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February 2019

**STATE OF FLORIDA AUDITOR GENERAL**

**Financial and Federal Single Audit**

**OKALOOSA COUNTY  
DISTRICT SCHOOL BOARD**

For the Fiscal Year Ended  
June 30, 2018



Sherrill F. Norman, CPA  
Auditor General

## Board Members and Superintendent

During the 2017-18 fiscal year, Mary Beth Jackson served as Superintendent of the Okaloosa County Schools and the following individuals served as School Board Members:

	<u>District No.</u>
Dr. Lamar White, Chair	1
Dewey Destin, Vice Chair	2
Rodney L. Walker	3
Tim Bryant	4
Melissa Thrush	5

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

The team leader was Christy L. Johnson, CPA, and the audit was supervised by Kenneth C. Danley, CPA.

Please address inquiries regarding this report to Micah E. Rodgers, CPA, Audit Manager, by e-mail at [micahrodgers@aud.state.fl.us](mailto:micahrodgers@aud.state.fl.us) or by telephone at (850) 412-2905.

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# SUMMARY

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## SUMMARY OF REPORT ON FINANCIAL STATEMENTS

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

## SUMMARY OF REPORT ON INTERNAL CONTROL AND COMPLIANCE

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

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* issued by the Comptroller General of the United States.

## SUMMARY OF REPORT ON FEDERAL AWARDS

We audited the District's compliance with applicable Federal awards requirements. The Child Nutrition Cluster was audited as a major Federal program. The results of our audit indicated that the District materially complied with the requirements that could have a direct and material effect on the Child Nutrition Cluster.

## AUDIT OBJECTIVES AND SCOPE

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

- Presented the District's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements or on the District's major Federal program; and
- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements, and those applicable to the District's major Federal program.

The scope of this audit included an examination of the District's basic financial statements and the accompanying Schedule of Expenditures of Federal Awards, as of and for the fiscal year ended June 30, 2018. We obtained an understanding of the District's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements and Federal awards. We also examined various transactions to determine whether they were executed, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

## AUDIT METHODOLOGY

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.



Sherrill F. Norman, CPA  
Auditor General

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

## INDEPENDENT AUDITOR'S REPORT

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Okaloosa County District School Board, as of and for the fiscal year ended June 30, 2018, 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 statement of the school internal funds, which represents 38 percent of the assets and 84 percent of the liabilities of the aggregate remaining fund information. In addition, we did not audit the financial statements of the aggregate discretely presented component units, which represent 100 percent of the transactions and account balances of the aggregate discretely presented component units columns. The financial statements for the school internal funds and the aggregate discretely presented component units were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for those financial statements, are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### ***Opinions***

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Okaloosa County District School Board, as of June 30, 2018, and the respective changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note II. to the financial statements, the District implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is a change in accounting principle that addresses accounting and financial reporting for other postemployment benefits. This affects the comparability of amounts reported for the 2017-18 fiscal year with amounts reported for the 2016-17 fiscal year. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS**, the **Budgetary Comparison Schedule – General and Major Special Revenue Funds**, **Schedule of Changes in the District's Total OPEB Liability and Related Ratios**, **Schedule of the District's Proportionate Share of the Net Pension Liability – Florida Retirement System Pension Plan**, **Schedule of District Contributions – Florida Retirement System Pension Plan**, **Schedule of the District's Proportionate Share of the Net Pension Liability – Health Insurance Subsidy Pension Plan**, **Schedule of District Contributions – Health Insurance Subsidy Pension Plan**, and **Notes to Required Supplementary Information**, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States



of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The accompanying **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 20, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**. The purpose of that report is solely 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 effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Respectfully submitted,



Sherrill F. Norman, CPA  
Tallahassee, Florida  
February 20, 2019

## **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, 2018. The information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events, and conditions and should be considered in conjunction with the District's financial statements and notes to financial statements found immediately following the MD&A.

### **FINANCIAL HIGHLIGHTS**

Key financial highlights for the 2017-18 fiscal year are as follows:

- The assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources at June 30, 2018, by \$75,707,588.27 (net position). Of this amount, \$102,112,853.62 represents a deficit unrestricted net position which has increased by 28.1 percent from last fiscal year's deficit unrestricted net position. The major change in the financial position of the District that resulted in this large increase in the deficit in unrestricted net position was the implementation of Governmental Accounting Standards Board (GASB) Statement No. 75.
- The District's total net position decreased \$17,456,712.33, or 18.74 percent from last fiscal year. \$14,732,668 of this decrease was due to restating the beginning net position in order to implement GASB Statement No. 75.
- General revenues total \$286,385,658.55, or 94.53 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total \$16,559,153.28, or 5.47 percent of all revenues.
- Expenses total \$305,668,856.16. Only \$16,559,153.28 of these expenses was offset by program specific charges, with the remainder paid from general revenues.
- The General Fund unassigned fund balance represents the net current financial resources available for general appropriation by the Board and totals \$14,625,510.51 at June 30, 2018, or 5.72 percent of total General Fund expenditures at June 30, 2018, as compared to the 2016-17 fiscal year unassigned fund balance of \$14,471,242.33.
- General Fund expenditures exceeded revenues by \$9,084,681.17.

### **OVERVIEW OF FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The basic financial statements consist of three components: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to financial statements. This report also includes supplementary information intended to furnish additional details to support the basic financial statements.

#### **Government-Wide Financial Statements**

The government-wide financial statements provide both short-term and long-term information about the District's overall financial condition in a manner similar to those of a private-sector business. The statements include a statement of net position and a statement of activities that are designed to provide consolidated financial information about the governmental activities of the District presented on the accrual basis of accounting. The statement of net position provides information about the District's

financial position, its assets, liabilities, and deferred inflows/outflows of resources, using an economic resources measurement focus. The difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources, 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 nonfinancial factors, such as changes in the District's property base, student enrollment, and the condition of the District's capital assets, including its school buildings and administrative facilities.

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

- **Governmental activities** – This represents most of the District's services, including its educational programs: basic, vocational, adult, and exceptional education. Support functions such as transportation and administration are also included. Local property taxes and the State's education finance program provide most of the resources that support these activities.
- **Component units** – The District presents separate legal entities in this report including the Okaloosa Academy, Inc.; the Liza Jackson Preparatory School, Inc.; and the Okaloosa Public Schools Foundation, Inc. Although legally separate organizations, the component units are included in this report because they meet the criteria for inclusion provided by generally accepted accounting principles. Financial information for these component units is reported separately from the financial information presented for the primary government.

The Okaloosa School Board Leasing Corporation (Leasing Corporation), although also a legally separate entity, was formed to facilitate financing for the acquisition of facilities and equipment for the District. Due to the substantive economic relationship between the School Board and the Leasing Corporation, the Leasing Corporation has been included as an integral part of the primary government.

### **Fund Financial Statements**

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances provide detailed information about the District's most significant funds, not the District as a whole. The District's major funds are the General Fund, the Special Revenue – Other Federal Programs Fund, and the Capital Projects – Local Capital Improvement Fund. Data from the other governmental funds are combined into a single, aggregated presentation.

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

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

The District uses agency funds to account for resources held for student activities and groups and for resources held for employees in an IRS Section 125 Cafeteria Plan.

### **Notes to Financial Statements**

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

### **Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the District's net pension liability and changes in its other postemployment benefits (OPEB) liability.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position over time may serve as a useful indicator of a government's financial health. The following is a summary of the District's net position as of June 30, 2018, compared to net position as of June 30, 2017:

## Net Position, End of Fiscal Year

	Governmental Activities		
	6-30-18	6-30-17	(Increase) Decrease
Current and Other Assets	\$ 75,481,292.89	\$ 69,747,268.93	\$ 5,734,023.96
Capital Assets	179,726,400.86	185,519,631.13	(5,793,230.27)
<b>Total Assets</b>	<b>255,207,693.75</b>	<b>255,266,900.06</b>	<b>(59,206.31)</b>
<b>Deferred Outflows of Resources</b>	<b>66,843,239.00</b>	<b>59,207,599.00</b>	<b>7,635,640.00</b>
Long-Term Liabilities	229,716,577.55	212,118,078.19	17,598,499.36
Other Liabilities	5,510,293.93	4,751,194.27	759,099.66
<b>Total Liabilities</b>	<b>235,226,871.48</b>	<b>216,869,272.46</b>	<b>18,357,599.02</b>
<b>Deferred Inflows of Resources</b>	<b>11,116,473.00</b>	<b>4,440,926.00</b>	<b>6,675,547.00</b>
Net Position:			
Net Investment in Capital Assets	154,317,400.86	152,272,630.13	2,044,770.73
Restricted	23,503,041.03	20,604,374.75	2,898,666.28
Unrestricted (Deficit)	(102,112,853.62)	(79,712,704.28)	(22,400,149.34)
<b>Total Net Position</b>	<b>\$ 75,707,588.27</b>	<b>\$ 93,164,300.60</b>	<b>\$ (17,456,712.33)</b>

The largest portion of the District's net position reflects its \$154,317,400.86 net investment in capital assets (land; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; computer software; and audio-visual materials), less any related debt still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, the resources used to repay the debt must be provided from other sources, since the capital assets cannot be used to liquidate these liabilities.

The restricted portion of the District's net position, \$23,503,041.03, represents resources that are subject to external restrictions on how they may be used. The unrestricted net position, a deficit of \$102,112,853.62, is the result of having long-term obligations that are greater than currently available resources. This deficit balance represents the fourth reported deficit in unrestricted net position in the history of the District. The major change in the financial position of the District that resulted in this deficit net position was due to the implementation of GASB Statement No. 68 and GASB Statement No. 75. Additional information on the implementations of these standards can be found in Note II. of the 2014-15 financial statements for GASB Statement No. 68 and in Note II. of the 2017-18 financial statements for GASB Statement No. 75.

The key elements of the changes in the District's net position for the fiscal years ended June 30, 2018, and June 30, 2017, are as follows:

## Operating Results for the Fiscal Year Ended

	Governmental Activities		Increase (Decrease)
	6-30-18	6-30-17	
<b>Program Revenues:</b>			
Charges for Services	\$ 6,044,379.94	\$ 6,179,372.27	\$ (134,992.33)
Operating Grants and Contributions	8,313,050.51	8,365,527.65	(52,477.14)
Capital Grants and Contributions	2,201,722.83	2,688,803.80	(487,080.97)
<b>General Revenues:</b>			
Property Taxes, Levied for Operational Purposes	86,293,708.72	87,847,130.68	(1,553,421.96)
Property Taxes, Levied for Capital Projects	25,411,096.14	24,371,428.74	1,039,667.40
Grants and Contributions Not Restricted to Specific Programs	170,074,271.75	159,229,353.95	10,844,917.80
Unrestricted Investment Earnings	968,371.81	536,304.45	432,067.36
Miscellaneous	3,638,210.13	3,804,780.23	(166,570.10)
<b>Total Revenues</b>	<b>302,944,811.83</b>	<b>293,022,701.77</b>	<b>9,922,110.06</b>
<b>Functions/Program Expenses:</b>			
Instruction	187,594,006.15	183,424,028.54	4,169,977.61
Student Support Services	9,313,564.55	9,613,834.48	(300,269.93)
Instructional Media Services	1,652,307.80	1,564,025.55	88,282.25
Instruction and Curriculum Development Services	4,698,252.15	7,617,985.51	(2,919,733.36)
Instructional Staff Training Services	3,713,652.78	1,602,707.12	2,110,945.66
Instruction-Related Technology	510,374.34	511,630.21	(1,255.87)
Board	1,206,327.89	1,545,628.86	(339,300.97)
General Administration	824,107.81	923,350.50	(99,242.69)
School Administration	20,557,082.60	20,255,543.40	301,539.20
Facilities Acquisition and Construction	6,533,000.01	4,960,471.16	1,572,528.85
Fiscal Services	2,025,295.95	1,959,690.05	65,605.90
Food Services	10,400,814.45	10,414,223.53	(13,409.08)
Central Services	3,830,627.67	3,258,076.98	572,550.69
Student Transportation Services	13,651,225.16	12,775,148.57	876,076.59
Operation of Plant	18,988,792.89	15,576,366.16	3,412,426.73
Maintenance of Plant	6,895,859.81	7,149,910.94	(254,051.13)
Administrative Technology Services	2,968,234.49	3,026,502.86	(58,268.37)
Community Services	2,188,750.57	2,308,288.13	(119,537.56)
Unallocated Interest on Long-Term Debt	634,491.85	1,536,377.11	(901,885.26)
Unallocated Depreciation Expense	7,482,087.24	7,650,621.95	(168,534.71)
<b>Total Functions/Program Expenses</b>	<b>305,668,856.16</b>	<b>297,674,411.61</b>	<b>7,994,444.55</b>
<b>Change in Net Position</b>	<b>(2,724,044.33)</b>	<b>(4,651,709.84)</b>	<b>1,927,665.51</b>
Net Position - Beginning	93,164,300.60	97,816,010.44	(4,651,709.84)
Adjustment to Beginning Net Position (1)	(14,732,668.00)	-	(14,732,668.00)
Net Position - Beginning, as Restated	78,431,632.60	97,816,010.44	(19,384,377.84)
<b>Net Position - Ending</b>	<b>\$75,707,588.27</b>	<b>\$93,164,300.60</b>	<b>\$(17,456,712.33)</b>

(1) Adjustment to beginning net position is due to the implementation of GASB Statement No. 75, which is a change in accounting principle that addresses accounting and financial reporting for OPEB.

