Okaloosa County
District School Board

FINANCIAL STATEMENTS

June 30, 2016

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Okaloosa County District School Board (hereinafter referred to as "District"), as of and for the year ended June 30, 2016, 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Okaloosa Academy, Inc. or Liza Jackson Preparatory School Inc., as described in Note I to the financial statements, which represent 1.3% of the total assets of the District. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for Okaloosa Academy, Inc. and Liza Jackson Preparatory School Inc., is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that

are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Okaloosa County District School Board as of June 30, 2016, and the respective changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and other 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.

Other Information

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

The 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 Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated March 20, 2017, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Carr, Riggs & Ingram, L.L.C

CARR, RIGGS & INGRAM, LLC

Miramar Beach, Florida
March 20, 2017

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, 2016. The information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events, and conditions and should be considered in conjunction with the District's financial statements and notes to the financial statements found immediately following the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2015-16 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, 2016, by $97,816,009 (net position). Of this amount, $71,888,023 represents a deficit unrestricted net position which has decreased by 4.51 percent from last year's deficit unrestricted net position. This deficit represents the second reported deficit in net position in the history of the District of which both are due to the implementation of Government Accounting Standards Board (GASB) Statement No. 68 *"Accounting and Financial Reporting for Pensions."*

- The District's total net position increased by $7,390,703, or 8.17 percent, from last year.

- General revenues total $271,298,956, or 94.20 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total $16,711,762, or 5.80 percent of all revenues.

- Expenses total $280,620,015. Only $16,711,762 of these expenses were 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 $14,420,662 at June 30, 2016, or 5.93 percent of the total General Fund expenditures at June 30, 2016, as compared to the 2014-15 fiscal year unassigned fund balance of $14,364,416.

- General Fund expenditures exceeded revenues by $8,473,856.

OVERVIEW OF THE 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 and liabilities, using an economic resources measurement focus. The difference between the assets and liabilities, the net position, is a measure of the District's financial health. The statement of activities presents information about the change in the District's net position, the results of operations, during the fiscal year. An increase or decrease in net position is an indication of whether the District's financial health is improving or deteriorating. This information should be evaluated in conjunction with other non-financial factors, such as changes in the District's property base, student enrollment, and the condition of the District's capital assets, including its school buildings and administrative facilities.

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

- Governmental activities – This represents most of the District's services, including its educational programs: basic, vocational, adult, and exceptional education. Support functions such as transportation and administration are also included. Local property taxes and the State's education finance program provide most of the resources that support these activities.

- Component units – The District presents three separate legal entities in this report including the Okaloosa Academy, Inc., the Liza Jackson Preparatory School, Inc., and the Okaloosa Public School Foundation, Inc. Although legally separate organizations, the component units are included in this report because they meet the criteria for inclusion provided by generally accepted accounting principles. Financial information for these component units is reported separately from the financial information presented for the primary government.

The Okaloosa School Board Leasing Corporation (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 the statement of revenues, expenditures, and changes in fund balances provide detailed information about the District's most significant funds, not the District as a whole. The District's major fund this year is the General Fund. Data from the other governmental funds are combined into a single, aggregated presentation.

The District adopts an annual appropriated budget for its governmental funds. Budgetary comparison schedules have been provided for the General Fund to demonstrate compliance with the budget at the functional level.

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

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

Notes to Financial Statements

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

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position over time may serve as a useful indicator of a government's financial health. The following is a summary of the District's net position as of June 30, 2016, compared to net position as of June 30, 2015:

Net Position, End of Year

	Governmental Activities		
	6/30/2016	6/30/2015	Increase (Decrease)
Current and Other Assets	$ 67,805,865	$ 62,335,144	$ 5,470,721
Capital Assets, net	190,982,692	198,489,933	(7,507,241)
Total Assets	258,788,557	260,825,077	(2,036,520)
Deferred Outflows of Resources	26,841,734	20,002,818	6,838,916
Long-term Liabilities	169,999,810	145,300,146	24,699,664
Other Liabilities	4,492,717	4,356,936	135,781
Total Liabilities	174,492,527	149,657,082	24,835,445
Deferred Inflows of Resources	13,321,755	40,745,505	(27,423,750)
Net Investment in Capital Assets	151,811,692	152,345,933	(534,241)
Restricted	17,892,340	13,366,004	4,526,336
Unrestricted	(71,888,023)	(75,286,629)	3,398,606
Total Net Position	$ 97,816,009	$ 90,425,308	$ 7,390,701

The largest portion of the District's net position reflects its $151,811,692 investment in capital assets (land; construction in progress; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; computer software; and audio-visual materials), less any related debt still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, the resources used to repay the debt must be provided from other sources, since the capital assets cannot be used to liquidate these liabilities.

The restricted portion of the District's net position, $17,892,340, represents resources that are subject to external restrictions on how they may be used. The unrestricted net position, a deficit of $71,888,023 is the result of having long-term obligations that are greater than currently available resources. This deficit balance represents the second reported deficit in unrestricted net position in the history of the District. The major change in the financial positon of the District that resulted in this deficit net position was due to the implementation of GASB Statement No. 68. Additional information on this implementation can be found in Note II of the 2014-2015 financial statements.

The key elements of the changes in the District's net position for the fiscal years ended June 30, 2016, and June 30, 2015, are as follows:

Operating Results for the Year

	Governmental Activities		
	6/30/2016	6/30/2015	Increase (Decrease)
Program Revenues:			
Charges for Services	$ 6,069,425	$ 6,202,754	$ (133,329)
Operating Grants and Contributions	8,114,879	7,451,102	663,777
Capital Grants and Contributions	2,527,458	2,528,982	(1,524)
General Revenues:			
Property Taxes Levied for Operational Purposes	90,073,174	89,280,573	792,601
Property Taxes Levied for Capital Projects	23,382,373	22,540,195	842,178
Grants and Contributions Not Restricted to Specific Purposes	151,251,489	141,447,006	9,804,483
Unrestricted Investment Earnings	341,594	211,057	130,537
Miscellaneous	6,250,326	6,490,979	(240,653)
Special Items	-	(1,446,067)	1,446,067
Total Revenues	288,010,718	274,706,581	13,304,137

(Continued)

Functions/Program Expenses:			
Instruction	168,809,211	164,855,142	3,954,069
Pupil Personnel Services	8,695,991	8,749,291	(53,300)
Instructional Media Services	1,438,289	1,395,659	42,630
Instruction and Curriculum Development Services	8,232,401	7,927,742	304,659
Instructional Staff Training	1,363,617	1,396,831	(33,214)
Instruction Related Technology	503,456	646,842	(143,386)
Board of Education	1,475,723	1,938,524	(462,801)
General Administration	911,049	873,012	38,037
School Administration	18,660,738	18,819,490	(158,752)
Facilities Acquisition and Construction	5,364,183	5,234,762	129,421
Fiscal Services	1,885,503	1,774,297	111,206
Food Services	9,826,199	11,312,173	(1,485,974)
Central Services	3,386,536	2,905,901	480,635
Pupil Transportation Services	11,862,751	12,088,888	(226,137)
Operation of Plant	16,343,983	16,049,443	294,540
Maintenance of Plant	6,747,055	7,804,997	(1,057,942)
Administrative Technology Services	2,870,518	2,815,519	54,999
Community Services	2,156,115	2,001,587	154,528
Interest on Long-Term Debt	1,777,429	1,963,723	(186,294)
Unallocated Depreciation Expense	8,309,268	7,388,100	921,168
Total Functions/Program Expenses	280,620,015	277,941,923	2,678,092
Increase (Decrease) in Net Position	$ 7,390,703	$ (3,235,342)	$ 10,626,045

The largest revenue source is the State of Florida (45.86 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 52.52 percent of total governmental revenues in the 2015-16 fiscal year. Grants and contributions not restricted to specific programs increased by $9,804,483, or 6.93 percent, due primarily to increases in FEFP, Florida School Recognition Program, Title I, and one-time payment for Florida Best & Brightest Teacher Scholarship Program for $891,677.

Property tax revenues increased by $1,634,779, or 1.46 percent, as a result of an increase in taxable assessed values of $688 million despite a 2.18 percent decrease in the total millage rate due to the Florida Department of Education (FDOE) lowering the required local effort.

Instructional expenses represent 60.16 percent of total governmental expenditures in the 2015-16 fiscal year. Instructional expenses increased by $3,954,069, or 2.40 percent, from the previous fiscal year due primarily to an increase in the number of teachers in order to comply with the class size reduction mandate, an increase in the number of classroom assistants, salary increases, and professional development increases.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Major Governmental Funds

The General Fund is the District's chief operating fund. At the end of the 2015-16 fiscal year, the total fund balance is $55,793,747, an increase of $4,467,973 over the 2014-15 fiscal year. Of the total fund balance, $78,829 is nonspendable, $10,380,163 is restricted for State required carryover programs, $30,914,093 is assigned, and $14,420,662 is unassigned.

