.5 percent per year, to an ultimate rate of 5 percent. The unfunded actuarial accrued liability is being amortized using a level percentage of payroll on an open basis.

Okaloosa County District School Board
Notes to Financial Statements

NOTE 14 – 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
HVAC:			
Fort Walton Beach / Baker	\$ 954,722	\$ 135,864	\$ 818,858
Niceville / Mary Esther School	1,085,853	844,301	241,552
Storm Damage:			
Edwins Elementary School	429,886	38,039	391,847
Waste Water Treatment Plant:			
Baker School	1,246,572	759,057	487,515
Total	\$ 3,717,033	\$ 1,777,261	\$ 1,939,772

Encumbrances

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

The Florida Department of Education requires that fund balances be assigned or committed at the fiscal year-end to report an amount likely to be expended from the 2014-2015 fiscal year budget as a result of purchase orders outstanding at June 30, 2014.

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 grants funds.

The following is a schedule of encumbrances at June 30, 2014:

Major Fund General Fund	Major Fund Capital Projects - Other	Nonmajor Governmental Funds	Total Governmental Funds
\$ 1,472,827	\$ 80,001	\$ 701,480	\$ 2,254,307

Okaloosa County District School Board
Notes to Financial Statements

NOTE 15 – OPERATING LEASE COMMITMENT

The District leases its computer hardware assets. The lease expired on December 31, 2013 and was extended through June 30, 2014. The Board approved a new agreement of May 12, 2014 for the periods July 1, 2014 through June 30, 2019. This agreement may be renewed one time for up to five years at the end of this term. Total expenditures under the operating lease for the fiscal year ended June 30, 2014 was \$6,042,984. The following table represents future minimum lease payments:

<i>Fiscal Year Ending June 30,</i>	Amount
2015	\$ 6,066,478
2016	6,066,478
2017	6,009,560
2018	5,953,363
2019	5,897,788
Total minimum payments required	\$ 29,993,667

NOTE 16 – RISK MANAGEMENT PROGRAMS

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

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

Okaloosa County District School Board
Notes to Financial Statements

NOTE 16 – RISK MANAGEMENT PROGRAMS (CONTINUED)

The District reports all of its risk management activities in the General Fund. At June 30, 2014, an actuarially determined liability of \$4,429,000 (\$314,000 for the property program, undiscounted, and \$4,115,000 for the casualty program, discounted using a 4 percent rate of return) is reported as estimated insurance claims payable on the District’s fund balance 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
2012-13	\$ 3,799,000	\$ 1,799,529	\$ (1,763,529)	\$ 3,835,000
2013-14	3,835,000	3,017,397	(2,423,397)	4,429,000

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.



**Required Supplemental Information
(Other Than MD&A)**

**Okaloosa County District School Board
Budget to Actual Comparison Schedule: General Fund**

Year ended June 30,

2014

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental:				
Federal direct	\$ 3,650,554	\$ 3,770,633	\$ 4,020,729	\$ 250,096
Federal through state	466,000	610,613	610,613	-
State sources	118,006,012	117,962,400	117,962,400	-
Local sources	90,103,448	91,776,587	92,490,735	714,148
Total revenues	212,226,014	214,120,233	215,084,477	964,244
Expenditures				
Instruction	155,342,207	158,883,220	150,876,333	8,006,887
Pupil personnel services	7,101,890	7,200,318	7,031,477	168,841
Instructional media services	1,284,179	1,345,181	1,227,045	118,136
Instructional and curriculum development	7,430,901	6,424,097	5,812,765	611,332
Instructional staff training	941,419	1,127,268	786,335	340,933
Instruction related technology	847,553	843,828	751,156	92,672
Board of education	3,626,740	4,361,442	1,475,407	2,886,035
General administration	414,462	451,435	361,649	89,786
School administration	15,395,869	16,535,990	16,001,692	534,298
Facilities acquisition and construction	456,969	491,526	257,052	234,474
Fiscal services	2,011,931	2,137,361	1,814,413	322,948
Food services	-	39,288	39,287	1
Central services	5,866,629	5,809,477	2,973,981	2,835,496
Pupil transportation services	11,628,332	12,139,495	11,540,652	598,843
Operation of plant	16,475,971	18,095,602	15,383,550	2,712,052
Maintenance of plant	7,470,544	9,566,895	8,112,566	1,454,329
Administrative technology services	2,785,960	3,117,649	2,755,783	361,866
Community services	1,905,264	2,065,793	1,198,332	867,461
Fixed capital outlay:				
Facilities acquisition and construction	-	24,573	24,573	-
Other capital outlay	-	277,172	277,172	-
Total expenditures	240,986,820	250,937,610	228,701,220	22,236,390
Excess (deficiency) of revenues over expenditures	(28,760,806)	(36,817,377)	(13,616,743)	23,200,634
Other financing sources (uses)				
Loss recoveries	2,809	123,075	123,075	-
Transfers in	11,476,515	11,762,111	11,762,111	-
Transfers out	-	-	(174,526)	174,526
Total other financing sources and (uses)	11,479,324	11,885,186	11,710,660	174,526
Net change in fund balances	(17,281,482)	(24,932,191)	(1,906,083)	23,026,108
Fund balances - beginning	64,788,384	64,788,384	64,788,384	-
Fund balances - ending	\$ 47,506,902	\$ 39,856,193	\$ 62,882,301	\$ 23,026,108