The largest revenue source is the State of Florida (49.98 percent of total governmental revenues). Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula, which is classified as grants and contributions not restricted to specific programs in the operating results shown above. The FEFP funding formula utilizes student enrollment data and is designed to maintain equity in funding across all Florida school districts, taking into consideration the District's funding ability based on the local property tax base.

Grants and contributions not restricted to specific programs represent 56.14 percent of total governmental revenues in the 2017-18 fiscal year. Grants and contributions not restricted to specific programs revenues increased by \$10,844,917.80, or 6.81 percent, due primarily to increases in FEFP, Class Size Reduction, Florida School Recognition Program, and Florida Best and Brightest Teacher and Principal Scholarship Programs.

Property tax revenues decreased by \$513,754.56, or 0.46 percent, as a result of a 6.85 percent decrease in the required local effort millage rate. The required local effort millage rate is determined by the Florida Legislature. The Legislature provided property tax relief to homeowners through a millage rollback.

Instruction expenses represent 61.37 percent of total governmental expenses in the 2017-18 fiscal year. Instruction expenses increased by \$4,169,977.61, or 2.27 percent, from the previous fiscal year due primarily to employee salary and benefit increased costs such as retirement costs and medical insurance.

## FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

### **Major Governmental Funds**

The General Fund is the District's chief operating fund. At the end of the current fiscal year, the total fund balance is \$55,192,017.89, an increase of \$2,462,396.28 over the 2016-17 fiscal year. Of the total fund balance, \$85,916.14 is nonspendable, \$8,724,059.96 is restricted for State required carryover programs, \$31,756,531.28 is assigned, and \$14,625,510.51 is unassigned.

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

- State revenues increased by \$11,254,019.59 in the 2017-18 fiscal year due primarily to an increase in student enrollment; an increase in base student allocation of \$41.87 per student; State-mandated roll back of required local effort millage; an increase in 0.748 mills compression allocation; an increase in Exceptional Student Education Guarantee allocation; an increase in School Recognition funding; and an increase in Florida Best and Brightest Teacher and Principal stipends.
- Total expenditures increased by \$5,363,450.68, or 2.14 percent. Instructional expenditures increased \$2,667,586.48 due to the District's commitment to comply with the State constitutional class size reduction mandate and increases in employee salaries and benefits. Instructional staff training service expenditures increased as a result of changing the functional category of instructional coaches. Student transportation services expenditure increases were attributable to increases in employee salaries and benefits as well as the price of fuel. Operation of plant increased as a result of the District transitioning from a partial self-insured coverage to a fully paid premium coverage for property insurance, casualty, general liability, excess workers' compensation, catastrophic student accident, crime, cyber liability, and pollution coverage. Until all prior claims have been resolved and closed, the District will continue to be financially responsible for the prior claims as well as funding the new fully paid premium insurance program. The District will experience a reduction in expenditures as prior claims are settled.

The Special Revenue – Other Federal Programs Fund accounts for the financial resources of certain Federal grant programs and has total revenues and expenditures of \$15,899,974.75 each. Because grant revenues are not recognized until expenditures are incurred, this fund generally does not accumulate a fund balance.

The Capital Projects – Local Capital Improvement Fund had a total fund balance of \$7,948,076.52, all of which must be used for the acquisition, construction, and maintenance of capital assets. Of the total fund balance, \$1,270,418.68 was encumbered for specific projects at fiscal year end. The fund balance increased \$1,583,031.67 due to property values increasing the District local capital improvement revenue received by 4.27 percent. Transfers were made to the debt service funds to cover a portion of principal and interest payments on long-term debt as well as transfers to the General Fund to cover plant maintenance and seat management services for instructional related items.

### 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 2017-18 fiscal year, the District amended its General Fund budget several times, which resulted in an increase in total budgeted revenues of \$4,644,746.38, or 1.94 percent. At the same time, final budgeted expenditures were more than the original budgeted amounts by \$7,676,170.12, or 2.85 percent. Final budgeted ending fund balance decreased by \$3,983,314.57, or 11.06 percent less than the original budgeted fund balance.

Actual revenues are 0.91 percent greater than the final budgeted amounts while actual expenditures are 7.56 percent less than final budget amounts. The actual ending fund balance exceeded the estimated fund balance contained in the final amended budget by \$23,154,629.39, whereas the actual fund balance increased by \$2,462,396.28, or 4.67 percent, over the prior fiscal year actual fund balance.

### CAPITAL ASSETS AND LONG-TERM DEBT

#### **Capital Assets**

The District's investment in capital assets for its governmental activities as of June 30, 2018, is \$179,726,400.86 (net of accumulated depreciation). This investment in capital assets includes land; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; computer software; and audio-visual materials.

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

#### **Long-Term Debt**

At June 30, 2018, the District had total long-term debt outstanding of \$25,409,000, composed of \$3,142,000 of bonds payable, and \$22,267,000 of certificates of participation payable. During the current fiscal year, retirement of debt was \$7,838,000.

Additional information on the District's long-term debt can be found in Notes III.I.1. through III.I.3. to the financial statements.



## OTHER MATTERS OF SIGNIFICANCE

The School Board of Okaloosa County remains in stable financial condition; however, it continues to face uncertain economic times. The District's current operations depend on State revenue sources, primarily FEFP moneys administered by the Florida Department of Education under the provisions of Section 1011.62, Florida Statutes. In accordance with this law, the District receives FEFP moneys based on the number of full-time equivalent (FTE) students. The District experienced a moderate increase in FTE for the 2017-18 fiscal year and anticipates a slight increase in the 2018-19 fiscal year.

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

The District changed budgeting models in the 2014-15 fiscal year. Schools transitioned from a "site-based budgeting model" to a "centralized hybrid budgeting model." The intent of the new budgeting model was to provide a more equitable level of services to students. Four years after implementation, the new budgeting model has turned out to be an overwhelming success. It has provided more resources to schools and students, in terms of more positions in the classroom, more program offering to students, and freed up more time for school administrators to focus on educational needs.

The District's capital maintenance requirements are significant since approximately 40 percent of its facilities are more than 50 years old and another 40 percent are more than 40 years old. The District continues to experience consistent student growth while receiving virtually no increase in capital outlay funding. As a result, adequate capital outlay funding continues to be of great concern to the District.

## REQUESTS FOR INFORMATION

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

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# BASIC FINANCIAL STATEMENTS

**Okaloosa County District School Board  
Statement of Net Position  
June 30, 2018**

	<b>Primary Governmental</b>	<b>Component Units</b>
	<b>Governmental Activities</b>	<b>Units</b>
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 72,174,073.73	\$ 1,267,168.00
Investments	18,046.39	45,124.00
Accounts Receivable	193,680.41	35,687.00
Due from Other Agencies	2,114,640.07	17,145.00
Deposits Receivable	547,207.50	45,500.00
Prepaid Items	-	81,951.00
Inventories	433,644.79	-
Capital Assets:		
Nondepreciable Capital Assets	11,761,548.92	7,126.00
Depreciable Capital Assets, Net	167,964,851.94	1,738,629.00
<b>TOTAL ASSETS</b>	<b>255,207,693.75</b>	<b>3,238,330.00</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Pensions	66,843,239.00	1,454,052.00
<b>LIABILITIES</b>		
Accrued Salaries and Benefits	3,620,195.37	113,681.00
Accounts Payable	1,386,579.00	29,491.00
Deposits Payable	1,000.00	-
Construction Contracts Payable	462,815.12	-
Construction Contracts Payable - Retained Percentage	39,117.60	-
Due to Other Agencies	144.06	-
Unearned Revenues	442.78	10,500.00
Long-Term Liabilities:		
Portion Due Within 1 Year	11,999,447.00	-
Portion Due After 1 Year	217,717,130.55	3,492,245.00
<b>TOTAL LIABILITIES</b>	<b>235,226,871.48</b>	<b>3,645,917.00</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Other Postemployment Benefits	367,352.00	-
Pensions	10,749,121.00	292,578.00
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>11,116,473.00</b>	<b>292,578.00</b>
<b>NET POSITION</b>		
Net Investment in Capital Assets	154,317,400.86	1,745,755.00
Restricted for:		
State Required Carryover Programs	8,724,059.96	-
Debt Service	69,504.80	-
Capital Projects	9,602,850.24	118,300.00
Food Service	5,106,626.03	5,252.00
Other Purposes	-	119,741.00
Unrestricted	(102,112,853.62)	(1,235,161.00)
<b>TOTAL NET POSITION</b>	<b>\$ 75,707,588.27</b>	<b>\$ 753,887.00</b>

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

**Okaloosa County District School Board  
Statement of Activities  
For the Fiscal Year Ended June 30, 2018**

Functions/Programs	Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions
<b>Primary Government</b>			
<b>Governmental Activities:</b>			
Instruction	\$ 187,594,006.15	\$ 2,239,856.06	\$ -
Student Support Services	9,313,564.55	-	-
Instructional Media Services	1,652,307.80	-	-
Instruction and Curriculum Development Services	4,698,252.15	-	-
Instructional Staff Training Services	3,713,652.78	-	-
Instruction-Related Technology	510,374.34	-	-
Board	1,206,327.89	-	-
General Administration	824,107.81	-	-
School Administration	20,557,082.60	-	-
Facilities Acquisition and Construction	6,533,000.01	-	-
Fiscal Services	2,025,295.95	-	-
Food Services	10,400,814.45	3,372,217.57	8,313,050.51
Central Services	3,830,627.67	-	-
Student Transportation Services	13,651,225.16	432,306.31	-
Operation of Plant	18,988,792.89	-	-
Maintenance of Plant	6,895,859.81	-	-
Administrative Technology Services	2,968,234.49	-	-
Community Services	2,188,750.57	-	-
Unallocated Interest on Long-Term Debt	634,491.85	-	-
Unallocated Depreciation Expense*	7,482,087.24	-	-
<b>Total Primary Government</b>	<b>\$ 305,668,856.16</b>	<b>\$ 6,044,379.94</b>	<b>\$ 8,313,050.51</b>
<b>Component Units</b>			
Charter Schools/Foundation	\$ 9,883,551.00	\$ 502,275.00	\$ 743,296.00

General Revenues:

Taxes:

- Property Taxes, Levied for Operational Purposes
- Property Taxes, Levied for Capital Projects
- Grants and Contributions Not Restricted to Specific Programs
- Unrestricted Investment Earnings
- Miscellaneous

**Total General Revenues**

**Change in Net Position**

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

**Net Position - Ending**

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

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

<b>Net (Expense) Revenue and Changes in Net Position</b>		
<b>Capital Grants and Contributions</b>	<b>Primary Governmental Activities</b>	<b>Component Units</b>
\$ -	\$ (185,354,150.09)	\$ -
-	(9,313,564.55)	-
-	(1,652,307.80)	-
-	(4,698,252.15)	-
-	(3,713,652.78)	-
-	(510,374.34)	-
-	(1,206,327.89)	-
-	(824,107.81)	-
-	(20,557,082.60)	-
1,834,674.89	(4,698,325.12)	-
-	(2,025,295.95)	-
-	1,284,453.63	-
-	(3,830,627.67)	-
-	(13,218,918.85)	-
-	(18,988,792.89)	-
-	(6,895,859.81)	-
-	(2,968,234.49)	-
-	(2,188,750.57)	-
367,047.94	(267,443.91)	-
-	(7,482,087.24)	-
<u>\$ 2,201,722.83</u>	<u>(289,109,702.88)</u>	<u>-</u>
<u>\$ 635,172.00</u>	<u>-</u>	<u>(8,002,808.00)</u>
	86,293,708.72	-
	25,411,096.14	-
	170,074,271.75	7,760,480.00
	968,371.81	175.00
	<u>3,638,210.13</u>	<u>123,825.00</u>
	<u>286,385,658.55</u>	<u>7,884,480.00</u>
	(2,724,044.33)	(118,328.00)
	93,164,300.60	872,215.00
	(14,732,668.00)	-
	<u>78,431,632.60</u>	<u>872,215.00</u>
	<u>\$ 75,707,588.27</u>	<u>\$ 753,887.00</u>