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

- State revenues increased by $9,188,656 in the 2015-16 fiscal year due primarily to an increase in student enrollment, an increase in base student allocation, and a new categorical called "Best & Brightest Teacher Scholarship Programs" from the State.

- Total expenditures decreased by $1,997,110 or 0.81 percent. Instruction expenditures increased $1,709,463 due to the District's commitment to comply with the State constitutional class size reduction mandate, increases in salaries, hiring additional teachers and classroom assistants, and an increase in the allocation for professional development training. School administration decreased by $501,878 as a result of a significant number of Principal retirements. Maintenance of Plant decreased $1,147,457 primarily as a result of decreases in salaries and benefits which were attributable to retirements, renegotiated employee health care insurance contract, maintenance vehicles not being purchased this year, no natural disasters occurring, and fewer workers' compensation claims. Other capital outlay decreased $2,216,214 primarily due to a one time purchase of school buses and motor vehicles in fiscal year 2014-2015.

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 2015-16 fiscal year, the District amended its General Fund budget several times, which resulted in an increase in total budgeted revenues of $3,887,077, or 1.69 percent. At the same time, final budgeted expenditures were more than the original budgeted amounts by $5,837,845, or 2.27 percent. Final budgeted ending fund balance decreased by $1,011,054 or 2.88 percent less than the original budgeted fund balance.

Actual revenues are 0.56 percent greater than the final budgeted amounts while actual expenditures are 7.72 percent less than final budgeted amounts. The actual ending fund balance exceeded the estimated fund balance contained in the final amended budget by $21,660,149, whereas the actual fund balance increased by $4,467,973 or 8.71 percent.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets (net of accumulated depreciation) for its governmental activities as of June 30, 2016, is $190,982,692. This investment in capital assets includes land; construction in progress; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; computer software; and audio-visual materials.

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

Debt Administration

At June 30, 2016, the District had total long-term debt outstanding of $39,171,000, composed of $3,787,000 of bonds payable, and $35,384,000 of certificates of participation payable. During the current fiscal year, retirement of debt was $6,973,000.

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 FDOE under the provisions of Section 1011.62, Florida Statutes. In accordance with this law, the District receives FEFP moneys based on the number of full-time equivalent (FTE) students. The District experienced a moderate increase in FTE for the 2015-16 fiscal year and anticipates another increase in the 2016-17 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. Two 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.

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

REQUESTS FOR INFORMATION

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

Basic Financial Statements

June 30,	2016	
	Primary Government	
	Governmental Activities	Component Units
Assets		
Cash and cash equivalents	$ 65,218,987	$ 967,559
Investments	30,840	44,823
Accounts receivable	242,637	32,144
Due from other agencies	1,711,290	37,649
Inventory	154,633	-
Prepaid items	-	131,519
Deposits	447,478	45,500
Capital assets, net	190,982,692	2,090,940
Total assets	258,788,557	3,350,134
Deferred outflows of resources		
Pension	26,841,734	705,401
Total deferred outflows of resouces	26,841,734	705,401
Liabilities		
Salaries and wages payable	3,280,868	173,500
Accounts payable and accrued expenses	1,109,215	30,982
Construction contracts payable	89,858	-
Construction contracts retainage payable	10,276	-
Deposits payable	1,000	-
Unearned revenues	1,500	55,399
Long-term liabilities:		
Portion due within one year	14,102,985	-
Portion due after one year	155,896,825	2,204,775
Total liabilities	174,492,527	2,464,656
Deferred inflows of resources		
Pension	13,321,755	265,443
Total deferred inflows of resouces	13,321,755	265,443
Net position		
Net investment in capital assets	151,811,692	2,090,940
Restricted for:		
State categorical programs	10,380,163	-
Capital projects	4,903,699	76,338
Debt service	76,287	-
Food service	2,532,191	106,684
Unrestricted	(71,888,023)	(948,526)
Total net position	$ 97,816,009	$ 1,325,436

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

Year ended June 30, **2016**

Functions/Programs	Expenses	Program Revenue: Charges for Services	Program Revenue: Operating Grants and Contributions	Program Revenue: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Primary Government: Governmental Activities	Net (Expense) Revenue and Changes in Net Position: Primary Government: Component Units
Primary government						
Governmental Activities						
Instruction	$168,809,211	$ 2,342,477	$ -	$ -	$(166,466,734)	$ -
Pupil personnel services	8,695,991	-	-	-	(8,695,991)	-
Instructional media services	1,438,289	-	-	-	(1,438,289)	-
Instruction and curriculum development	8,232,401	-	-	-	(8,232,401)	-
Instructional staff training	1,363,617	-	-	-	(1,363,617)	-
Instruction related technology	503,456	-	-	-	(503,456)	-
School board	1,475,723	-	-	-	(1,475,723)	-
General administration	911,049	-	-	-	(911,049)	-
School administration	18,660,738	-	-	-	(18,660,738)	-
Facilities acquisition and construction	5,364,183	-	-	1,580,235	(3,783,948)	-
Fiscal services	1,885,503	-	-	-	(1,885,503)	-
Food services	9,826,199	3,292,654	8,114,879	-	1,581,334	-
Central services	3,386,536	-	-	-	(3,386,536)	-
Pupil transportation services	11,862,751	434,294	-	-	(11,428,457)	-
Operation of plant	16,343,983	-	-	-	(16,343,983)	-
Maintenance of plant	6,747,055	-	-	-	(6,747,055)	-
Administrative technology services	2,870,518	-	-	-	(2,870,518)	-
Community services	2,156,115	-	-	-	(2,156,115)	-
Interest on long-term debt	1,777,429	-	-	947,223	(830,206)	-
Unallocated depreciation/amortization expense	8,309,268	-	-	-	(8,309,268)	-
Total governmental activities	$280,620,015	$ 6,069,425	$ 8,114,879	$ 2,527,458	(263,908,253)	-

(continued)

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

Year ended June 30, **2016**

Functions/Programs	Expenses	Program Revenue: Charges for Services	Program Revenue: Operating Grants and Contributions	Program Revenue: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Primary Government: Governmental Activities	Net (Expense) Revenue and Changes in Net Position: Primary Government: Component Units
Component Units						
Charter schools/Foundation	$ 9,707,126	$ 594,278	$ 1,067,324	$ 36,480	-	(8,009,044)
General revenues:						
Taxes:						
Property taxes, levied for general purposes					90,073,174	-
Property taxes, levied for capital projects					23,382,373	-
Grants and contributions not restricted to specific programs					151,251,489	7,925,550
Investment earnings					341,594	632
Miscellaneous					6,250,326	67,202
Total general revenues					271,298,956	7,993,384
Change in net position					7,390,703	(15,660)
Net position - beginning					90,425,306	1,341,096
Net position - ending					$ 97,816,009	$ 1,325,436

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

Okaloosa County District School Board
Balance Sheet - Governmental Funds

June 30,	2016		
	General Fund	Other Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	$ 57,875,467	$ 7,343,520	$ 65,218,987
Investments	-	30,840	30,840
Accounts receivable, net	205,410	37,227	242,637
Due from other agencies	1,121,194	590,096	1,711,290
Due from other funds	338,387	-	338,387
Inventory	78,829	75,804	154,633
Deposits	447,478	-	447,478
Total assets	$ 60,066,765	$ 8,077,487	$ 68,144,252
Liabilities, deferred inflows of resources, and fund balances			
Liabilities:			
Salaries, benefits and payroll taxes payable	$ 3,280,868	$ -	$ 3,280,868
Accounts payable	992,150	117,065	1,109,215
Construction contracts payable	-	89,858	89,858
Construction contracts - retainage	-	10,276	10,276
Deposits payable	-	1,000	1,000
Due to other funds	-	338,387	338,387
Unearned revenues	-	1,500	1,500
Total liabilities	4,273,018	558,086	4,831,104
Deferred inflows of resources:			
Deferred revenue	-	7,226	7,226
Total deferred inflows of resources	-	7,226	7,226
Fund balances:			
Nonspendable:			
Inventory	78,829	75,804	154,633
Restricted for:			
State required carryover programs	10,380,163	-	10,380,163
Debt service funds	-	76,286	76,286
Capital projects	-	4,903,698	4,903,698
School food service	-	2,456,387	2,456,387
Assigned for:			
Noncategorical project carryover	22,609,183	-	22,609,183
School/department carryover	2,137,575	-	2,137,575
Insurance claims	4,248,000	-	4,248,000
Full-time equivalent funding	1,407,011	-	1,407,011
Retirement	512,324	-	512,324
Unassigned	14,420,662	-	14,420,662
Total fund balances	55,793,747	7,512,175	63,305,922
Total liabilities, deferred inflows of resources, and fund balances	$ 60,066,765	$ 8,077,487	$ 68,144,252