Okaloosa County District School Board
Budget to Actual Comparison Schedule: Special Revenue Fund –
ARRA Economic Stimulus Fund

<i>Year ended June 30,</i>	2014			
	<u>Budgeted Amounts</u>		Actual	Variance with
	Original	Final	Amounts	Final Budget -
				Postive
				(Negative)
Revenues				
Intergovernmental:				
Federal through state and local	\$ 736,164	\$ 871,520	\$ 785,410	\$ (86,110)
Total revenues	736,164	871,520	785,410	(86,110)
Expenditures				
Instruction	63,330	190,780	190,780	-
Instructional and curriculum development	144,847	102,898	102,898	-
Instructional staff training	247,575	328,899	243,364	85,535
Instruction related technology	111,203	104,653	104,653	-
General administration	24,901	21,917	21,342	575
Pupil transportation	935	-	-	-
Administrative technology services	143,373	82,000	82,000	-
Fixed capital outlay:				
Other capital outlay	-	40,373	40,373	-
Total expenditures	736,164	871,520	785,410	86,110
Excess (deficiency) of revenues over expenditures	-	-	-	-
Net change in fund balances	-	-	-	-
Fund balances - beginning	-	-	-	-
Fund balances - ending	\$ -	\$ -	\$ -	\$ -

Okaloosa County District School Board
Schedule of Funding Progress for Other Post-Employment Benefits

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Liability (AAL) - Entry Age (1)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
7/1/07	\$ -	\$ 17,078,000	\$ 17,078,000	0.00%	\$ 102,423,962	16.67%
7/1/08	-	17,409,000	17,409,000	0.00%	98,725,436	17.63%
7/1/09	-	16,100,000	16,100,000	0.00%	114,997,142	14.00%
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%
7/1/13	-	15,940,000	15,940,000	0.00%	139,200,318	11.45%

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

Okaloosa County District School Board Notes to Required Supplementary Information

NOTE 1 – BUDGETARY BASIS OF ACCOUNTING

The Board follows procedures established by State statutes and State Board of Education (“SBE”) rules in establishing budget balances for governmental funds as described below:

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

NOTE 2 – SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS

The July 1, 2013, unfunded actuarial accrued liability of \$15,940,000 was lower than the July 1, 2009, liability of \$16,100,000 as a result of benefit changes and other changes in liabilities and costs as discussed below:

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



Other Information

Okaloosa County District School Board Schedule of Expenditures of Federal Awards

	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:				
Child Nutrition Cluster:				
Florida Department of Agriculture and Consumer Services:				
School Breakfast Program	10.553	321	\$ 1,154,629	\$ -
National School Lunch Program (Note 2)	10.555	300	5,625,061	-
Summer Food Service Program for Children	10.559	323	255,753	-
Total Child Nutrition Cluster			<u>7,035,443</u>	<u>-</u>
Florida Department of Financial Services:				
Schools and Roads - Grants to States	10.665	none	135	-
Total United States Department of Agriculture			<u>7,035,578</u>	<u>-</u>
United States Department of Education:				
Direct:				
Impact Aid (Note 3)	84.041	N/A	2,945,555	92,566
Federal Pell Grant Program	84.063	N/A	836,079	-
Total Direct			<u>3,781,634</u>	<u>92,566</u>
Indirect:				
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027	263	6,445,934	-
Special Education - Preschool Grants	84.173	267	123,785	-
University of South Florida:				
Special Education - Grants to States	84.027	none	471	-
Total Special Education Cluster			<u>6,570,190</u>	<u>-</u>
Florida Department of Education:				
Title I Grants to Local Educational Agencies	84.010	212, 223	5,561,248	10,000
Career and Technical Education - Basic Grants to	84.048	161	290,475	-
Education for Homeless Children and Youth	84.196	127	39,266	-
English Language Acquisition Grants	84.365	102	94,046	-
Improving Teacher Quality State Grants	84.367	224	1,358,827	-
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to- the-Top, Recovery Act	84.395	RL111, RD211, RG311, RG411	785,410	-
Total Florida Department of Education			<u>8,129,272</u>	<u>10,000</u>
Total Indirect			<u>14,699,462</u>	<u>10,000</u>
Total United States Department of Education			<u>18,481,096</u>	<u>102,566</u>
United States Department of Defense:				
Direct:				
Public Law 110-417	None	N/A	790,043	-
Air Force Junior Reserve Officers Training Corps	None	N/A	180,456	-
Army Junior Reserve Officers Training Corps	None	N/A	103,601	-
Competitive Grants: Promoting K-12 Student Achievement at Military Connected Schools	12.556	HE1254-11- 1-0059	245,802	-
Air Force Defense Research Sciences Program	12.800	FA8651-12- 2-0005	6,517	-
Total United States Department of Defense			<u>1,326,419</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 26,843,093</u>	<u>\$ 102,566</u>