**Okaloosa County District School Board  
Balance Sheet – Governmental Funds  
June 30, 2018**

	<u>General Fund</u>	<u>Special Revenue - Other Federal Programs Fund</u>	<u>Capital Projects - Local Capital Improvement Fund</u>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 57,243,858.17	\$ -	\$ 8,362,333.59
Investments	-	-	-
Accounts Receivable	24,810.91	-	-
Due from Other Agencies	1,017,390.14	651,967.01	3,806.92
Due from Other Funds	797,595.43	-	-
Deposits Receivable	547,207.50	-	-
Inventories	85,916.14	-	-
<b>TOTAL ASSETS</b>	<b>\$ 59,716,778.29</b>	<b>\$ 651,967.01</b>	<b>\$ 8,366,140.51</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accrued Salaries and Benefits	\$ 3,620,195.37	\$ -	\$ -
Accounts Payable	899,275.92	34,260.95	78,424.25
Deposits Payable	-	-	-
Construction Contracts Payable	5,145.05	-	302,489.48
Construction Contracts Payable - Retained Percentage	-	-	37,150.26
Due to Other Agencies	144.06	-	-
Due to Other Funds	-	617,263.28	-
Unearned Revenues	-	442.78	-
<b>Total Liabilities</b>	<b>4,524,760.40</b>	<b>651,967.01</b>	<b>418,063.99</b>
Fund Balances:			
Nonspendable:			
Inventories	85,916.14	-	-
Restricted for:			
State Required Carryover Programs	8,724,059.96	-	-
Debt Service	-	-	-
Capital Projects	-	-	7,948,076.52
Food Service	-	-	-
Total Restricted Fund Balance	<b>8,724,059.96</b>	<b>-</b>	<b>7,948,076.52</b>
Assigned for:			
Project Carryover	24,181,698.57	-	-
Schools and Departments	826,768.13	-	-
Full-Time Equivalent Funding Adjustments	1,738,741.00	-	-
Retirement	512,323.58	-	-
Self-Insurance	4,497,000.00	-	-
Total Assigned Fund Balance	<b>31,756,531.28</b>	<b>-</b>	<b>-</b>
Unassigned Fund Balance	14,625,510.51	-	-
<b>Total Fund Balances</b>	<b>55,192,017.89</b>	<b>-</b>	<b>7,948,076.52</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 59,716,778.29</b>	<b>\$ 651,967.01</b>	<b>\$ 8,366,140.51</b>

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

<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 6,567,881.97	\$ 72,174,073.73
18,046.39	18,046.39
649.06	25,459.97
441,476.00	2,114,640.07
-	797,595.43
-	547,207.50
347,728.65	433,644.79
<u>\$ 7,375,782.07</u>	<u>\$ 76,110,667.88</u>
\$ -	\$ 3,620,195.37
374,617.88	1,386,579.00
1,000.00	1,000.00
155,180.59	462,815.12
1,967.34	39,117.60
-	144.06
12,111.71	629,374.99
-	442.78
<u>544,877.52</u>	<u>6,139,668.92</u>
<u>347,728.65</u>	<u>433,644.79</u>
-	8,724,059.96
69,504.80	69,504.80
1,654,773.72	9,602,850.24
4,758,897.38	4,758,897.38
<u>6,483,175.90</u>	<u>23,155,312.38</u>
-	24,181,698.57
-	826,768.13
-	1,738,741.00
-	512,323.58
-	4,497,000.00
-	31,756,531.28
-	14,625,510.51
<u>6,830,904.55</u>	<u>69,970,998.96</u>
<u>\$ 7,375,782.07</u>	<u>\$ 76,110,667.88</u>

**Okaloosa County District School Board  
 Reconciliation of the Governmental Funds Balance Sheet  
 to the Statement of Net Position  
 June 30, 2018**

**Total Fund Balances - Governmental Funds** \$ 69,970,998.96

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

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. 179,726,400.86

Long-term liabilities are not due and payable in the fiscal year and, therefore, are not reported as liabilities in the governmental funds. (229,716,577.55)

The deferred outflows of resources and deferred inflows of resources related to pensions and other postemployment benefits are applicable to future periods and, therefore, are not reported in the governmental funds.

Deferred Outflows Related to Pensions	\$ 66,843,239.00	
Deferred Inflows Related to Pensions	(10,749,121.00)	
Deferred Inflows Related to Other Postemployment Benefits	<u>(367,352.00)</u>	<u>55,726,766.00</u>

**Net Position - Governmental Activities** **\$ 75,707,588.27**

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



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**Okaloosa County District School Board  
Statement of Revenues, Expenditures, and Changes in  
Fund Balances – Governmental Funds  
For the Fiscal Year Ended June 30, 2018**

	General Fund	Special Revenue - Other Federal Programs Fund	Capital Projects - Local Capital Improvement Fund
<b>Revenues</b>			
Intergovernmental:			
Federal Direct	\$ 4,277,404.94	\$ 1,745,838.37	\$ -
Federal Through State and Local	783,334.47	14,154,136.38	-
State	149,129,854.88	-	-
Local:			
Property Taxes	86,293,708.72	-	25,411,096.14
Charges for Services - Food Service	-	-	-
Miscellaneous	6,334,615.91	-	136,095.93
Total Local Revenues	<u>92,628,324.63</u>	<u>-</u>	<u>25,547,192.07</u>
<b>Total Revenues</b>	<u>246,818,918.92</u>	<u>15,899,974.75</u>	<u>25,547,192.07</u>
<b>Expenditures</b>			
Current - Education:			
Instruction	170,087,717.54	10,841,803.36	-
Student Support Services	8,393,526.28	574,502.10	-
Instructional Media Services	1,587,208.90	-	-
Instruction and Curriculum Development Services	2,663,148.13	1,848,334.19	-
Instructional Staff Training Services	2,491,986.05	1,082,891.32	-
Instruction-Related Technology	493,187.72	-	-
Board	1,140,596.85	-	-
General Administration	301,073.95	506,867.21	-
School Administration	19,695,424.75	-	-
Facilities Acquisition and Construction	448,502.76	-	4,141,906.36
Fiscal Services	1,940,981.56	-	-
Food Services	80,231.86	-	-
Central Services	3,379,816.20	-	-
Student Transportation Services	12,997,253.39	36,967.26	-
Operation of Plant	18,704,241.94	-	-
Maintenance of Plant	6,604,872.99	-	-
Administrative Technology Services	2,870,339.17	-	-
Community Services	1,320,872.57	827,564.28	-
Fixed Capital Outlay:			
Facilities Acquisition and Construction	33,393.85	-	555,599.01
Other Capital Outlay	669,223.63	181,045.03	936,380.03
Debt Service:			
Principal	-	-	-
Interest and Fiscal Charges	-	-	-
<b>Total Expenditures</b>	<u>255,903,600.09</u>	<u>15,899,974.75</u>	<u>5,633,885.40</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>(9,084,681.17)</u>	<u>-</u>	<u>19,913,306.67</u>
<b>Other Financing Sources (Uses)</b>			
Transfers In	11,136,679.45	-	-
Payments to Refunding Escrow Agent	-	-	-
Loss Recoveries	664,170.00	-	-
Transfers Out	<u>(253,772.00)</u>	<u>-</u>	<u>(18,330,275.00)</u>
<b>Total Other Financing Sources (Uses)</b>	<u>11,547,077.45</u>	<u>-</u>	<u>(18,330,275.00)</u>
<b>Net Change in Fund Balances</b>	2,462,396.28	-	1,583,031.67
Fund Balances, Beginning	52,729,621.61	-	6,365,044.85
<b>Fund Balances, Ending</b>	<u>\$ 55,192,017.89</u>	<u>\$ 0.00</u>	<u>\$ 7,948,076.52</u>

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

<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 1,500.00	\$ 6,024,743.31
8,208,967.51	23,146,438.36
2,288,008.54	151,417,863.42
-	111,704,804.86
3,372,217.57	3,372,217.57
72,377.69	6,543,089.53
<u>3,444,595.26</u>	<u>121,620,111.96</u>
<u>13,943,071.31</u>	<u>302,209,157.05</u>
-	180,929,520.90
-	8,968,028.38
-	1,587,208.90
-	4,511,482.32
-	3,574,877.37
-	493,187.72
-	1,140,596.85
-	807,941.16
-	19,695,424.75
1,672,078.05	6,262,487.17
-	1,940,981.56
10,211,553.01	10,291,784.87
-	3,379,816.20
-	13,034,220.65
-	18,704,241.94
-	6,604,872.99
-	2,870,339.17
-	2,148,436.85
89,364.53	678,357.39
98,455.07	1,885,103.76
7,213,000.00	7,213,000.00
<u>597,832.63</u>	<u>597,832.63</u>
<u>19,882,283.29</u>	<u>297,319,743.53</u>
<u>(5,939,211.98)</u>	<u>4,889,413.52</u>
7,706,656.20	18,843,335.65
(661,659.22)	(661,659.22)
83,000.00	747,170.00
<u>(259,288.65)</u>	<u>(18,843,335.65)</u>
<u>6,868,708.33</u>	<u>85,510.78</u>
929,496.35	4,974,924.30
<u>5,901,408.20</u>	<u>64,996,074.66</u>
<u>\$ 6,830,904.55</u>	<u>\$ 69,970,998.96</u>

**Okaloosa County District School Board  
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures,  
and Changes in Fund Balances to the Statement of Activities  
For the Fiscal Year Ended June 30, 2018**

**Net Change in Fund Balances - Governmental Funds** \$ 4,974,924.30

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

Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as a depreciation expense. This is the amount of depreciation expense in excess of capital outlays in the current fiscal year. (5,781,715.05)

The net effect of miscellaneous transactions involving capital assets (e.g., donations and disposals) reduced capital assets. (11,515.22)

Repayment of debt principal is an expenditure or other financing use in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 7,838,000.00

In the statement of activities, the cost of compensated absences is measured by the amounts earned during the fiscal year, while in the governmental funds, expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences used in excess of the amount earned in the current fiscal year. 3,113.64

Governmental funds report District other post employment benefits (OPEB) contributions as expenditures. However, in the statement of activities, the cost of OPEB benefits earned net of employee contributions, as determined through an actuarial valuation, is reported as an OPEB expense.

Decrease in OPEB Liability	\$ (288,043.00)	
Increase in Deferred Inflows of Resources - OPEB	<u>367,352.00</u>	(79,309.00)

Governmental funds report District pension contributions as expenditures. However, in the statement of activities, the cost of pension benefits earned net of employee contributions is reported as a pension expense.

FRS Pension Contribution	\$ 9,772,172.00	
HIS Pension Contribution	2,577,961.00	
FRS Pension Expense	(17,395,575.00)	
HIS Pension Expense	<u>(4,272,101.00)</u>	(9,317,543.00)

In the statement of activities, claims expenses include additional amounts for increases in long-term insurance claims liabilities. However, claims expenditures in the governmental funds are measured by the amount of financial resources used (essentially, the amount paid). This is the net amount by which the estimated insurance claims liability increased during the current fiscal year. (350,000.00)

**Change in Net Position - Governmental Activities** \$ (2,724,044.33)

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

**Okaloosa County District School Board  
Statement of Fiduciary Assets and Liabilities – Fiduciary Funds  
June 30, 2018**

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash and Cash Equivalents	\$ 3,956,616.18
Investments	796,204.00
Accounts Receivable	<u>348,276.40</u>
<b>TOTAL ASSETS</b>	<u>\$ 5,101,096.58</u>
<b>LIABILITIES</b>	
Accounts Payable	\$ 314,477.14
Internal Accounts Payable	4,618,399.00
Due to Other Funds	<u>168,220.44</u>
<b>TOTAL LIABILITIES</b>	<u>\$ 5,101,096.58</u>

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

# **NOTES TO FINANCIAL STATEMENTS**

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## **I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **A. Description of Government-Wide Financial Statements**

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

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

### **B. Reporting Entity**

The Okaloosa County District School Board (Board) has direct responsibility for operation, control, and supervision of District schools and is considered a primary government for financial reporting. The District is considered part of the Florida system of public education, operates under the general direction of the Florida Department of Education (FDOE), and is governed by State law and State Board of Education (SBE) rules. The governing body of the District is the Board, which is composed of five elected members. The elected Superintendent of Schools is the executive officer of the Board. Geographic boundaries of the District correspond with those of Okaloosa County.