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

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

June 30,		**2016**
Total fund balances, governmental funds	$	63,305,922
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.		190,982,692
Revenues not available as a current financial resource are considered deferred revenue on the fund level financial statements but are recognized as revenues in the Statement of Activities		7,226
Deferred outflows and inflows or resources related to pensions and debt refundings are applicable to future periods and, therefore, are not reported in the funds.		
Deferred outflows of resources		26,841,734
Deferred inflows of resources		(13,321,755)
Long term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		(169,999,810)
Total net position - governmental activities	$	97,816,009

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

Okaloosa County District School Board
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds

Year ended June 30,		2016	
	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues			
Intergovernmental:			
Federal direct	$ 4,347,049	$ 1,658,156	$ 6,005,205
Federal through state	643,725	22,874,752	23,518,477
State sources	129,756,553	2,624,870	132,381,423
Local sources	99,988,407	26,744,267	126,732,674
Total revenues	234,735,734	53,902,045	288,637,779
Expenditures			
Current:			
Instruction	160,613,770	10,219,656	170,833,426
Pupil personnel services	8,218,917	576,360	8,795,277
Instructional media services	1,418,026	35,336	1,453,362
Instructional and curriculum development	4,851,241	3,465,558	8,316,799
Instructional staff training	1,117,484	256,538	1,374,022
Instruction related technology	508,387	-	508,387
School board	1,901,229	-	1,901,229
General administration	361,714	565,183	926,897
School administration	18,890,987	-	18,890,987
Facilities acquisition and construction	391,583	4,398,316	4,789,899
Fiscal services	1,909,355	-	1,909,355
Food services	36,073	9,826,678	9,862,751
Central services	3,337,112	-	3,337,112
Pupil transportation services	11,707,442	57,493	11,764,935
Operation of plant	16,422,429	-	16,422,429
Maintenance of plant	6,692,531	-	6,692,531
Administrative technology services	2,871,462	31,194	2,902,656
Community services	1,293,429	875,219	2,168,648
Fixed capital outlay:			
Facilities acquisition and construction	14,060	504,024	518,084
Other capital outlay	652,359	772,409	1,424,768
Debt Service:			
Retirement of principal	-	6,973,000	6,973,000
Interest and fiscal charges	-	1,764,697	1,764,697
Dues, fees, and issuance costs	-	12,732	12,732
Total expenditures	243,209,590	40,334,393	283,543,983
Excess (deficiency) of revenues over expenditures	(8,473,856)	13,567,652	5,093,796
Other financing sources (uses)			
Proceeds from sale of capital assets	-	526,181	526,181
Loss recoveries	1,323,097	-	1,323,097
Transfers in	11,675,039	7,615,168	19,290,207
Transfers out	(56,307)	(19,233,900)	(19,290,207)
Total other financing sources and (uses)	12,941,829	(11,092,551)	1,849,278
Net change in fund balances	4,467,973	2,475,101	6,943,074
Fund balances, July 1, 2015	51,325,774	5,037,074	56,362,848
Fund balances, June 30, 2016	$ 55,793,747	$ 7,512,175	$ 63,305,922

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

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

Year ended June 30,		**2016**
Net change in fund balances - total governmental funds:	$	6,943,074
Amounts reported for Governmental Activities in the Statement of Activities are different because:		
Capital outlays are reported in governmental funds as an expenditure. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeds capital outlay in the current period.		(7,042,180)
The net effect of miscellaneous transactions involving capital assets (i.e., donations and disposals) is to decrease capital assets.		(465,062)
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of principal on notes, bonds, and certificates of participation are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		6,973,000
Certain revenues reported as revenues in the governmental funds were recognized in the Statement of Activities in the prior year.		(1,608,132)
In the Statement of Activities, the cost of compensated absences is measured by the amounts earned during the 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 earned in excess of the amount used in the current period.		(581,580)
In the Statement of Activities, the cost of other post employment benefit (OPEB) obligation is measured by actuarial estimations, while in the governmental funds expenditures are recognized based on amounts actually paid for OPEB. This is the net increase of the OPEB obligation for the current period.		(119,000)
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. This is the amount that pension contributions exceed pension expense.		3,368,583
In the Statement of Activities, insurance claims include additional amounts for increases in long-term insurance claims liabilities. However, expenditures for these items are measured by the amount of financial resources used (essentially, the amount paid). This is the amount which estimated insurance claims liability decreased in the current period.		(78,000)
Change in net position of governmental activities	$	7,390,703

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

Okaloosa County District School Board
Statement of Fiduciary Assets and Liabilities

June 30,		**2016**
		Agency Funds
Assets		
Cash and cash equivalents	$	4,138,276
Investments		729,932
Other receivables		293,694
Total assets	$	5,161,902
Liabilities		
Accounts payable	$	136,776
Internal accounts payable		5,025,126
Total liabilities	$	5,161,902

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-wide Financial Statements

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

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

B. Reporting Entity

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

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

Blended Component Unit: A blended component unit, is in substance, part of the primary government's operations, even though it is a legally separate entity. Thus, a blended component unit is appropriately presented as funds of the District. The Okaloosa County School Board Leasing Corporation (Leasing Corporation) was formed to facilitate financing for the acquisition of facilities and equipment as further discussed in Note III.I.I. 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.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 to be a component unit.

Charter schools are separate not-for-profit corporations organized pursuant to Chapter 617, Florida Statutes, the Florida Not For Profit Corporation Act, and Section 1002.33, Florida Statutes. The District is the sponsor for each of the following charter schools and is responsible for monitoring and reviewing their progress toward meeting the goals established in the charters. The charter schools are considered to be 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, 2016. 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.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 units. 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 fund:

- 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.

Additionally, the District reports the following fiduciary fund type:

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

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

E. Basis of Accounting

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

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

1. Cash and Cash Equivalents

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

Cash deposits are held by banks qualified as public depositories under Florida law or through the Federally Insured Cash Account program which complies with the provisions of Section 218.415(23), Florida Statues, 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.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Investments

Investments consist of amounts placed in the SBA debt service accounts for investments of debt service moneys and amounts placed with SBA for participation in the Florida PRIME investment pool created by Sections 218.405, Florida Statutes, amounts placed in the FEITF, and those made locally. The investment pools operate 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 amortized cost and meet the requirements of Governmental Accounting Standards Board (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 Florida Education Investment Trust Fund (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 money market funds which are reported at fair value.

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

3. Inventories

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4. Capital Assets

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

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

Description	Estimated Useful Life
Improvements other than buildings	8 - 40 years
Buildings and fixed equipment	10 - 50 years
Furniture, fixtures, and equipment	3 - 15 years
Motor vehicles	5 - 10 years
Computer software and audio visual materials	3-5- years

Current-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.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6. Long-Term Liabilities

Long-term obligations that will be financed from resources to be received in the future by governmental fund types are reported as liabilities in the government-wide statement of net position. In the governmental fund financial statements, 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 will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The District has only one item that qualifies for reporting in this category. The item, deferred inflows of resources related to pensions, is only reported on the government-wide statement of net position. This item results from the difference in the expected and actual amounts of experience, earnings, and contributions, and is deferred and amortized over the service life of all employees that are provided pensions through the pension plan, except earnings are amortized over 5 years.

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.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

9. Fund Balance Flow Assumption

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

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, 2016.

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.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Revenues and Expenditures/Expenses

1. Program Revenues

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

2. State Revenue Sources

Significant revenues from State sources for current operations include the Florida Education Finance Program administered by the FDOE under the provisions of Section 1011.62, Florida Statutes. In accordance with this law, the District determines and reports the number of full-time equivalent (FTE) students and related data to the FDOE. The FDOE performs certain edit checks on the reported number of FTE students and related data and calculates the allocation of funds to the District. The District is permitted to amend its original reporting for a period of 5 months following the date of the original reporting. Such amendments may impact funding allocations for subsequent years. The FDOE may also adjust subsequent fiscal year allocations based upon an audit of the District's compliance in determining and reporting FTE students and related data. Normally, such adjustments are treated as reductions or additions of revenue in the fiscal year when the adjustments are made.

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

The State allocates gross receipts taxes, generally known as Public Education Capital Outlay money, to the District on an annual basis. The District is authorized to expend these funds only upon applying for and receiving an encumbrance authorization from the FDOE. A schedule of revenue from State sources for the current fiscal year is presented in a subsequent note.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2015 tax levy on September 14, 2015. 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.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Governmental Accounting Standards Board Statement No. 72.

This Statement provides guidance for determining a fair value measurement for financial reporting and guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The District implemented GASB Statement No. 72 and the effect of implementation on the financial statements was not significant.

Governmental Accounting Standards Board Statement No. 79.