Okaloosa County District School Board Notes to Schedule of Expenditures of Federal Awards

- Notes: (1) Basis of Presentation - The Schedule of Expenditures of Federal Awards represents amounts expended from Federal Programs during the 2013 - 2014 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 general purpose financial statements have been reported.
- (2) Noncash Assistance – National School Lunch Program – Includes \$811,003 of donated food received during the fiscal year. Donated foods are valued at fair value as determined at the time of donation.
- (3) Impact Aid – Expenditures include \$1,841,707 for grant number / program year S041B-2014-1256 and \$1,103,848 for grant number / program year S041B-2014-1256.



Compliance Section

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 the 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, each major fund, and the aggregate remaining fund information of Okaloosa County District School Board (hereinafter referred to as the "District"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 27, 2015.

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 from 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 District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

CARR, RIGGS & INGRAM, LLC

Miramar Beach, Florida
February 27, 2015

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND REPORT 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 a direct and material effect on each of the District's major federal programs for the year ended June 30, 2014. 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, 2014.

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 compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

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

CARR, RIGGS & INGRAM, LLC

Miramar Beach, Florida
February 27, 2015

Okaloosa County District School Board Schedule of Findings and Questioned Costs

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, 2014:

- The auditor's report expresses an unqualified 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 Okaloosa County District School Board which would be required to be reported in accordance with *Government Auditing Standards* were disclosed during the audit.
- No significant deficiencies relating to the audit of the major federal award programs are reported in the Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and 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 were no audit findings relative to the major federal award programs for Okaloosa County District School Board.
- The programs tested as major programs included: Food Nutrition Cluster (CFDA 10.533, 10.555, 10.559), Impact Aid (CFDA 84.041), Title I Grants to Local Educational Agencies (CFDA 84.010), ARRA - State Fiscal Stabilization Fund - Race to the Top (CFDA 84.395), and Special Education Cluster (CFDA 84.027, 84.173).
- The threshold for distinguishing between Types A and B programs was \$805,293.
- 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 Summary Schedule of Prior Audit Findings

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
2013-001	Special Education - Grants to States (84.027)	Five personnel selected for time and effort reporting did not have sufficient documentation of either a personnel activity report or time certification.	Resolved



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MANAGEMENT LETTER

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 financial statements of the Okaloosa County District School Board ("District") as of and for the fiscal year ended June 30, 2014, and have issued our report thereon dated February 27, 2015.

Auditor's Responsibility

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; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and Chapter 10.800, Rules of the Florida Auditor General.

Other Reporting Requirements

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 For Each Major Federal Program and Report on Internal Control over Compliance in Accordance with OMB Circular A-133, and Schedule of Findings and Questioned Costs; and our Independent Accountant's Report in accordance with Chapter 10.800, Rules of the Auditor General. Disclosures in those reports and schedule, which are dated February 27, 2015, should be considered in conjunction with this management letter.

Prior Audit Findings

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.

Financial Condition

Section 10.804(1)(f)2., Rules of the Auditor General, requires a statement be included as to whether or not the District 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.

Pursuant to Sections 10.804(1)(f)5.a. and 10.805(6), Rules of the Auditor General, we applied financial condition assessment procedures for the District. 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.

Transparency

Section 10.804(1)(f)6., Rules of the Auditor General, requires the auditor to state whether or not the District 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.

Other Matters

Section 10.804(1)(f)3., 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)4., Rules of the Auditor General, requires that we address noncompliance with provisions of 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 which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

Purpose of this Letter

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

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

CARR, RIGGS & INGRAM, LLC

Miramar Beach, Florida
February 27, 2015

**ATTESTATION REPORT ON COMPLIANCE WITH
SECTION 218.415 FLORIDA STATUTES**

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

We have examined Okaloosa County District School Board's compliance with the requirements of Section 218.415, Florida Statutes, *Local Government Investment Policies*, during the year ended June 30, 2014. Management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on the District's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included 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 examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the District's compliance with specified requirements.

In our opinion, the District complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2014.

This report is intended solely for the information and use of management and the State of Florida Auditor General and is not intended to be and should not be used by anyone other than these specified parties.

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

CARR, RIGGS & INGRAM, LLC

Miramar Beach, Florida
February 27, 2015