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

**Blended Component Unit.** A blended component unit is, in substance, part of the District's operations, even though it is a legally separate entity. Thus, a blended component unit is appropriately presented as funds of the District. The Okaloosa School Board Leasing Corporation (Leasing Corporation) was formed to facilitate financing for the acquisition of facilities and equipment as further discussed in Note III.I.1. Due to the substantive economic relationship between the District and the Leasing Corporation, the financial activities of the Leasing Corporation are included in the

accompanying basic financial statements. Separate financial statements for the Leasing Corporation are not published.

**Discretely Presented Component Units.** The component units columns in the government-wide financial statements include the financial data of the District's other component units. Separate columns are used to emphasize that they are legally separate from the District.

The Okaloosa Public Schools Foundation, Inc. (Foundation), is a separate not-for-profit corporation organized and operated as a direct-support organization to receive, hold, invest, and administer property and to make expenditures to and for the benefit of the District. Because of the nature and significance of its relationship with the District, the Foundation is considered a component unit.

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

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

The financial data reported on the accompanying statements was derived from the Foundation's and charter schools' audited financial statements for the fiscal year ended June 30, 2018. The audit reports are filed in the District's administrative offices at 120 Lowery Place, S.E., Fort Walton Beach, Florida 32548.

### **C. Basis of Presentation: Government-Wide Financial Statements**

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

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

### **D. Basis of Presentation: Fund Financial Statements**

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

fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The District reports the following major governmental funds:

- General Fund – to account for all financial resources not required to be accounted for in another fund and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.
- Special Revenue – Other Federal Programs Fund – to account for certain Federal grant programs.
- Capital Projects – Local Capital Improvement Fund – to account for the financial resources generated by the local capital improvement tax levy to be used for educational capital outlay needs, including new construction, renovation and remodeling projects, new and replacement equipment, motor vehicle purchases, and debt service payments.

Additionally, the District reports the following fiduciary fund type:

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

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

## **E. Measurement Focus and 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 as soon as all eligibility requirements imposed by the provider have been met.

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 as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current fiscal year or soon enough



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

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

The Okaloosa Public Schools Foundation, Inc. is accounted for under the not-for-profit basis of accounting and uses the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred. The charter schools are accounted for as governmental organizations and follow the same accounting model as the District's governmental activities.

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

### **1. Cash and Cash Equivalents**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term, highly liquid investments with original maturities of 3 months or less. Investments classified as cash equivalents include amounts placed with the State Board of Administration (SBA) in Florida PRIME, formerly known as the Local Government Surplus Funds Trust Fund Investment Pool, and amounts in the Florida Education Investment Trust Fund (FEITF).

Cash deposits are held by banks qualified as public depositories under Florida law or through the Federally Insured Cash Account program, which complies with the provisions of Section 218.415(23), Florida Statutes, and is therefore exempt from Florida's public deposits program pursuant to Section 280.03(3)(f), Florida Statutes. All deposits are insured by Federal depository insurance, up to specified limits, or collateralized with securities held in Florida's multiple financial institution collateral pool as required by Chapter 280, Florida Statutes.

### **2. Investments**

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

The District's investments in Florida PRIME, 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, and meet the requirements of GASB Statement No. 31, as amended by GASB Statement No. 79, which establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. There are no limitations or restrictions on withdrawals from Florida PRIME, although, on the occurrence of an event that has a material impact on liquidity or operations of the trust fund, the fund's executive director may limit contributions to or withdrawals from the trust fund for a period of 48 hours.

The District's investments in the FEITF are similar to money market funds in which shares are owned in the fund rather than the underlying investments. These investments are reported at amortized cost and also meet the requirements of GASB Statement No. 31, as amended by GASB Statement No. 79, which establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. There are no limitations or restrictions on withdrawals from FEITF.

Investments made locally consist of certificates of deposit.

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

### **3. Inventories**

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

### **4. Capital Assets**

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

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

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

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

## **5. Pensions**

In the government-wide statement of net position, liabilities are recognized for the District's proportionate share of each pension plan's net pension liability. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Florida Retirement System (FRS) defined benefit plan and the Health Insurance Subsidy (HIS) defined benefit plan and additions to/deductions from the FRS and the HIS fiduciary net position have been determined on the same basis as they are reported by the FRS and the HIS plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

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

## **6. Long-Term Liabilities**

Long-term obligations that will be financed from resources to be received in the future by governmental funds are reported as liabilities in the government-wide statement of net position. In the governmental fund financial statements, long-term obligations are not recognized as liabilities until due.

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

## **7. Deferred Outflows/Inflows of Resources**

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

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The District has two type of items that qualify for reporting in this category. These items, the deferred inflows of resources related

to pensions and deferred inflows of resources related to other postemployment benefits, are reported in the statement of net position and discussed in subsequent notes.

## **8. Net Position Flow Assumption**

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

## **9. Fund Balance Flow Assumptions**

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

## **10. Fund Balance Policies**

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

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. The Board is the highest level of decision-making authority for the District that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation. The District reported no committed fund balances at June 30, 2018.

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 Chief Financial Officer to assign fund balance. The Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent fiscal year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

## **G. Revenues and Expenditures/Expenses**

### **1. Program Revenues**

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

### **2. State Revenue Sources**

Significant revenues from State sources for current operations include the Florida Education Finance Program administered by the FDOE under the provisions of Section 1011.62, Florida Statutes. In accordance with this law, the District determines and reports the number of full-time equivalent (FTE) students and related data to the FDOE. The FDOE performs certain edit checks on the reported number of FTE and related data and calculates the allocation of funds to the District. The District is permitted to amend its original reporting during specified time periods following the date of the original reporting. Such amendments may impact funding allocations for subsequent fiscal years. The FDOE 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 fiscal year when the adjustments are made.

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

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

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

### **3. District Property Taxes**

The Board is authorized by State law to levy property taxes for district school operations, capital improvements, and debt service.

Property taxes consist of ad valorem taxes on real and personal property within the District. Property values are determined by the Okaloosa County Property Appraiser, and property taxes are collected by the Okaloosa County Tax Collector.

The Board adopted the 2017 tax levy on September 11, 2017. Tax bills are mailed in October and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to 4 percent for early payment.

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

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

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

#### **4. Federal Revenue Sources**

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

#### **5. Compensated Absences**

In the government-wide financial statements, compensated absences (i.e., paid absences for employee vacation leave and sick leave) are accrued as liabilities to the extent that 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.

#### **H. Estimates**

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

## II. ACCOUNTING CHANGES

### A. Governmental Accounting Standards Board Statement No. 75

The District implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended. This Statement addresses accounting and financial reporting for postemployment benefits other than pensions (OPEB) provided to employees of state and local government employers; establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses; requires governments to report a liability, deferred outflows of resources, deferred inflows of resources, and expenses on the face of the financial statement for the OPEB that they provide; and requires more extensive note disclosures and supplementary information about a government's OPEB liability. The District's total OPEB liability reported at June 30, 2017, increased to \$15,614,667 as of July 1, 2017, due to the transition in the valuation methods under GASB Statement No. 45 to GASB Statement No. 75, and beginning balances for deferred inflows of resources were not restated.

### B. Governmental Accounting Standards Board Statement No. 85

The GASB issued Statement No. 85, *Omnibus 2017*, in March 2017 which was effective for fiscal years beginning after June 15, 2017. This Statement addresses a variety of topics, including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. Implementation of this Standard by the District had no significant effect on its financial statements.

### C. Adjustment to Beginning Net Position

The beginning net position of the District was decreased by \$14,732,668 due to the adoption of GASB Statement No. 75.

## III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

### A. Cash Deposits with Financial Institutions

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

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

### B. Investments

The District's investments at June 30, 2018, are reported as follows:

<u>Investments</u>	<u>Maturities</u>	<u>Fair Value</u>
SBA:		
Florida PRIME (1)	30 Day Average	\$ 25,823,497.14
Debt Service Accounts	6 Months	18,046.39
Florida Education Investment Trust Fund (1)	32 Day Average	503,733.69
Certificates of Deposit	Various through February 2019	796,204.00
<b>Total Investments</b>		<b>\$ 27,141,481.22</b>

(1) These investments are reported as cash equivalents for financial statement reporting purposes. See Note I.F.1.

### **Fair Value Measurement**

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. The District's investments in SBA debt service accounts are valued using Level 1 inputs.

### **Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District's investment policy states that the highest priorities shall be given to the safety and liquidity of funds. The policy limits the types of authorized investments as a means of managing its exposure to fair value losses arising from increasing interest rates.

Florida PRIME and the Florida Education Investment Trust Fund (FEITF) use a weighted average days to maturity (WAM). A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the portfolio to interest rate changes.

### **Credit Risk**

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

The District's investments in the SBA debt service accounts are to provide for debt service payments on bond debt issued by the SBE for the benefit of the District. The District relies on policies developed by the SBA for managing interest rate risk and credit risk for this account. Disclosures for the Debt Service Accounts are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.



The District's investment in Florida PRIME and the FEITF are rated AAAM by Standard & Poor's.

### C. Changes in Capital Assets

Changes in capital assets are presented in the following table:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	\$ 11,761,548.92	\$ -	\$ -	\$ 11,761,548.92
Construction in Progress	539,650.32	-	539,650.32	-
Total Capital Assets Not Being Depreciated	<u>12,301,199.24</u>	<u>-</u>	<u>539,650.32</u>	<u>11,761,548.92</u>
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	16,256,307.43	509,517.43	-	16,765,824.86
Buildings and Fixed Equipment	289,507,011.84	871,462.19	-	290,378,474.03
Furniture, Fixtures, and Equipment	24,650,731.29	982,458.38	700,017.35	24,933,172.32
Motor Vehicles	17,494,234.33	674,293.25	72,822.00	18,095,705.58
Computer Software	2,038,350.24	53,865.00	58,933.45	2,033,281.79
Audio-Visual Materials	15,035.19	-	-	15,035.19
Total Capital Assets Being Depreciated	<u>349,961,670.32</u>	<u>3,091,596.25</u>	<u>831,772.80</u>	<u>352,221,493.77</u>
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	13,442,168.36	370,053.54	-	13,812,221.90
Buildings and Fixed Equipment	126,161,860.87	6,108,633.71	-	132,270,494.58
Furniture, Fixtures, and Equipment	19,925,642.20	1,268,477.00	700,017.35	20,494,101.85
Motor Vehicles	15,315,174.86	530,959.12	72,822.00	15,773,311.98
Computer Software	1,885,832.82	66,411.05	58,933.45	1,893,310.42
Audio-Visual Materials	12,559.32	641.78	-	13,201.10
Total Accumulated Depreciation	<u>176,743,238.43</u>	<u>8,345,176.20</u>	<u>831,772.80</u>	<u>184,256,641.83</u>
Total Capital Assets Being Depreciated, Net	<u>173,218,431.89</u>	<u>(5,253,579.95)</u>	<u>-</u>	<u>167,964,851.94</u>
Governmental Activities Capital Assets, Net	<u>\$ 185,519,631.13</u>	<u>\$ (5,253,579.95)</u>	<u>\$ 539,650.32</u>	<u>\$ 179,726,400.86</u>

Depreciation expense was charged to functions as follows:

<u>Function</u>	<u>Amount</u>
GOVERNMENTAL ACTIVITIES	
Instruction	\$ 570,743.67
Student Transportation Services	193,659.69
Maintenance of Plant	98,685.60
Unallocated	7,482,087.24
Total Depreciation Expense - Governmental Activities	<u>\$ 8,345,176.20</u>

### D. Retirement Plans

#### 1. FRS – Defined Benefit Pension Plans

##### General Information about the FRS

The FRS was created in Chapter 121, Florida Statutes, to provide a defined benefit pension plan for participating public employees. The FRS was amended in 1998 to add the Deferred Retirement Option Program (DROP) under the defined benefit plan and amended in 2000 to

provide a defined contribution plan alternative to the defined benefit plan for FRS members effective July 1, 2002. This integrated defined contribution pension plan is the FRS Investment Plan. Chapter 112, Florida Statutes, established the Retiree HIS Program, a cost-sharing multiple-employer defined benefit pension plan, to assist retired members of any State-administered retirement system in paying the costs of health insurance.