The District has funds held in Florida PRIME and FEITF. As participants in these investment pools, the District implemented GASB Statement No. 79, *Certain External Investment Pools and Pool Participants,* 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. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in the statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Both Florida PRIME and FEITF indicate that they do meet the qualifications the standard requires.

III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Cash Deposits with Financial Institutions

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

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

B. Investments

The following is a summary of the District's investments:

June 30,		2016	Weighted Average Maturities
State Board of Administration (SBA):			
Florida PRIME (1)	$	14,401,992	39 Day Average
Debt Service Accounts		30,840	6 Months
Florida Education Investment Trust Fund (1)		504,914	41 Day Average
Total investments, primary government	$	14,937,746	

Notes: (1) Investments reported as cash equivalents for financial statement reporting purposes. See Note I.F.1.

Interest Rate Risk

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

Florida PRIME 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. The FEIFT is designed to maintain a $1 per share net asset value and provide immediate liquidity to meet cash flow needs.

III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

Credit Risk

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

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

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

C. Changes in Capital Assets

Changes in capital assets are presented in the table below:

	Balance 7/1/15	Additions	Deletions	Balance 6/30/16
Governmental Activities				
Capital assets not being depreciated:				
Land	$ 12,249,914	$ -	$ (488,365)	$ 11,761,549
Construction in progress	11,257	-	(11,257)	-
Total capital assets not being depreciated	12,261,171	-	(499,622)	11,761,549
Capital assets being depreciated:				
Improvements other than buildings	15,709,049	403,455	(152,667)	15,959,837
Buildings and fixed equipment	289,325,567	178,448	(76,057)	289,427,958
Furniture, fixtures and equipment	24,079,070	1,249,301	(1,199,052)	24,129,319
Motor vehicles	17,251,885	23,396	(29,760)	17,245,521
Computer software	1,966,585	121,113	(53,150)	2,034,548
Audio-visual material	11,826	1,699	-	13,525
Total capital assets being depreciated	348,343,982	1,977,412	(1,510,686)	348,810,708

(Continued)

III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

	Balance 7/1/15	Additions	Deletions	Balance 6/30/16
Less accumulated depreciation for:				
Improvements other than buildings	12,673,605	530,196	(152,667)	13,051,134
Buildings and fixed equipment	113,620,124	6,525,977	(76,057)	120,070,044
Furniture, fixtures and equipment	19,837,794	1,226,745	(1,199,052)	19,865,487
Motor vehicles	14,110,733	648,580	(29,760)	14,729,553
Computer software	1,861,336	53,194	(53,150)	1,861,380
Audio-visual material	11,629	338	-	11,967
Total accumulated depreciation	162,115,221	8,985,030	(1,510,686)	169,589,565
Total capital assets being depreciated, net	186,228,761	(7,007,618)	-	179,221,143
Governmental activities - capital assets, net	$198,489,932	$ (7,007,618)	$ (499,622)	$190,982,692

Depreciation expense was charged to functions as follows:

Function	Amount
Governmental Activities	
Instruction	$ 358,782
Student transportation services	209,316
Maintenance of plant	107,664
Unallocated	8,309,268
Total deprecation expense - governmental activities	$ 8,985,030

D. Retirement Plans

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

General Information about the FRS

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

III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

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

The District's FRS and HIS pension expense totaled $7,896,060 for the fiscal year ended June 30, 2016.

FRS Pension Plan

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

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

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

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

III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

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

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

Class, initial Enrollment, and retirement age / years of service	Percent Value
Regular class members initially enrolled before July 1, 2011	
Retirement up to age 62 or up to 30 years of service	1.60
Retirement up to age 63 or up to 31 years of service	1.63
Retirement up to age 64 or up to 32 years of service	1.65
Retirement up to age 65 or up to 33 or more years of service	1.68
Regular class members initially enrolled on or after July 1, 2011	
Retirement up to age 65 or up to 33 or more years of service	1.60
Retirement up to age 66 or up to 34 or more years of service	1.63
Retirement up to age 67 or up to 35 or more years of service	1.65
Retirement up to age 68 or up to 36 or more years of service	1.68
Elected county officers	3.00

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

Contributions The Florida Legislature establishes contribution rates for participating employers and employees. Contribution rates during the 2015-16 fiscal year were as follows:

III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

Class	Percent of Gross Salary Employee	Employer (1)
FRS, regular	3.00%	7.26%
FRS, elected county officers	3.00%	42.27%
DROP - applicable to members from all of the above classes	0.00%	12.88%
FRS, reemployed retiree	(2)	(2)

Notes:
(1) Employer rates include 1.66 percent for the post employment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.04 percent for administrative cost of the Investment Plan.
(2) Contribution rates are dependent upon the retirement class in which reemployed.

The District's contributions to the Plan totaled $8,721,111 for the fiscal year ended June 30, 2016.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions At June 30, 2016, the District reported a liability of $49,546,140 for its proportionate share of the Plan's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015. The District's proportionate share of the net pension liability was based on the District's 2014-15 fiscal year contributions relative to the 2014-15 fiscal year contributions of all participating members. At June 30, 2015, the District's proportionate share was 0.383592688 percent, which was a decrease of 0.002406846 from its proportionate share of 0.385999535 percent measured as of June 30, 2014.

For the year ended June 30, 2016, the District recognized pension expense of $3,857,173. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 5,230,606	$ 1,175,084
Change in assumptions	3,288,544	-
Net difference between projected and actual earnings on FRS pension plan investments	-	11,830,788
Change in proportion and differences between District FRS contributions and proportionate share of contributions	1,610,392	315,883
District FRS contributions subsequent to the measurement date	8,721,111	-
Total	$ 18,850,653	$ 13,321,755

The deferred outflows of resources related to pensions, totaling $8,721,111 resulting from District contributions to the Plan subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal year ending June 30,	Amount
2017	$ (3,660,579)
2018	(3,660,579)
2019	(3,660,579)
2020	6,100,192
2021	1,393,259
Thereafter	296,073
Total	$ (3,192,213)

Actuarial Assumptions The total pension liability in the July 1, 2015, actuarial valuation was determined using the following assumptions, applied to all periods included in the measurement:

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

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

III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

The actuarial assumptions used in the July 1, 2015, valuation were based on the results of an actuarial experience study for the period July 1, 2008 through June 30, 2013.

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

Asset Class	Target Allocation (1)	Annual Arithmetic Return	Compound Annual (Geometric) Return	Standard Deviation
Cash	1.00%	3.20%	3.10%	1.70%
Fixed income	18.00%	4.80%	4.70%	4.70%
Global equity	53.00%	8.50%	7.20%	17.70%
Real estate (property)	10.00%	6.80%	6.20%	12.00%
Private equity	6.00%	11.90%	8.20%	30.00%
Strategic investments	12.00%	6.70%	6.10%	11.40%
Total	100.00%			
Assumed inflation - mean		2.60%		1.90%

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

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

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

III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

	1% Decrease (6.65%)	Current Discount Rate (7.65%)	1% Increase (8.65%)
District's proportionate share of the net pension liability	$128,385,255	$ 49,546,140	$ (16,060,953)

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 Statues, and may be amended by the Florida Legislature at any time. The benefit is a monthly payment to assist retirees of State-administered retirement systems in paying their health insurance costs and is administered by the Florida Department of Management Services, Division of Retirement.

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

Contributions. The HIS Pension 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, 2016, 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 that 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 Pension Plan totaled $2,543,532 for the fiscal year ended June 30, 2016.

III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2016, the District reported a net pension liability of $50,766,271 for its proportionate share of the HIS Plan's net pension liability. The current portion of the net pension liability is the District's proportionate share of benefit payments expected to be paid within 1 year, net of the District's proportionate share of the pension plan's fiduciary net position available to pay that amount. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015. The District's proportionate share of the net pension liability was based on the District's 2014-15 fiscal year contributions relative to the total 2015-16 fiscal year contributions of all participating members. At June 30, 2015, the District's proportionate share was 0.497785311 percent, which was an increase of 0.007245402 percent from its proportionate share measured as of June 30, 2014.

For the fiscal year ended June 30, 2016, the District recognized HIS Plan pension expense of $4,038,887. In addition, the District reported deferred outflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources
Change in assumptions	$ 3,993,980
Net difference between projected and actual earnings on HIS pension plan investments	27,480
Change in proportion and differences between District HIS contributions and proportionate share of HIS contributions	1,426,090
District HIS contributions subsequent to the measurement date	2,543,532
Total	$ 7,991,082

The deferred outflows of resources related to pensions totaling $2,543,532, related to pensions resulting from District contributions to the HIS Plan subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

Fiscal year ending June 30,		Amount
2017	$	980,761
2018		980,761
2019		980,761
2020		975,175
2021		972,494
Thereafter		557,598
Total	$	5,447,550

Actuarial Assumptions. The total pension liability in the July 1, 2015, 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	3.80 percent

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

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

Discount Rate. The discount rate used to measure the total pension liability was 3.80 percent. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the HIS Plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable municipal bond index.