Essentially all regular employees of the District are eligible to enroll as members of the State-administered FRS. Provisions relating to the FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and FRS Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. Such provisions may be amended at any time by further action from the Florida Legislature. The FRS is a single retirement system administered by the Florida Department of Management Services, Division of Retirement, and consists of the two cost-sharing multiple-employer defined benefit plans and other nonintegrated programs. A comprehensive annual financial report of the FRS, which includes its financial statements, required supplementary information, actuarial report, and other relevant information, is available from the Florida Department of Management Services Web site ([www.dms.myflorida.com](http://www.dms.myflorida.com)).

The District's FRS and HIS pension expense totaled \$21,667,676 for the fiscal year ended June 30, 2018.

### **FRS Pension Plan**

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

- *Regular* – Members of the FRS who do not qualify for membership in the other classes.
- *Elected County Officers* – Members who hold specified elective offices in local government.

Employees enrolled in the Plan prior to July 1, 2011, vest at 6 years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at 8 years of creditable service. All vested members, enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of service. All members enrolled in the Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 65 or any time after 33 years of creditable service. Employees enrolled in the Plan may include up to 4 years of credit for military service toward creditable service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost-of-living adjustments to eligible participants.

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

monthly benefits are held in the FRS Trust Fund and accrue interest. The net pension liability does not include amounts for DROP participants, as these members are considered retired and are not accruing additional pension benefits.

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

<u>Class, Initial Enrollment, and Retirement Age/Years of Service</u>	<u>Percent Value</u>
<b>Regular Members Initially Enrolled Before July 1, 2011</b>	
Retirement up to age 62 or up to 30 years of service	1.60
Retirement at age 63 or with 31 years of service	1.63
Retirement at age 64 or with 32 years of service	1.65
Retirement at age 65 or with 33 or more years of service	1.68
<b>Regular Members Initially Enrolled On or After July 1, 2011</b>	
Retirement up to age 65 or up to 33 years of service	1.60
Retirement at age 66 or with 34 years of service	1.63
Retirement at age 67 or with 35 years of service	1.65
Retirement at age 68 or with 36 or more years of service	1.68
<b>Elected County Officers</b>	3.00

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

Contributions. The Florida Legislature establishes contribution rates for participating employers and employees. Contribution rates during the 2017-18 fiscal year were as follows:

<u>Class</u>	<u>Percent of Gross Salary</u>	
	<u>Employee</u>	<u>Employer (1)</u>
FRS, Regular	3.00	7.92
FRS, Elected County Officers	3.00	45.50
DROP – Applicable to Members from All of the Above Classes	0.00	13.26
FRS, Reemployed Retiree	(2)	(2)

- (1) Employer rates include 1.66 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.06 percent for administrative costs of the Investment Plan.
- (2) Contribution rates are dependent upon retirement class in which reemployed.

The District's contributions to the Plan totaled \$9,772,172 for the fiscal year ended June 30, 2018.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2018, the District reported a liability of \$105,718,251 for its proportionate share of the Plan's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2017. The District's proportionate share of the net pension liability was based on the District's 2016-17 fiscal year contributions relative to the total 2016-17 fiscal year contributions of all participating members. At June 30, 2017, the District's proportionate share was 0.357405844 percent, which was a decrease of 0.000213226 from its proportionate share measured as of June 30, 2016.

For the fiscal year ended June 30, 2018, the District recognized the Plan pension expense of \$17,395,575. In addition, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Experience	\$ 9,702,391	\$ 585,625
Change of Assumptions	35,528,796	-
Net Difference Between Projected and Actual Earnings on FRS Pension Plan Investments	-	2,619,962
Changes in Proportion and Differences Between District FRS Contributions and Proportionate Share of Contributions	861,373	2,739,881
District FRS Contributions Subsequent to the Measurement Date	9,772,172	-
<b>Total</b>	<b>\$ 55,864,732</b>	<b>\$ 5,945,468</b>

The deferred outflows of resources related to pensions resulting from District contributions to the Plan subsequent to the measurement date, totaling \$9,772,172, will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2019	\$ 5,223,500
2020	14,317,929
2021	9,670,169
2022	1,488,219
2023	6,811,060
Thereafter	2,636,215
<b>Total</b>	<b>\$ 40,147,092</b>

Actuarial Assumptions. The total pension liability in the July 1, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60 percent
Salary Increases	3.25 percent, average, including inflation
Investment Rate of Return	7.10 percent, net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the July 1, 2017, valuation were based on the results of an actuarial experience study for the period July 1, 2008, through June 30, 2013.

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

<u>Asset Class</u>	<u>Target Allocation (1)</u>	<u>Annual Arithmetic Return</u>	<u>Compound Annual (Geometric) Return</u>	<u>Standard Deviation</u>
Cash	1%	3.0%	3.0%	1.8%
Fixed Income	18%	4.5%	4.4%	4.2%
Global Equity	53%	7.8%	6.6%	17.0%
Real Estate (Property)	10%	6.6%	5.9%	12.8%
Private Equity	6%	11.5%	7.8%	30.0%
Strategic Investments	12%	6.1%	5.6%	9.7%
<b>Total</b>	<b>100%</b>			
Assumed inflation - Mean			2.6%	1.9%

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

Discount Rate. The discount rate used to measure the total pension liability was 7.1 percent. The Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating

the total pension liability is equal to the long-term expected rate of return. The discount rate used in the 2017 valuation was updated from 7.6 percent to 7.1 percent. The long-term expected rate of return assumption of 7.1 percent consists of two building block components: 1) a real (in excess of inflation) return of 4.5 percent, consistent with the currently articulated real return target in the current Florida State Board of Administration's investment policy, developed using capital market assumptions calculated by Aon Hewitt Investment Consulting; and 2) a long-term average annual inflation assumption of 2.6 percent as adopted in October 2017 by the FRS Actuarial Assumption Conference. In the opinion of the FRS consulting actuary, Milliman, both components and the overall 7.1 percent return assumption were determined to be reasonable and appropriate per the Actuarial Standards of Practice. The 7.1 percent reported investment return assumption differs from the 7.5 percent investment return assumption chosen by the 2017 FRS Actuarial Assumption Conference for funding policy purposes, as allowable under governmental accounting and reporting standards.

*Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate.* The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.1 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.1 percent) or 1 percentage point higher (8.1 percent) than the current rate:

	<b>1% Decrease (6.1%)</b>	<b>Current Discount Rate (7.1%)</b>	<b>1% Increase (8.1%)</b>
District's Proportionate Share of the Net Pension Liability	\$ 191,343,648	\$ 105,718,251	\$ 34,629,553

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

### **HIS Pension Plan**

*Plan Description.* The HIS Pension Plan (HIS Plan) is a cost-sharing multiple-employer defined benefit pension plan established under Section 112.363, Florida Statutes, and may be amended by the Florida Legislature at any time. The benefit is a monthly payment to assist retirees of State-administered retirement systems in paying their health insurance costs and is administered by the Florida Department of Management Services, Division of Retirement.

*Benefits Provided.* For the fiscal year ended June 30, 2018, eligible retirees and beneficiaries received a monthly HIS payment of \$5 for each year of creditable service completed at the time of retirement, with a minimum HIS payment of \$30 and a maximum HIS payment of \$150 per month, pursuant to Section 112.363, Florida Statutes. To be eligible to receive a HIS Plan benefit, a retiree under a State-administered retirement system must provide proof of health insurance coverage, which may include Federal Medicare.

Contributions. The HIS Plan is funded by required contributions from FRS participating employers as set by the Florida Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the fiscal year ended June 30, 2018, the contribution rate was 1.66 percent of payroll pursuant to Section 112.363, Florida Statutes. The District contributed 100 percent of its statutorily required contributions for the current and preceding 3 years. HIS Plan contributions are deposited in a separate trust fund from which payments are authorized. HIS Plan benefits are not guaranteed and are subject to annual legislative appropriation. In the event the legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or canceled.

The District's contributions to the HIS Plan totaled \$2,577,961 for the fiscal year ended June 30, 2018.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2018, the District reported a net pension liability of \$53,060,213 for its proportionate share of the HIS Plan's net pension liability. The current portion of the net pension liability is the District's proportionate share of benefit payments expected to be paid within 1 year, net of the District's proportionate share of the HIS Plan's fiduciary net position available to pay that amount. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016, and update procedures were used to determine liabilities as of July 1, 2017. The District's proportionate share of the net pension liability was based on the District's 2016-17 fiscal year contributions relative to the total 2016-17 fiscal year contributions of all participating members. At June 30, 2017, the District's proportionate share was 0.496239465 percent, which was an increase of 0.000002338 from its proportionate share measured as of June 30, 2016.

For the fiscal year ended June 30, 2018, the District recognized the HIS Plan pension expense of \$4,272,101. In addition, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources.

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Experience	\$ -	\$ 110,480
Change of Assumptions	7,458,444	4,588,174
Net Difference Between Projected and Actual Earnings on HIS Pension Plan Investments	29,426	-
Changes in Proportion and Differences Between District HIS Contributions and Proportionate Share of Contributions	912,676	104,999
District HIS Contributions Subsequent to the Measurement Date	2,577,961	-
<b>Total</b>	<b>\$ 10,978,507</b>	<b>\$ 4,803,653</b>

The deferred outflows of resources related to pensions resulting from District contributions to the HIS Plan subsequent to the measurement date, totaling \$2,577,961, will be recognized as a

reduction of the net pension liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2019	\$ 1,106,157
2020	1,100,589
2021	1,097,916
2022	749,466
2023	252,618
Thereafter	<u>(709,853)</u>
<b>Total</b>	<b>\$ 3,596,893</b>

Actuarial Assumptions. The total pension liability in the July 1, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60 percent
Salary Increases	3.25 percent, average, including inflation
Municipal Bond Rate	3.58 percent

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

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

Discount Rate. The discount rate used to measure the total pension liability was 3.58 percent. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the FRS Actuarial Assumption Conference. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable municipal bond index. The discount rate changed from 2.85 percent to 3.58 percent.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 3.58 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.58 percent) or 1 percentage point higher (4.58 percent) than the current rate:

	<u>1% Decrease (2.58%)</u>	<u>Current Discount Rate (3.58%)</u>	<u>1% Increase (4.58%)</u>
District's Proportionate Share of the Net Pension Liability	\$ 60,548,730	\$ 53,060,213	\$ 46,822,692



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

## **2. FRS – Defined Contribution Pension Plan**

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

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined benefit plan. District employees participating in DROP are not eligible to participate in the Investment Plan. Employer and employee contributions, including amounts contributed to individual member's accounts, are defined by law, but the ultimate benefit depends in part on the performance of investment funds. Retirement benefits are based upon the value of the member's account upon retirement. Benefit terms, including contribution requirements, for the Investment Plan are established and may be amended by the Florida Legislature. The Investment Plan is funded with the same employer and employee contribution rates that are based on salary and membership class (Regular, Elected County Officers, etc.), as the FRS defined benefit plan. Contributions are directed to individual member accounts and the individual members allocate contributions and account balances among various approved investment choices. Costs of administering the Investment Plan, including the FRS Financial Guidance Program, are funded through an employer contribution of 0.06 percent of payroll and by forfeited benefits of Investment Plan members. Allocations to the Investment Plan member accounts during the 2017-18 fiscal year were as follows:

<b><u>Class</u></b>	<b><u>Percent of Gross Compensation</u></b>
FRS, Regular	6.30
FRS, Elected County Officers	11.34

For all membership classes, employees are immediately vested in their own contributions and are vested after 1 year of service for employer contributions and investment earnings, regardless of membership class. If an accumulated benefit obligation for service credit originally earned under the FRS Pension Plan is transferred to the Investment Plan, the member must have the years of service required for FRS Pension Plan vesting (including the service credit represented by the transferred funds) to be vested for these funds and the earnings on the funds. Nonvested employer contributions are placed in a suspense account for up to 5 years. If the employee returns to FRS-covered employment within the 5-year period, the employee will regain control over their account. If the employee does not return within the 5-year period, the employee will forfeit the accumulated account balance. For the fiscal year ended June 30, 2018, the information for the amount of forfeitures was unavailable from the SBA; however, management believes that these amounts, if any, would be immaterial to the District.

After termination and applying to receive benefits, the member may rollover vested funds to another qualified plan, structure a periodic payment under the Investment Plan, receive a

lump-sum distribution, leave the funds invested for future distribution, or any combination of these options. Disability coverage is provided in which the member may either transfer the account balance to the FRS Pension Plan when approved for disability retirement to receive guaranteed lifetime monthly benefits under the FRS Pension Plan or remain in the Investment Plan and rely upon that account balance for retirement income.

The District's Investment Plan pension expense totaled \$693,944 for the fiscal year ended June 30, 2018.

## **E. Other Postemployment Benefit Obligations**

The District follows GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, for reporting the employers' OPEB Plan liability.

*Plan Description.* The Other Postemployment Benefits Plan (OPEB Plan) is a single-employer defined benefit plan administered by the District. Pursuant to Section 112.0801, Florida Statutes, employees who retire from the District are eligible to participate in the District's health and hospitalization plan for medical, prescription drug, and life insurance benefits. Retirees and their eligible dependents shall be offered the same health and hospitalization insurance coverage as is offered to active employees at a premium cost of no more than the premium cost applicable to active employees. The District subsidizes the premium rates paid by retirees by allowing them to participate in the OPEB Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the OPEB Plan on average than those of active employees. The District does not offer any explicit subsidies for retiree coverage. Retirees are assumed to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible. The OPEB Plan does not issue a stand-alone report and is not included in the report of a public employee retirement system or other entity. No assets are accumulated in a trust that meet the criteria in paragraph 4 of GASB Statement No. 75.

*Benefits Provided.* Health, life, dental, and vision benefits are available to eligible retirees and their dependents. Retirees are eligible for up to \$25,000 life insurance benefit until age 70 with a required contribution of \$0.712 per \$1,000. The benefit reduces to a maximum of \$10,000 at age 70 with a required contribution of \$0.969 per \$1,000 of the life insurance benefit. Since retirees pay the full premium for dental and vision benefits, there is no liability associated with either benefit. Medicare eligible retirees must choose one of the health care plans below, if desired, and will pay the full premium. A summary of the key healthcare plan design features and premiums for each plan is provided in the table below:

Plan Type	Compatible Base Plan In-Network	Compatible Buy-Up Plan In-Network
Deductible (2X Family)	\$ 1,250.00	\$ 1,500.00
Coinsurance	80%	100%
Out of Pocket Maximum (2X Family)	\$ 5,000.00	\$ 1,500.00
Retiree Only Monthly Premium	\$ 791.49	\$ 917.04
Retiree + Family Monthly Premium	\$ 1,929.44	\$ 2,160.01

Employees Covered by Benefit Terms. The following table provides a summary of the number of participants in the plan as of the measurement date of June 30, 2018:

Retirees and Beneficiaries	1,787
Active Employees	<u>3,169</u>
Total	<u>4,956</u>

Total OPEB Liability. The District's total OPEB liability of \$15,326,624 was measured as of June 30, 2018, and was determined by an actuarial valuation as of that date.

Actuarial Assumptions and Other Inputs. The total OPEB liability in the June 30, 2018, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Valuation Date	June 30, 2018
Measurement Date	June 30, 2018
Actuarial Cost Method	Entry Age
Inflation	3 percent
Salary Increases	3.50 percent
Discount Rate	3.87 percent
Healthcare Cost Trend Rates	Select trends starting at 7 percent reduced 0.5 percent each fiscal year until reaching the ultimate rate of 4.5 percent.

The discount rate was based on the Bond Buyer 20-Bond General Obligation Municipal Bond Index. Mortality rates were based on the Generational RP-2014 scaled using MP-17 and applied on a gender-specific basis.

Changes in the Total OPEB Liability.

	<u>Amount</u>
Balance at June 30, 2017, as Restated	\$ 15,614,667.00
Changes for the Year:	
Service Cost	367,917.00
Interest	605,174.00
Changes of Assumptions	(571,454.00)
Benefit Payments	(689,680.00)
Net Changes	(288,043.00)
Balance at June 30, 2018	\$ 15,326,624.00

Changes of assumptions reflect a change in the discount rate from 3.58 percent in 2017 to 3.87 percent in 2018.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate. The following table presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.87 percent) or 1 percentage point higher (4.87 percent) than the current rate:

	<u>1% Decrease (2.87%)</u>	<u>Current Discount Rate (3.87%)</u>	<u>1% Increase (4.87%)</u>
Total OPEB Liability	\$ 17,454,968	\$ 15,326,624	\$ 13,595,945

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates. The following table presents the District's total OPEB liability calculated using the healthcare cost trend rate of 7 percent decreasing to 4.5 percent, as well as what the OPEB liability would be if it was 1 percentage point higher (8 percent decreasing to 5.5 percent) or 1 percentage point lower (6 percent decreasing to 3.5 percent):

	<u>1% Decrease (6% decreasing to 3.5%)</u>	<u>Healthcare Cost Trend Rates (7% decreasing to 4.5%)</u>	<u>1% Increase (8% decreasing to 5.5%)</u>
Total OPEB Liability	\$ 14,887,500	\$ 15,326,624	\$ 15,832,884

OPEB Expense and Deferred Inflows of Resources Related to OPEB. The District's annual OPEB expense totaled \$768,989 for the fiscal year ended June 30, 2018. At June 30, 2018, the District reported deferred inflows of resources related to the OPEB Plan liability from the following sources:

<u>Description</u>	<u>Deferred Inflows of Resources</u>
Change of Assumptions	\$ (367,352)

The amount reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2019	\$ (204,103)
2020	(163,249)
<b>Total</b>	<b>\$ (367,352)</b>

## F. Construction and Other Significant Commitments

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

The following is a schedule of encumbrances at June 30, 2018:

<u>Major Funds</u>			
<u>General</u>	<u>Capital Projects - Local Capital Improvement</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 1,183,670.14	\$ 1,270,418.68	\$ 852,465.34	\$ 3,306,554.16

**Construction Contracts.** Encumbrances include the following major construction contract commitment at June 30, 2018:

<u>Project</u>	<u>Contract Amount</u>	<u>Completed to Date</u>	<u>Balance Committed</u>
Richbourg Roofing and Renovations	\$ 1,076,543.00	\$ 497,888.26	\$ 578,654.74

## G. Risk Management Programs

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

purchasing commercial insurance policies which covers losses exceeding specified limits up to certain policy maximums. Health, life, and dental coverage, as well as long-term disability for District employees are also provided through commercially purchased insurance.

Settled claims resulting from the risks described above have not exceeded commercial insurance coverage in any of the past 3 fiscal years.

The District reports all of its risk management activities in the General Fund. At June 30, 2018, an actuarially determined liability of \$4,497,000 (\$29,000 for the property program, undiscounted, and \$4,468,000 for the casualty program, discounted using a 4 percent rate of return) is reported as estimated insurance claims payable on the District's statement of net position.

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

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claims Payments</u>	<u>Balance at Fiscal Year End</u>
2016-17	\$ 4,248,000.00	\$ 2,824,556.62	\$(2,925,556.62)	\$ 4,147,000.00
2017-18	4,147,000.00	2,012,135.54	(1,662,135.54)	4,497,000.00

## H. Operating Lease Commitment

The District leases its computer hardware assets. The Board approved a new agreement on May 12, 2014, for the periods July 1, 2014, through June 30, 2019. This agreement may be renewed one time for up to 5 years at the end of this term. Total expenditures under the operating lease for the fiscal year ended June 30, 2018, were \$5,756,683.43. The following table represents future minimum lease payments:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2019	<u>\$ 5,722,500.24</u>

## I. Long-Term Liabilities

### 1. Certificates of Participation

The District entered into a financing arrangement on November 1, 2003, which was characterized as a master lease-purchase agreement, with the Okaloosa School Board Leasing Corporation (Leasing Corporation) whereby the District secured financing of various educational facilities.

On December 20, 2012, the District entered into a financing arrangement under and pursuant to the master lease-purchase agreement, whereby the District advance refunded the Certificates of Participation, Series 2003. The refinancing was accomplished through the issuance of \$8,081,000 in a Certificate of Participation, Series 2012, to be repaid from the proceeds of rents paid by the District.

On November 16, 2016, the District entered into a financing arrangement under and pursuant to the master lease-purchase agreement, whereby the District refunded the Certificates of

Participation, Series 2006 and advance refunded Certificates of Participation, Series 2007. The refinancing was accomplished through the issuance of \$29,393,000 in a Certificate of Participation, Series 2016, to be repaid from the proceeds of rents paid by the District.

As a condition of the financing arrangement, the District has given a ground lease on certain District property to the Leasing Corporation. The ground lease associated with the Certificate of Participation, Series 2016, which refunded Certificate of Participation, Series 2006 and advance refunded Certificate of Participation, Series 2007, is a term certificate that ends as of the earlier of the date on which the Certificate of Participation, Series 2016, has been paid in full or provision for its payment has been made, or July 1, 2022. The ground lease associated with the Certificate of Participation, Series 2012, which refunded Certificates of Participation, Series 2003, which refunded the Certificates of Participation, Series 1992, is a term certificate that ends as of the earlier of the date on which the Certificate of Participation, Series 2012, has been paid in full or provision for its payment has been made, or July 1, 2019. The properties covered by the ground leases are, together with the improvements constructed thereon from the financing proceeds, leased back to the District. If the District fails to renew the leases and to provide for the rent payments through to term, the District may be required to surrender the sites included under the ground leases for the benefit of the securers of the Certificates for a period of time specified by the arrangements which may be up through the last day of the ground leases.

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

- Certificates of Participation, Series 2012 (includes properties associated with Certificates of Participation, Series 2003 and Series 1992) include properties at Baker School, Bluewater Elementary School, Bob Sikes Elementary School, Choctawhatchee High School, CHOICE Institute at Choctawhatchee High School, Crestview High School, CHOICE Institute at Crestview High School, Fort Walton Beach High School, Lewis School, Niceville High School, CHOICE Institute at Niceville High School, CHOICE Institute at Okaloosa Technology College and CHOICE High School, Richbourg School, Silver Sands School, and Walker Elementary School.
- Certificates of Participation, Series 2016 (includes properties associated with Certificates of Participation, Series 2006 and Series 2007) include properties at Riverside Elementary School, Shoal River Middle School, Northwood Elementary School, Richbourg 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 an interest rate of 1.33 percent for the Certificates of Participation, Series 2012; and at an interest rate of 1.46 percent for the Certificates of Participation, Series 2016. 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:

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
Certificates of Participation - 2012: 2019	\$ 1,392,274	\$ 1,374,000	\$ 18,274
Certificates of Participation - 2016: 2019	6,041,038	5,736,000	305,038
2020	6,044,292	5,823,000	221,292
2021	6,046,276	5,910,000	136,276
2022	3,473,990	3,424,000	49,990
<b>Total Minimum Lease Payments</b>	<b>\$ 22,997,870</b>	<b>\$ 22,267,000</b>	<b>\$ 730,870</b>

## 2. Bonds Payable

Bonds payable at June 30, 2018, are as follows:

<u>Bond Type</u>	<u>Amount Outstanding</u>	<u>Interest Rates (Percent)</u>	<u>Annual Maturity To</u>
State School Bonds:			
Series 2009A, Refunding	\$ 35,000.00	5	2019
Series 2010A	120,000.00	3.5 - 5	2030
Series 2014B, Refunding	14,000.00	2 - 5	2020
Series 2017A, Refunding	568,000.00	3 - 5	2028
District Revenue Bonds:			
Series 2011	2,405,000.00	3.75 - 5.5	2040
<b>Total Bonds Payable</b>	<b>\$ 3,142,000.00</b>		

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

### State School Bonds

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

### District Revenue Bonds

The District authorized the issuance of the Refunding and Revenue Bonds, Series 2011, to provide funds to pay the costs of certain capital improvements and to refund the outstanding Refunding Revenue Bonds, Series 1994. These bonds are authorized by Chapters 63-587 and 78-569, Laws of Florida, Special Acts of 1978, and are secured by sales tax revenues distributed to the District pursuant to Section 212.20(6)(d)6.a., Florida Statutes. As required by the bond resolution, the District has established the sinking fund and has accumulated and maintained adequate resources in the sinking fund.