Sensitivity of the District's Proportionate Share of the Net Position 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 3.80 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 (2.80 percent) or 1 percentage point higher (4.80 percent) than the current rate:

III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

	1% Decrease (2.80%)	Current Discount Rate (3.80%)	1% Increase (4.80%)
District's proportionate share of the net pension liability	$ 57,845,803	$ 50,766,271	$ 44,863,005

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

2. FRS – Defined Contribution Pension Plan

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

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined benefit plan. District employees participating in DROP are not eligible to participate in the Investment Plan. Employer and employee contributions, including amounts contributed to individual member's accounts, are defined by law, but the ultimate benefit depends in part on the performance of investment funds. Benefit terms, including contribution requirements, for the Investment Plan are established and may be amended by the Florida Legislature. The Investment Plan is funded with the same employer and employee contribution rates that are based on salary and membership class (Regular Class, Elected County Officers, etc.), as the FRS defined benefit plan. Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Cost of administering the plan, including the FRS Financial Guidance Program, are funded through an employer contribution of 0.04 percent of payroll and by forfeited benefits of plan members. Allocations to the investment member's accounts during the 2015-16 fiscal year were as follows:

Class	Percent of Gross Salary
FRS, regular	6.30%
FRS, elected county officers	11.34%

For all membership classes, employees are immediately vested in their own contributions and are vested after 1 year of service for employer contributions and investment earnings. If an accumulated benefit obligation for service credit originally earned under the FRS Pension Plan is transferred to the Investment Plan, the member must have the years of service required for FRS Pension Plan vesting (including the service credit represented by the transferred funds) to be vested for these funds and the earnings on the funds. Nonvested employer contributions are

III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

placed in a suspense account for up to five 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 five-year period, the employee will forfeit the accumulated account balance. For the fiscal year ended June 30, 2016, the information for the amount of forfeitures was unavailable from the SBA; however, management believes that these amounts, if any, would be immaterial to the District.

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

The District's Investment Plan pension expense totaled $620,093 for the fiscal year ended June 30, 2016.

E. Other Post Employment Benefit Obligations

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

Funding Policy Plan contribution requirements of the District and OPEB Plan members are established and may be amended through action from the Board. The District has not advance-funded or established a funding methodology for the annual OPEB costs or the net OPEB obligation, and the OPEB Plan is financed on a pay-as-you-go basis. As of July 2015, the most recent valuation date, there were 150 retirees receiving medical benefits, and 1,734 that received life benefits. The District provided required contributions of $799,000 toward the annual OPEB cost, net of retiree contributions totaling $918,000, which represents 0.63 percent of covered payroll.

III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

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

Description	Amount
Normal cost (service cost for one year)	$ 353,000
Amortization of unfunded actuarial accrued liability	526,000
Interest on normal cost and amortization	35,000
Annual required contribution	914,000
Interest on net OPEB obligation	31,000
Adjust to annual required contribution	(27,000)
Annual OPEB cost (expense)	918,000
Contribution toward the OPEB cost	(799,000)
Increase (decrease) in net OPEB obligation	119,000
Net OPEB obligation, beginning of year	765,000
Net OPEB obligation, end of year	$ 884,000

The District's annual OPEB cost, amount contributed, the percentage of annual OPEB cost contributed to the OPEB Plan, and the net OPEB obligation as of June 30, 2016, and the two preceding fiscal years, were as follows:

Fiscal Year	Annual OPEB Cost	Amount Contributed	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2013 - 14	$ 1,191,000	$ 1,058,000	88.83%	$ 580,000
2014 - 15	1,221,000	1,036,000	84.85%	765,000
2015 - 16	918,000	799,000	87.04%	884,000

Funded Status and Funding Progress. As of July 1, 2015, the actuarial accrued liability for benefits was $14,735,000, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability of $14,735,000, and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was $146,375,531 for the 2015-16 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 10.07 percent.

III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

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

Patient Protection and Affordable Care Act and the GASB 45 Accrued Liability The District's OPEB report incorporates the provisions of the Patient Protection and Affordable Care Act (Act) recently signed into law. Starting in 2014, individuals who fail to maintain health coverage face financial penalties, and starting in 2020, a 40 percent excise tax is applied to the value of retiree health coverage exceeding the $11,850 limit. The individual mandate and the planned introduction of insurance exchanges may affect the number of future retirees that elect to remain on the District plan. The exchange may be a more attractive offer for some retirees, however no changes have been made to the pre-65 participation assumption. The excise tax has been valued and is included in the actuarially accrued liability.

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

The District's OPEB actuarial valuation as of June 30, 2015, used the projected unit credit method to estimate the unfunded actuarial liability as of June 30, 2016, and to estimate the District's 2015-16 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets. The actuarial assumptions also included a payroll growth rate of 3.5 percent per year, and an annual healthcare cost trend rate of 8 percent, reduced by 0.5 percent per year, to an ultimate rate of 4.5 percent. The unfunded actuarial accrued liability is being amortized using a level percentage of projected payroll on an open basis over a 30-year period.

III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

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, 2016:

General Fund	Nonmajor Governmental Funds	Total Governmental Funds
$ 1,081,542	$ 698,328	$ 1,779,870

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

Project	Contract Amount	Completed to Date	Balance Committed
Fort Walton Beach Phase 4 HVAC	$ 951,063	$ 671,618	$ 279,445
CHOICE / Ruckel Roof Replacement	285,436	63,980	221,456
Total	$ 1,236,499	$ 735,598	$ 500,901

G. Risk Management Programs

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

III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

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, 2016, an actuarially determined liability of $4,248,000 ($55,000 for the property program, undiscounted, and $4,193,000 for the casualty program, discounted using a 4 percent rate of return) is reported as estimated insurance claims payable on the District's Statement of Net Position.

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

Fiscal Year	Beginning Balance	Current Fiscal Year Claims and Changes in Estimates	Claims Payments	Ending Balance
2014 - 15	$ 4,429,000	$ 3,144,945	$ (3,403,945)	$ 4,170,000
2015 - 16	4,170,000	2,340,309	(2,262,309)	4,248,000

H. Operating Lease Commitments

The District leases its computer hardware assets. The Board approved a new agreement on May 12, 2014, for the periods July 1, 2014 through June 30, 2019. This agreement may be renewed one time for up to 5 years at the end of this term. Total expenditures under the operating lease for the fiscal year ended June 30, 2016, were $5,816,948. The following table represents future minimum lease payments:

Fiscal year ending June 30,	Amount
2017	$ 5,722,648
2018	5,673,771
2019	5,581,026
Total minimum payments required	$ 16,977,445

Long-Term Liabilities

1. Certificates of Participation

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

III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

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

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

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

As a condition of the financing arrangements, the District has given a ground lease on certain District property to the Leasing Corporation. The ground lease associated with the Certificate of Participation, Series 2012, which refunded Certificates of Participations, Series 2003, which refunded 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 ground lease term related to the Certificate of Participation, Series 2006, and the Certificate of Participation, Series 2007, ends on the earlier of the date on which the Series 2006 Certificates, the Series 2007 Certificates, and any series of certificates refunding such certificates have been paid in full or provision for their payment has been made, or 10 years from the final maturity date of the Series 2006 Certificates, Series 2007 Certificates, and any series of certificates refunding such certificates. The properties covered by the ground leases are, together with the improvements constructed thereon from the financing proceeds, leased back to the District. If the District fails to renew the leases and to provide for the rent payments through to term, the District may be required to surrender the sites included under the ground leases for the benefit of the securers of the Certificates for a period of time specified by the arrangements which may be up through the last day of the ground leases.

III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

The lease payments are payable by the District semiannually, on July 1 and January 1 at interest rates from 3.75 percent to 4 percent for the Certificates of Participation, Series 2006; and interest rates from 4 percent to 4.25 percent for the Certificates of Participation, Series 2007; and at an interest rate of 1.33 percent for the Certificate of Participation, Series 2012. The following is a schedule by fiscal years of future minimum lease payments under the lease agreement together with the present value of minimum lease payments as of June 30:

Certificates of Participation - 2006			
Year Ending June 30,	Principal	Interest	Total
2017	$ 2,235,000	$ 477,813	$ 2,712,813
2018	2,320,000	394,000	2,714,000
2019	2,410,000	301,200	2,711,200
2020	2,510,000	204,800	2,714,800
2021	2,610,000	104,400	2,714,400
Subtotal	12,085,000	1,482,213	13,567,213

Certificates of Participation - 2007			
Year Ending June 30,	Principal	Interest	Total
2017	2,895,000	792,615	3,687,615
2018	3,010,000	676,815	3,686,815
2019	3,130,000	556,415	3,686,415
2020	3,260,000	427,303	3,687,303
2021	3,395,000	292,827	3,687,827
2022	3,535,000	150,238	3,685,238
Subtotal	19,225,000	2,896,213	22,121,213

Certificates of Participation - 2012			
Year Ending June 30,	Principal	Interest	Total
2017	1,341,000	54,184	1,395,184
2018	1,359,000	36,349	1,395,349
2019	1,374,000	18,274	1,392,274
Subtotal	4,074,000	108,807	4,182,807
Total	$ 35,384,000	$ 4,487,233	$ 39,871,233

The District properties included in the ground lease 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

III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

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 2006, include properties at Riverside Elementary School and Richbourg School.

- Certificates of Participation, Series 2007, include properties at Shoal River Middle School, Northwood Elementary School, Richbourg School, and Choctawhatchee High School and land purchases for new school sites.

2. Bonds Payable

Bonds payable at June 30, 2016, are as follows:

Bond Type	Interest Rates (Percent)	Annual Maturity To	Amount Outstanding
State School Bonds:			
Series 2008-A	3.250 - 5.000	2028	$ 695,000
Series 2009-A, Refunding	2.000 - 5.000	2019	105,000
Series 2010-A	3.000 - 5.000	2030	140,000
Series 2014-A, Refunding	2.000 - 5.000	2020	322,000
District Revenue Bonds:			
Series 2011	2.000 - 5.500	2040	2,525,000
Total bonds payable			$ 3,787,000

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

State School Bonds - These bonds are issued by the 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.

III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

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

The District has pledged a combined total of $4,698,008 of sales tax revenues in connection with the 2011 District Revenue Bonds. During the 2015-16 fiscal year, the District recognized sales tax revenues totaling $221,365 and expended $189,095 (85.4 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, 2016 are as follows:

Year Ending June 30,	Principal	Interest	Total
State School Bonds:			
2017	$ 330,000	$ 61,065	$ 391,065
2018	138,000	44,565	182,565
2019	92,000	37,665	129,665
2020	62,000	33,165	95,165
2021	60,000	30,275	90,275
2022 - 2026	375,000	103,325	478,325
2027 - 2030	205,000	15,600	220,600
Total State School Bonds	1,262,000	325,660	1,587,660
District Revenue Bonds:			
2017	60,000	127,475	187,475
2018	60,000	125,675	185,675
2019	65,000	123,650	188,650
2020	65,000	121,213	186,213
2021	70,000	118,612	188,612
2022 - 2026	395,000	543,438	938,438
2027 - 2031	500,000	437,750	937,750
2032 - 2036	650,000	292,600	942,600
2037 - 2040	660,000	93,500	753,500
Total District Revenue Bonds	2,525,000	1,983,913	4,508,913
Total	$ 3,787,000	$ 2,309,573	$ 6,096,573

III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

3. Changes in Long-Term Liabilities

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

Description	Balance 7/1/15	Additions	Deductions	Balance 6/30/16	Due in One Year
Bonds payable	$ 4,496,000	$ -	$ (709,000)	$ 3,787,000	$ 390,000
Certificates of participation payable	41,648,000	-	(6,264,000)	35,384,000	6,471,000
Estimated insurance claims payable	4,170,000	2,340,309	(2,262,309)	4,248,000	2,920,000
Compensated absences payable	24,802,819	2,727,596	(2,146,016)	25,384,399	2,458,716
Net pension liability	69,418,327	30,894,084	-	100,312,411	1,863,269
Other post employment benefits payable	765,000	918,000	(799,000)	884,000	-
Total	$ 145,300,146	$ 36,879,989	$ (12,180,325)	$ 169,999,810	$ 14,102,985

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

I. 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.

III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

- **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 year's budget adoption.

J. Interfund Receivables and Payables

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

	Interfund	
Funds	Receivables	Payables
Major funds:		
General	$ 338,387	$ -
Nonmajor governmental funds	-	338,387
Total	$ 338,387	$ 338,387

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

K. Revenues

1. Property Taxes

The following is a summary of millages and taxes levied on the 2015 tax roll for the 2015-16 fiscal year:

	Millages	Taxes Levied
General Fund		
Nonvoted School Tax:		
Required local effort	5.031	$ 81,290,891
Basic discretionary local effort	0.748	12,084,732
Capital Projects Funds		
Nonvoted Tax:		
Local capital improvements	1.500	24,238,478
Total	7.279	$ 117,614,101

III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

2. Schedule of State Revenue Sources

The following is a schedule of the District's State revenue for the 2015-2016 fiscal year:

Sources	Amount
Florida education finance program	$ 80,963,688
Categorical educational programs:	
Class size reduction	32,783,063
Transportation	6,214,798
Instructional materials	2,465,373
School recognition funds	2,451,567
Digital classrooms	709,680
Voluntary prekindergarten	436,069
Virtual education contribution	45,813
Workforce development	2,304,566
Motor vehicles license tax (General Fund, Capital Outlay and Debt Service)	1,087,346
Charter school capital outlay	578,070
Sales tax distribution (s.212.20(6)(d)6a. F.S.) (Debt Service)	221,365
Gross receipts tax (Public Education Capital Outlay)	651,954
Department of juvenile justice supplemental	244,423
Food service supplement	102,432
Mobile home license tax	44,322
Miscellaneous	1,076,894
Total	$ 132,381,423

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

L. Interfund Transfers

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

	Interfund	
Funds	Transfers In	Transfers Out
Major funds:		
General	$ 11,675,039	$ 56,307
Nonmajor governmental funds	7,615,168	19,233,900
Total	$ 19,290,207	$ 19,290,207

III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

Transfers to the General Fund were for maintenance and repair of school facilities, for the lease of computers for instructional purposes, and to fund charter school capital outlays. Transfers to the Nonmajor Governmental Funds were for the construction of tennis courts at Ruckel Middle School, playground shade and sign at Destin Elementary School, and high jump in track area at Niceville High School from donations received.

IV. LITIGATION

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

Required Supplemental Information
(Other Than MD&A)

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

Year ended June 30,	2016			
	Budgeted Amounts			Variance with Final Budget - Postive (Negative)
	Original	Final	Actual Amounts	
Revenues				
Intergovernmental:				
Federal direct	$ 3,711,233	$ 3,791,244	$ 4,347,049	$ 555,805
Federal through state	575,000	643,725	643,725	-
State sources	129,902,689	129,756,553	129,756,553	-
Local sources	95,354,560	99,239,037	99,988,407	749,370
Total revenues	229,543,482	233,430,559	234,735,734	1,305,175
Expenditures				
Instruction	168,734,114	167,986,415	160,613,770	7,372,645
Pupil personnel services	8,102,170	8,411,243	8,218,917	192,326
Instructional media services	1,476,874	1,574,659	1,418,026	156,633
Instructional and curriculum development	5,827,954	5,166,530	4,851,241	315,289
Instructional staff training	1,369,563	1,621,976	1,117,484	504,492
Instruction related technology	501,714	530,896	508,387	22,509
Board of education	1,741,420	3,146,510	1,901,229	1,245,281
General administration	433,802	368,504	361,714	6,790
School administration	18,765,356	19,601,330	18,890,987	710,343
Facilities acquisition and construction	600,540	658,609	391,583	267,026
Fiscal services	2,279,458	2,401,148	1,909,355	491,793
Food services	-	36,073	36,073	-
Central services	4,687,881	8,204,624	3,337,112	4,867,512
Pupil transportation services	12,731,477	12,212,480	11,707,442	505,038
Operation of plant	16,783,639	17,826,450	16,422,429	1,404,021
Maintenance of plant	8,078,549	7,906,998	6,692,531	1,214,467
Administrative technology services	3,392,922	2,927,876	2,871,462	56,414
Community services	2,219,286	2,315,824	1,293,429	1,022,395
Fixed capital outlay:				
Facilities acquisition and construction	-	14,060	14,060	-
Other capital outlay	-	652,359	652,359	-
Total expenditures	257,726,719	263,564,564	243,209,590	20,354,974
Excess (deficiency) of revenues over expenditures	(28,183,237)	(30,134,005)	(8,473,856)	21,660,149
Other financing sources (uses)				
Loss recoveries	10,699	1,323,097	1,323,097	-
Transfers in	12,005,346	11,675,039	11,675,039	-
Transfers out	(13,930)	(56,307)	(56,307)	-
Total other financing sources and (uses)	12,002,115	12,941,829	12,941,829	-
Net change in fund balances	(16,181,122)	(17,192,176)	4,467,973	21,660,149
Fund balances - beginning	51,325,774	51,325,774	51,325,774	-
Fund balances - ending	$ 35,144,652	$ 34,133,598	$ 55,793,747	$ 21,660,149

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

Actuarial Valuation Date	Actuarial Value of Assets **(A)**	Actuarial Accrued Liability (AAL) - Entry Age (1) **(B)**	Unfunded AAL (UAAL) **(B-A)**	Funded Ratio **(A/B)**	Covered Payroll **(C)**	UAAL as a Percentage of Covered Payroll **[(B-A)/C]**
7/1/13	$ -	$ 15,940,000	$ 15,940,000	0.00%	$ 139,200,318	11.45%
7/1/14	-	16,129,000	16,129,000	0.00%	144,320,983	11.18%
7/1/15	-	14,735,000	14,735,000	0.00%	146,375,531	10.07%

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

Okaloosa County District School Board
Schedule of Proportionate Share of Net Pension Liability – Florida Retirement System Pension Plan

	2016	2015	2014
District's proportion of the FRS net pension liability (asset)	0.38359%	0.38599%	0.37229%
District's proportionate share of the FRS net pension liability (asset)	$ 49,546,140	$ 23,551,648	$ 64,088,287
District's covered-employee payroll (1)	$150,972,191	$145,656,503	$138,484,481
District's proportionate share of the FRS net pension liability (asset) as a percentage of its covered-employee payroll	32.82%	16.17%	46.28%
FRS Plan fiduciary net position as a percentage of the total pension liability	92.00%	96.09%	88.54%
Plan Sponsor Measurement Date	June 30, 2015	June 30, 2014	June 30, 2013

Note: (1) Covered-employees payroll includes defined benefit plan actives, investment plan members, and members in DROP.