The District has pledged a combined total of \$4,135,762.50 of sales tax revenues in connection with the 2011 District Revenue Bonds. During the 2017-18 fiscal year, the District recognized sales tax revenues totaling \$190,750 and expended \$185,675 (97.3 percent) of these revenues for debt service directly collateralized by these revenues. The pledged sales tax revenues are committed until final maturity of the debt on July 1, 2040. Approximately 98.6 percent of this revenue stream has been pledged in connection with debt service on the revenue bonds.

Annual requirements to amortize all bonded debt outstanding as of June 30, 2018, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
State School Bonds:			
2019	\$ 124,110.00	\$ 90,000.00	\$ 34,110.00
2020	88,710.00	59,000.00	29,710.00
2021	81,970.00	55,000.00	26,970.00
2022	83,220.00	59,000.00	24,220.00
2023	84,270.00	63,000.00	21,270.00
2024-2028	446,650.00	391,000.00	55,650.00
2029-2030	21,200.00	20,000.00	1,200.00
Total State School Bonds	930,130.00	737,000.00	193,130.00
District Revenue Bonds:			
2019	188,650.00	65,000.00	123,650.00
2020	186,212.50	65,000.00	121,212.50
2021	188,612.50	70,000.00	118,612.50
2022	185,812.50	70,000.00	115,812.50
2023	187,487.50	75,000.00	112,487.50
2024-2028	939,737.50	435,000.00	504,737.50
2029-2033	940,925.00	555,000.00	385,925.00
2034-2038	939,175.00	720,000.00	219,175.00
2039-2040	379,150.00	350,000.00	29,150.00
Total District Revenue Bonds	4,135,762.50	2,405,000.00	1,730,762.50
<b>Total</b>	<b>\$ 5,065,892.50</b>	<b>\$ 3,142,000.00</b>	<b>\$ 1,923,892.50</b>

### 3. Changes in Long-Term Liabilities

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

Description	Beginning Balance	Additions	Deductions	Ending Balance	Due In One Year
<b>GOVERNMENTAL ACTIVITIES</b>					
Bonds Payable	\$ 3,965,000.00	\$ -	\$ 823,000.00	\$ 3,142,000.00	\$ 155,000.00
Certificates of Participation Payable	29,282,000.00	-	7,015,000.00	22,267,000.00	7,110,000.00
Estimated Insurance Claims Liability	4,147,000.00	2,012,135.54	1,662,135.54	4,497,000.00	1,012,000.00
Compensated Absences Payable	25,708,603.19	2,150,109.42	2,153,223.06	25,705,489.55	2,294,919.00
Net Pension Liability	148,133,475.00	95,283,889.00	84,638,900.00	158,778,464.00	1,427,528.00
Other Postemployment Benefits Payable (1)	15,614,667.00	973,091.00	1,261,134.00	15,326,624.00	-
<b>Total Governmental Activities</b>	<b>\$226,850,745.19</b>	<b>\$100,419,224.96</b>	<b>\$97,553,392.60</b>	<b>\$229,716,577.55</b>	<b>\$11,999,447.00</b>

(1) OPEB payable beginning balance has been restated per the implementation of GASB Statement No. 75 as described in Note II.

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

## J. Fund Balance Reporting

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

- **Nonspendable Fund Balance.** Nonspendable fund balance is the net current financial resources that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. Generally, not in spendable form means that an item is not expected to be converted to cash.
- **Restricted Fund Balance.** Restricted fund balance is the portion of fund balance on which constraints have been placed by creditors, grantors, contributors, laws or regulations of other governments, constitutional provisions, or enabling legislation. Restricted fund balance places the most binding level of constraint on the use of fund balance.
- **Assigned Fund Balance.** The assigned fund balance is the portion of fund balance that is intended to be used for specific purposes but is neither restricted nor committed. Assigned amounts include those that have been set aside for a specific purpose by an authorized government body or official, but the constraint imposed does not satisfy the criteria to be classified as restricted or committed. This category includes any remaining positive amounts, for governmental funds other than the General Fund, not classified as nonspendable, restricted, or committed. The District also classifies amounts as assigned that are constrained to be used for specific purposes based on actions of the Board and not included in other categories.
- **Unassigned Fund Balance.** The unassigned fund balance is the portion of fund balance that is the residual classification for the General Fund. This balance represents amounts that have not been assigned to other funds and that have not been restricted, committed, or assigned for specific purposes. The District has a contingency reserve of \$2,567,000 established informally through the budget process that is included in the unassigned fund balance. The contingency reserve is intended to help sustain the financial stability of the District during times of emergency spending such as disaster recovery and revenue shortfalls that could potentially occur after the current fiscal year's budget adoption.

## K. Interfund Receivables and Payables

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

<u>Funds</u>	<u>Interfund</u>	
	<u>Receivables</u>	<u>Payables</u>
Major:		
General	\$ 797,595.43	\$ -
Special Revenue:		
Other Federal Programs	-	617,263.28
Nonmajor Governmental	-	12,111.71
Agency	-	168,220.44
<b>Total</b>	<b>\$ 797,595.43</b>	<b>\$ 797,595.43</b>

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

## L. Revenues

### 1. Schedule of State Revenue Sources

The following is a schedule of the District's State revenue sources for the 2017-18 fiscal year:

<u>Source</u>	<u>Amount</u>
Florida Education Finance Program	\$ 96,353,709.00
Categorical Educational Programs:	
Class Size Reduction	34,000,262.00
Transportation	6,637,870.00
Instructional Materials	2,622,893.00
School Recognition Funds	2,179,797.00
Digital Classrooms	987,986.00
Voluntary Prekindergarten	416,783.09
Discretionary Lottery Funds	55,614.00
Virtual Education Contribution	25,404.00
Workforce Development Program	2,205,447.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	1,100,808.83
Gross Receipts Tax (Public Education Capital Outlay)	652,102.00
Charter School Capital Outlay	258,062.00
Department of Juvenile Justice Supplemental	253,695.00
Sales Tax Distribution	
(Section 212.20(6)(d)6.a., F.S.) (Debt Service)	190,750.00
Food Service Supplement	102,583.00
Mobile Home License Tax	43,186.47
Miscellaneous	3,330,911.03
<b>Total</b>	<b>\$ 151,417,863.42</b>

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

## 2. Property Taxes

The following is a summary of millages and taxes levied on the 2017 tax roll for the 2017-18 fiscal year:

<b>General Fund</b>	<b>Millages</b>	<b>Taxes Levied</b>
Nonvoted School Tax:		
Required Local Effort	4.340	\$ 76,240,682.36
Basic Discretionary Local Effort	0.748	13,138,518.40
<b>Capital Projects - Local Capital Improvement Fund</b>		
Nonvoted Tax:		
Local Capital Improvements	1.500	26,352,068.93
<b>Total</b>	6.588	\$ 115,731,269.69

## M. Interfund Transfers

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

<b>Funds</b>	<b>Interfund</b>	
	<b>Transfers In</b>	<b>Transfers Out</b>
Major:		
General	\$ 11,136,679.45	\$ 253,772.00
Capital Projects - Local Capital Improvement	-	18,330,275.00
Nonmajor Governmental	7,706,656.20	259,288.65
<b>Total</b>	\$ 18,843,335.65	\$ 18,843,335.65

Transfers to the General Fund from the Capital Projects – Local Capital Improvement Fund were for maintenance and repair of school facilities and for the lease of computers for instructional purposes. Transfers to the General Fund from Nonmajor Governmental Funds were to fund charter school capital outlays. Transfers to the Nonmajor Governmental Funds from the General Fund were for the renovations to Building 1A at Richbourg School and resurfacing the track at Fort Walton Beach High School from donations received. Transfers to the Nonmajor Governmental Funds from the Capital Projects – Local Capital Improvement Fund were for payment of debt.

## IV. 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 District's financial condition.

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## OTHER REQUIRED SUPPLEMENTARY INFORMATION

### Budgetary Comparison Schedule General and Major Special Revenue Funds For the Fiscal Year Ended June 30, 2018

	General Fund			Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget	Actual	
<b>Revenues</b>				
Intergovernmental:				
Federal Direct	\$ 3,285,972.19	\$ 3,297,636.82	\$ 4,277,404.94	\$ 979,768.12
Federal Through State and Local	500,000.00	783,334.47	783,334.47	-
State	146,805,829.10	149,129,854.88	149,129,854.88	-
Local:				
Property Taxes	85,818,240.00	85,789,885.64	86,293,708.72	503,823.08
Miscellaneous	3,540,772.14	5,594,848.00	6,334,615.91	739,767.91
Total Local Revenues	<u>89,359,012.14</u>	<u>91,384,733.64</u>	<u>92,628,324.63</u>	<u>1,243,590.99</u>
<b>Total Revenues</b>	<u>239,950,813.43</u>	<u>244,595,559.81</u>	<u>246,818,918.92</u>	<u>2,223,359.11</u>
<b>Expenditures</b>				
Current - Education:				
Instruction	177,874,441.32	177,857,589.99	170,087,717.54	7,769,872.45
Student Support Services	8,148,626.90	8,536,110.52	8,393,526.28	142,584.24
Instructional Media Services	1,669,392.79	1,751,850.58	1,587,208.90	164,641.68
Instruction and Curriculum Development Services	4,645,764.58	2,770,892.25	2,663,148.13	107,744.12
Instructional Staff Training Services	1,431,414.81	2,533,658.40	2,491,986.05	41,672.35
Instruction-Related Technology	527,068.47	539,618.83	493,187.72	46,431.11
Board	1,285,878.44	1,848,683.31	1,140,596.85	708,086.46
General Administration	360,264.14	325,046.99	301,073.95	23,973.04
School Administration	19,555,622.02	20,239,069.72	19,695,424.75	543,644.97
Facilities Acquisition and Construction	787,750.07	970,828.77	448,502.76	522,326.01
Fiscal Services	2,329,650.65	2,525,094.87	1,940,981.56	584,113.31
Food Services	-	80,231.86	80,231.86	-
Central Services	6,037,997.43	6,449,900.52	3,379,816.20	3,070,084.32
Student Transportation Services	13,041,644.85	13,487,039.48	12,997,253.39	489,786.09
Operation of Plant	19,804,233.70	23,838,610.12	18,704,241.94	5,134,368.18
Maintenance of Plant	7,084,878.43	7,665,133.34	6,604,872.99	1,060,260.35
Administrative Technology Services	3,016,440.37	2,925,280.28	2,870,339.17	54,941.11
Community Services	1,557,631.28	1,787,613.06	1,320,872.57	466,740.49
Fixed Capital Outlay:				
Facilities Acquisition and Construction	-	33,393.85	33,393.85	-
Other Capital Outlay	-	669,223.63	669,223.63	-
<b>Total Expenditures</b>	<u>269,158,700.25</u>	<u>276,834,870.37</u>	<u>255,903,600.09</u>	<u>20,931,270.28</u>
<b>Deficiency of Revenues Over Expenditures</b>	<u>(29,207,886.82)</u>	<u>(32,239,310.56)</u>	<u>(9,084,681.17)</u>	<u>23,154,629.39</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In	12,494,022.00	11,136,679.45	11,136,679.45	-
Loss Recoveries	4,946.28	664,170.00	664,170.00	-
Transfers Out	-	(253,772.00)	(253,772.00)	-
<b>Total Other Financing Sources</b>	<u>12,498,968.28</u>	<u>11,547,077.45</u>	<u>11,547,077.45</u>	<u>-</u>
<b>Net Change in Fund Balances</b>	<u>(16,708,918.54)</u>	<u>(20,692,233.11)</u>	<u>2,462,396.28</u>	<u>23,154,629.39</u>
Fund Balances, Beginning	52,729,621.61	52,729,621.61	52,729,621.61	-
<b>Fund Balances, Ending</b>	<u>\$ 36,020,703.07</u>	<u>\$ 32,037,388.50</u>	<u>\$ 55,192,017.89</u>	<u>\$ 23,154,629.39</u>

**Special Revenue - Other Federal Programs Fund**

<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget - Positive (Negative)</b>
\$ 538,242.76	\$ 2,650,807.04	\$ 1,745,838.37	\$ (904,968.67)
15,714,313.00	15,687,173.16	14,154,136.38	(1,533,036.78)
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
<u>16,252,555.76</u>	<u>18,337,980.20</u>	<u>15,899,974.75</u>	<u>(2,438,005.45)</u>
11,663,544.90	12,021,479.90	10,841,803.36	1,179,676.54
649,963.93	614,414.81	574,502.10	39,912.71
3.28	-	-	-
3,211,555.02	2,210,710.04	1,848,334.19	362,375.85
221,688.61	1,109,331.12	1,082,891.32	26,439.80
-	-	-	-
-	-	-	-
390,725.27	1,325,738.01	506,867.21	818,870.80
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
115,074.75	47,697.01	36,967.26	10,729.75
-	-	-	-
-	-	-	-
-	-	-	-
-	827,564.28	827,564.28	-
-	-	-	-
-	181,045.03	181,045.03	-
<u>16,252,555.76</u>	<u>18,337,980.20</u>	<u>15,899,974.75</u>	<u>2,438,005.45</u>
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>

**Schedule of Changes in the District's  
Total OPEB Liability and Related Ratios**

	<b>2018</b>
<b>Total OPEB Liability</b>	
Service Cost	\$ 367,917
Interest	605,174
Changes of Assumptions or Other Inputs	(571,454)
Benefit Payments	(689,680)
<b>Net Change in Total OPEB Liability</b>	(288,043)
Total OPEB Liability - Beginning, as Restated	15,614,667
<b>Total OPEB Liability - Ending</b>	\$ 15,326,624
Covered-Employee Payroll	\$ 165,038,069
<b>Total OPEB Liability as a Percentage of Covered-Employee Payroll</b>	9.29%

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

	2017	2016	2015	2014	2013
District's Proportion of the FRS Net Pension Liability	0.357405844%	0.357619070%	0.383592688%	0.385999535%	0.372293538%
District's Proportionate Share of the FRS Net Pension Liability	\$ 105,718,251	\$ 90,299,095	\$ 49,546,140	\$ 23,551,648	\$ 64,088,287
District's Covered Payroll (2)	\$ 158,184,698	\$ 153,198,985	\$ 150,972,191	\$ 145,656,503	\$ 138,484,841
District's Proportionate Share of the FRS Net Pension Liability as a Percentage of its Covered Payroll	66.83%	58.94%	32.82%	16.17%	46.28%
FRS Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	83.89%	84.88%	92.00%	96.09%	88.54%

(1) The amounts presented for each fiscal year were determined as of June 30.

(2) Covered payroll includes defined benefit plan actives, investment plan members, and members in DROP.

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

	2018	2017	2016	2015	2014
Contractually Required FRS Contribution	\$ 9,772,172	\$ 9,353,604	\$ 8,721,111	\$ 9,352,316	\$ 8,455,028
FRS Contributions in Relation to the Contractually Required Contribution	(9,772,172)	(9,353,604)	(8,721,111)	(9,352,316)	(8,455,028)
FRS Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
District's Covered Payroll (2)	\$ 155,298,879	\$ 158,184,698	\$ 153,198,985	\$ 150,972,191	\$ 145,656,503
FRS Contributions as a Percentage of Covered Payroll	6.29%	5.91%	5.69%	6.19%	5.80%

(1) The amounts presented for each fiscal year were determined as of June 30.

(2) Covered payroll includes defined benefit plan actives, investment plan members, and members in DROP.



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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
District's Proportion of the HIS Net Pension Liability	0.496239465%	0.496237127%	0.497785311%	0.490539910%	0.476803072%
District's Proportionate Share of the HIS Net Pension Liability	\$ 53,060,213	\$ 57,834,380	\$ 50,766,271	\$ 45,866,679	\$ 41,511,976
District's Covered Payroll (2)	\$ 158,184,698	\$ 153,198,985	\$ 150,972,191	\$ 145,656,503	\$ 138,484,841
District's Proportionate Share of the HIS Net Pension Liability as a Percentage of its Covered Payroll	33.54%	37.75%	33.63%	31.49%	29.98%
HIS Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	1.64%	0.97%	0.50%	0.99%	1.78%

(1) The amounts presented for each fiscal year were determined as of June 30.

(2) Covered payroll includes defined benefit plan actives, investment plan members, and members in DROP.

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required HIS Contribution	\$ 2,577,961	\$ 2,625,866	\$ 2,543,532	\$ 1,902,845	\$ 1,680,425
HIS Contributions in Relation to the Contractually Required Contribution	(2,577,961)	(2,625,866)	(2,543,532)	(1,902,845)	(1,680,425)
HIS Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
District's Covered Payroll (2)	\$ 155,298,879	\$ 158,184,698	\$ 153,198,985	\$ 150,972,191	\$ 145,656,303
HIS Contributions as a Percentage of Covered Payroll	1.66%	1.66%	1.66%	1.26%	1.15%

(1) The amounts presented for each fiscal year were determined as of June 30.

(2) Covered payroll includes defined benefit plan actives, investment plan members, and members in DROP.

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**1. Budgetary Basis of Accounting**

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

## **2. Schedule of Changes in the District's Total Other Postemployment Benefits Liability and Related Ratios**

*Changes of Assumptions.* The discount rate was increased from 3.58 percent at the beginning of the measurement period to 3.87 percent at the end of the measurement period. This change is reflected in the Schedule of Changes in the District's Total OPEB Plan Liability and Related Ratios.

No assets are accumulated in a trust to pay related benefits.

## **3. Schedule of Net Pension Liability and Schedule of Contributions – Florida Retirement System Pension Plan**

*Changes of Assumptions.* The long-term expected rate of return was decreased from 7.6 percent to 7.1 percent, and the active member mortality assumption was updated.

## **4. Schedule of Net Pension Liability and Schedule of Contributions – Health Insurance Subsidy Pension Plan**

*Changes of Assumptions.* The municipal bond rate used to determine total pension liability was increased from 2.85 percent to 3.58 percent.

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# SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

## Okaloosa County District School Board Schedule of Expenditures of Federal Awards For the Fiscal Year Ended June 30, 2018

Federal Grantor/Pass-Through Grantor/ Program or Cluster	Federal CFDA Number	Pass - Through Entity Identifying Number	Passed Through to Subrecipients	Total Expenditures
<b>Clustered</b>				
<b>Child Nutrition Cluster:</b>				
United States Department of Agriculture:				
Florida Department of Agriculture and Consumer Services:				
School Breakfast Program	10.553	18002	\$ -	\$ 1,292,252.41
National School Lunch Program	10.555	18001, 18003	-	6,728,869.15
Summer Food Service Program for Children	10.559	17006, 18006	-	187,845.95
<b>Total Child Nutrition Cluster</b>			-	8,208,967.51
<b>Student Financial Assistance Cluster:</b>				
United States Department of Education:				
Federal Pell Grant Program	84.063	N/A	-	828,904.28
<b>Special Education Cluster:</b>				
United States Department of Education:				
Special Education - Grants to States:				
Florida Department of Education	84.027	263	-	6,236,545.57
University of South Florida		None	-	750.00
Total Special Education - Grants to States	84.027		-	6,237,295.57
Special Education - Preschool Grants:				
Florida Department of Education	84.173	267	-	197,173.11
<b>Total Special Education Cluster</b>			-	6,434,468.68
<b>Not Clustered</b>				
<b>United States Department of Agriculture:</b>				
Florida Department of Financial Services:				
Schools and Roads - Grants to States	10.665	None	-	1,170.62
<b>United States Department of Defense:</b>				
Public Law 106-398	12.UNK	N/A	-	12,495.19
Public Law 110-417	12.UNK	N/A	-	641,520.52
Air Force Junior Reserve Officers Training Corps	12.UNK	N/A	-	197,496.38
Army Junior Reserve Officers Training Corps	12.UNK	N/A	-	121,307.73
Competitive Grants: Promoting K-12 Student				
Achievement at Military-Connected Schools	12.556	N/A	-	355,496.80
Invitational Grants for Military-Connected Schools	12.557	N/A	-	462,812.37
Air Force Defense Research Sciences Program	12.800	N/A	-	99,964.92
<b>Total United States Department of Defense</b>			-	1,891,093.91
<b>United States Department of Education:</b>				
Impact Aid	84.041	N/A	97,114.00	3,303,245.12
Florida Department of Education:				
Career and Technical Education - Basic Grants to States	84.048	161	-	319,021.24
Education for Homeless Children and Youth	84.196	127	-	42,598.88
Twenty-First Century Community Learning Centers	84.287	244	-	298,483.08
English Language Acquisition State Grants	84.365	102	-	133,742.94
Supporting Effective Instruction State Grants	84.367	224	-	824,151.54
Student Support and Academic Enrichment Program	84.424	241	-	1,247.16
Title I Grants to Local Educational Agencies:				
Florida Department of Education	84.010		326,903.60	6,097,960.82
Santa Rosa County District School Board		None	-	2,462.04
Total Title I Grants to Local Educational Agencies	84.010		326,903.60	6,100,422.86
<b>Total United States Department of Education</b>			424,017.60	11,022,912.82
<b>Total Expenditures of Federal Awards</b>			\$ 424,017.60	\$ 28,387,517.82

The accompanying notes are an integral part of this Schedule.

- Notes: (1) Basis of Presentation. The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the Federal award activity of the Okaloosa County District School Board under programs of the Federal Government for the fiscal year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position or changes in net position of the District.
- (2) Summary of Significant Accounting Policies. Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- (3) Indirect Cost Rate. The District has not elected to use the 10 percent de minimis cost rate allowed under the Uniform Guidance.
- (4) Noncash Assistance for National School Lunch Program. Includes \$863,464.40 of donated food received during the fiscal year. Donated foods are valued at fair value as determined at the time of donation.
- (5) Impact Aid. Expenditures include \$655,803.07 for grant number/program year S041B-2016-1256 and \$2,647,442.05 for grant number/program year S041B-2018-1256.



Sherrill F. Norman, CPA  
Auditor General

# AUDITOR GENERAL STATE OF FLORIDA

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

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

We have audited, in accordance with 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Okaloosa County District School Board, as of and for the fiscal year ended June 30, 2018, 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 20, 2019, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the school internal funds and the aggregate discretely presented component units, as described in our report on the District's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

### **Internal Control Over Financial Reporting**

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

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

timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

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

### **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.

Respectfully submitted,



Sherrill F. Norman, CPA  
Tallahassee, Florida  
February 20, 2019



Sherrill F. Norman, CPA  
Auditor General

# AUDITOR GENERAL STATE OF FLORIDA

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The President of the Senate, the Speaker of the  
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## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

### Report on Compliance for the Major Federal Program

We have audited the Okaloosa County District School Board's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the District's major Federal program for the fiscal year ended June 30, 2018. The District's major Federal program is identified in **SECTION I – SUMMARY OF AUDITOR'S RESULTS** of the accompanying **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**.

#### ***Management's Responsibility***

Management is responsible for compliance with Federal statutes, regulations, and the terms and conditions of its Federal awards applicable to its Federal programs.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for the District's major Federal program 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 the major Federal program. However, our audit does not provide a legal determination of the District's compliance.

### ***Opinion on the Major Federal Program***

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major Federal program for the fiscal year ended June 30, 2018.

### **Report on Internal Control Over Compliance**

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

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,



Sherrill F. Norman, CPA  
Tallahassee, Florida  
February 20, 2019

# **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

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## **SECTION I – SUMMARY OF AUDITOR’S RESULTS**

### **Financial Statements**

Type of auditor’s report issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	No

### **Federal Awards**

Internal control over the major Federal program:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Type of auditor’s report issued on compliance for the major Federal program:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No
Identification of the major Federal program:	
CFDA Numbers: 10.553, 10.555, and 10.559	Name of Federal Program or Cluster: Child Nutrition Cluster
Dollar threshold used to distinguish between type A and type B programs:	\$851,625
Auditee qualified as low risk auditee?	Yes

## **SECTION II – FINANCIAL STATEMENT FINDINGS**

No matters are reported.

## **SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

No matters are reported.

## ***PRIOR AUDIT FOLLOW-UP***

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There were no prior financial statement or Federal awards findings requiring follow-up.

## ***SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS***

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The District did not have prior audit findings required to be reported under 2 CFR 200.511.