Okaloosa County District School Board
Schedule of Contributions –
Florida Retirement System Pension Plan (1)

	2016	2015	2014
Contractually required FRS contribution	$ 8,721,111	$ 9,352,316	$ 8,455,028
FRS contributions in relation to the contractually required contribution	(8,721,111)	(9,352,316)	(8,455,028)
FRS contribution deficiency (excess)	$ -	$ -	$ -
District's covered-employee payroll (2)	$ 153,198,985	$ 150,972,191	$ 145,656,503
FRS contributions as a percentage of covered-employee payroll	5.69%	6.19%	5.80%

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

Okaloosa County District School Board
Schedule of Proportionate Share of Net Pension Liability – Health Insurance Subsidy Pension Plan

	2016	2015	2014
District's proportion of the HIS net pension liability (asset)	0.49778%	0.49053%	0.47680%
District's proportionate share of the HIS net pension liability (asset)	$ 50,766,271	$ 45,866,679	$ 41,511,976
District's covered-employee payroll (1)	$150,972,191	$145,656,503	$138,484,841
District's proportionate share of the HIS net pension liability (asset) as a percentage of its covered-employee payroll	33.63%	31.49%	29.98%
HIS Plan fiduciary net position as a percentage of the total pension liability	0.50%	0.99%	1.78%
Plan Sponsor Measurement Date	June 30, 2015	June 30, 2014	June 30, 2013

Note: (1) Covered-employees payroll includes defined benefit plan actives, investment plan members, and members in DROP.

Okaloosa County District School Board
Schedule of Contributions –
Health Insurance Subsidy Pension Plan (1)

	2016	2015	2014
Contractually required HIS contribution	$ 2,543,532	$ 1,902,845	$ 1,680,425
HIS contributions in relation to the contractually required HIS contribution	(2,543,532)	(1,902,845)	(1,680,425)
HIS contribution deficiency (excess)	$ -	$ -	$ -
District's covered-employee payroll (2)	$ 153,198,985	$ 150,972,191	$ 145,656,303
HIS contributions as a percentage of covered-employee payroll	1.66%	1.26%	1.15%

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

NOTE 1: BUDGETARY BASIS OF ACCOUNTING

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

- Budgets are prepared, public hearings are held, and original budgets are adopted annually for all governmental fund types in accordance with procedures and time intervals prescribed by law and State Board of Education rules.

- Appropriations are controlled at the object level (e.g., salaries, purchased services, and capital outlay) within each activity (e.g., instruction, pupil personnel services, and school administration) and may be amended by resolution at any Board meeting prior to the due date for the annual financial report.

- Budgets are prepared using the same modified accrual basis as is used to account for governmental funds.

- Budgetary information is integrated into the accounting system, and, to facilitate budget control, budget balances are encumbered when purchase orders are issued. Appropriations lapse at fiscal year-end, and encumbrances outstanding are honored from the subsequent year's appropriations.

NOTE 2: SCHEDULE OF NET PENSION LIABILITY AND SCHEDULE OF CONTRIBUTIONS - FLORIDA RETIREMENT SYSTEM PENSION PLAN

Changes of Assumptions. As of June 30, 2015, the inflation rate assumption remained the same as last year at 2.6 percent, the real payroll growth assumption remained the same as last year at 0.65 percent, and the overall payroll growth rate assumption remained the same as last year at 3.25 percent. The long-term expected rate of return remained the same as last year at 7.65 percent.

NOTE 3: SCHEDULE OF NET PENSION LIABILITY AND SCHEDULE OF CONTRIBUTIONS - HEALTH INSURANCE SUBSIDY PENSION PLAN

Changes of Assumptions. The municipal rate used to determine total pension liability decreased from 4.29 percent to 3.80 percent.

Other Information

For the year ended June 30, 2016	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (Note 1)	Amount Provided To Subrecipients
United States Department of Agriculture:				
Indirect:				
Child Nutrition Cluster:				
Florida Department of Agriculture and Consumer Services:				
School Breakfast Program	10.553	321	$ 1,218,717	$ -
National School Lunch Program (Note 2)	10.555	300	6,575,486	-
Summer Food Service Program for Children	10.559	323	218,244	-
Total Child Nutrition Cluster			8,012,447	-
Florida Department of Financial Services:				
Schools and Roads - Grants to States	10.665	none	125	-
Total United States Department of Agriculture			8,012,572	-
United States Department of Education:				
Direct:				
Impact Aid (Note 3)	84.041	N/A	3,291,677	100,462
Federal Pell Grant Program	84.063	N/A	876,384	-
Total Direct			4,168,061	100,462
Indirect:				
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027	263	6,040,215	-
Special Education - Preschool Grants	84.173	267	271,074	-
University of South Florida:				
Special Education - Grants to States	84.027	none	718	-
Total Special Education Cluster			6,312,007	-
Florida Department of Education:				
Title I Grants to Local Educational Agencies	84.010	212, 223	6,381,664	365,425
Career and Technical Education - Basic Grants to States	84.048	161	352,030	-
Education for Homeless Children and Youth	84.196	127	36,247	-
21st Century Community Learning Centers - Geographic Diversity Expansion	84.287	244	342,611	-
English Language Acquisition Grants	84.365	102, 104	180,447	-
Improving Teacher Quality State Grants	84.367	224	899,183	-
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top, Recovery Act	84.395	RA111	358,116	-
Total Florida Department of Education			8,550,298	365,425
Total Indirect			14,862,305	365,425
Total United States Department of Education			19,030,366	465,887
United States Department of Homeland Security				
Indirect:				
Florida Department of Community Affairs:				
Disaster Grants - Public Assistance (Presidentially Declared Disasters) (Note 4)	97.036	15-SP-8Z-01-56-14-	75,000	-
Total United States Department of Homeland Security			75,000	-

(continued)

For the year ended June 30, 2016	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (Note 1)	Amount Provided To Subrecipients
United States Department of Defense:				
Direct:				
Public Law 110-417	None	N/A	667,693	-
Public Law 106-398	None	N/A	62,586	-
Air Force Junior Reserve Officers Training Corps	None	N/A	208,709	-
Army Junior Reserve Officers Training Corps	None	N/A	115,218	-
Invitational Grants for Military Connected Schools	12.557	N/A	782,936	78
Total United States Department of Defense			1,837,142	78
Total Expenditures of Federal Awards			$ 28,955,080	$ 465,965

Notes: (1) Basis of Presentation - The Schedule of Expenditures of Federal Awards represents amounts expended from Federal Programs during the 2015 - 2016 fiscal year as determined based on the modified accrual basis of accounting. The amounts reported on the Schedule have been reconciled to and are in material agreement with amounts recorded in the District's accounting records from which the general purpose financial statements have been reported.

(2) Noncash Assistance – National School Lunch Program – Includes $882,743 of donated food received during the fiscal year. Donated foods are valued at fair value as determined at the time of donation. Also includes $5,725 from rebate/refunds associated with storage and delivery fees of USDA brown box foods stored at the State contracted warehouse.

(3) Impact Aid – Expenditures include $218,115 for grant number/program year S041B-2013-1256, $399,221 for grant number/program year S041B-2014-1256, $2,114,362 for grant number/program year S041B-2016-1256, and $559,977 for grant number/program year S041B-2016-1256.

(4) Public Assistance Grants - The amount reported as expenditures represents Disaster #1477 - Severe Storm, Flood 2014 related loss recoveries for the 2015-2016 fiscal year as follows: $46,111 for BAO, $16,303 for Florosa Elementary, and $12,586 for Edwins Elementary.

Compliance Section

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Okaloosa County District School Board (hereinafter referred to as the "District"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 20, 2017. Our report includes a reference to other auditors who have audited the financial statements of certain charter schools included as discretely presented component units as described in our report on the District's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Carr, Riggs & Ingram, L.L.C

CARR, RIGGS & INGRAM, LLC

Miramar Beach, Florida
March 20, 2017

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

We have audited the Okaloosa County District School Board's ("the District") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2016. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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, 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 each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the Okaloosa County District School Board, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control over Compliance

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

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. 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.

Purpose of this Report

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

Carr, Riggs & Ingram, L.L.C

CARR, RIGGS & INGRAM, LLC

Miramar Beach, Florida
March 20, 2017

Summary of Audit Results

As required by United States Office of Management and Budget Uniform Guidance, the following is a summary of the results of the audit of the Okaloosa County District School Board ("the District") for the fiscal year ended June 30, 2016:

- The auditor's report expresses an unmodified opinion on the basic financial statements of the Okaloosa County District School Board.

- No significant deficiencies and no material weaknesses relating to the audit of the basic financial statements are reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.

- No instances of noncompliance material to the basic financial statements of Okaloosa County District School Board which would be required to be reported in accordance with *Government Auditing Standards* were disclosed during the audit.

- No significant defeciencies and no material weaknesses relating to the audit of the major federal award programs are reported in the Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and Internal Control Over Compliance in Accordance with Uniform Grant Guidance.

- The auditor's report on compliance for the major federal award programs for the Okaloosa County District School Board is unmodified on all major federal programs.

- There was one (1) audit finding relative to the major federal award programs for Okaloosa County District School Board.

- The programs tested as major programs included: Special Education Cluster (CFDA 84.027, 84.173), 21st Century Community Learning Centers – Geographic Diversity Expansion (CFDA 84.287), and Invitational Grants for Military Connected Schools (CFDA 12.557).

- The threshold for distinguishing between Types A and B programs was $868,652.

- The Okaloosa County District School Board was determined to be a low risk auditee, as defined in the Uniform Guidance.

Findings – Federal Single Audit

Finding 2016-001: Inadequate Procurement and Controls Over Okaloosa SCIENCE Contract

Federal Agency:	**U.S. Department of Defense**
State Agency:	**N/A**
Program:	**Invitational Grants for Military-Connected Schools**
CFDA #:	**12.557**
Award #:	**HE1254-14-1-0004**
Award Year:	**2014-2017**
Finding Type:	**Noncompliance**
Questioned Costs:	**Undetermined**

Criteria

2 CFR 200.319 "Competition. (a) All procurement transactions must be conducted in a manner providing full and open competition consistent with the standards of this section. In order to ensure objective contractor performance and eliminate unfair competitive advantage, contractors that develop or draft specifications, requirements, statements of work, or invitations for bids or requests for proposals must be excluded from competing for such procurements."

2 CFR 200.330 "Subrecipient and contractor determinations. The non-Federal entity may concurrently receive Federal awards as a recipient, a subrecipient, and a contractor, depending on the substance of its agreements with Federal awarding agencies and pass-through entities. Therefore, a pass-through entity must make case-by-case determinations whether each agreement it makes for the disbursement of Federal program funds casts the party receiving the funds in the role of a subrecipient or a contractor. The Federal awarding agency may supply and require recipients to comply with additional guidance to support these determinations provided such guidance does not conflict with this section."

2 CFR 200.328 "Monitoring and reporting program performance. The non-Federal entity is responsible for oversight of the operations of the Federal award supported activities. The non-Federal entity must monitor its activities under Federal awards to assure compliance with applicable Federal requirements and performance expectations are being achieved. Monitoring by the non-Federal entity must cover each program, function or activity. See also §200.331 Requirements for pass-through entities."

Finding

The District did not comply with *2 CFR 200.319, 2 CFR 200.330*, and *2 CFR 200.328* requirements for contracting with a third party entity. In addition, the District did not have sufficient internal controls and oversight in place to properly meet the applicable requirements.

Condition

Competition

The District entered into a contract agreement with a 3rd party provider that also helped participate in the grant solicitation that was submitted to the Department of Defense Education Activity ("DODEA"). Although DODEA approved the grant with the 3rd party provider's services being included, DODEA may not have been aware of the fact that the 3rd party assisted with the solicitation which is noncompliant with 2 CFR 200.319. The 3rd party entity helped develop and write the grant in a manner that restricted fair competition. The 3rd party provider's services were not offered in a competitive environment, therefore no other providers were solicicted to fullfill this grant program. As a result, the District did not properly procure services to implement the Okaloosa SCIENCE project.

Subrecipient and Contractor Determinations

The District entered into a writen contract agreement with the 3rd party provider for the Okaloosa SCIENCE program for the year July 1, 2015 through June 30, 2016. 2 CFR 200.330 requires the District to determine the relationship of the provider as either a contractor or a subrecipient. This determination was not properly documented.

A 3rd party provider is deemed a subrecipient when the provider: (1) Determines who is eligible to receive what Federal assistance; (2) Has its performance measured in relation to whether objectives of a Federal program were met; (3) Has responsibility for programmatic decision making; (4) Is responsible for adherence to applicable Federal program requirements specified in the Federal award; and (5) In accordance with its agreement, uses the Federal funds to carry out a program for a public purpose specified in authorizing statute, as opposed to providing goods or services for the benefit of the pass-through entity.

A 3rd party provider is deemed a contractor for the purpose of obtaining goods and services for the non-Federal entity's own use and creates a procurement relationship with the contractor. Characteristics indicative of a procurement relationship between the non-Federal entity and a contractor are when the provider receiving the Federal funds: (1) Provides the goods and services within normal business operations; (2) Provides similar goods or services to many different purchasers; (3) Normally operates in a competitive environment; (4) Provides goods or services that are ancillary to the operation of the Federal program; and (5) Is not subject to compliance requirements of the Federal program as a result of the agreement, though similar requirements may apply for other reasons.

In determining whether an agreement between a pass-through entity and another non-Federal entity casts the latter as a subrecipient or a contractor, the substance of the relationship is more important than the form of the agreement. All of the characteristics listed above may not be present in all cases, and the pass-through entity such as the District must use judgment in classifying each agreement as a subaward or a procurement contract.

Condition (Continued)

The 3rd party provider was given the audthority to make program decisions therefore the provider established the Okaloosa Science program in a manner that benefited the community as opposed to providing goods and services exclusively for the benefit of the District. The 3rd party provider paid a subcontractor $26,000 to establish a Bioblitz event (a National Parks Service program) in Gulf Breeze, Florida and $7,700 for related bus services. While some Okaloosa students may have participated, a record of attendance was not retained by the 3rd party provider and the provider deemed this event as a community event not exclusive to Okalosoa County School District students.

These factors along with other factors as noted above would indicate that the 3rd party provider should have been classified as a subrecipient and the contract written between the provider and the District should have required the provider to obtain a Federal Single audit. Grant funding and related expenses exceeded the $750,000 threshold established under Uniform Grant Guidance.

Monitoring and Reporting Program Performance

The District attempted to adequately monitor the 3rd party provider and obtain documentation from the entity prior to making disbursements; however, the District did not verify the 3rd party provider had adequate service contracts in place for vendors prior to disbursing funds to the provider. Numerous instances were noted where the provider did not obtain adequate service contracts for substantial contracted services provided by subcontractors. As a result, the District was not initially aware that the 3rd party provider was hiring a family member to perform services under the federal grant. Without reviewing subcontracts, it is unclear what services were actually rendered by these subcontractors and exactly what deliverables they contributed to the Okaloosa SCIENCE program. In addition, the provider did not provide the District with sufficient participant data to indicate whether or not events held outside of the District and Okaloosa County were successful in implementing the program for the benefit of military students.

Cause

The District did not have adequate procedures in place to monitor and comply with required regulations governing procurement and subrecipient determinations with DODEA grant funds.

Effect

For 2015-2016 school year, the District was not in compliance with federal regulations governing DODEA grant funds.

Recommendation

The District terminated its relationship with the 3rd party provider at the end of the 2016 school year therefore remedying the 3rd party issue and now performs the services in-house which should better serve the military students and original grant purpose. Should the District obtain grant funding in the future similar to this federal program, the District should enhance its policies, procedures, and internal controls over procurement for entities providing services while using Federal funds and establish improved controls over monitoring all service providers receiving Federal funding.

Response and Corrective Action Plan

Finding 2016-001: Inadequate Procurement and Controls Over Okaloosa SCIENCE Contract

District Response:

In the past thirty years, the District has not been a party to a Federal or State grant which included a specific third party provider as part of the Grant except for this one instance. In the future, the District will not participate or accept a grant in which the District is not in total control of all aspects of the grant.

Listed below is the District's summary of the status of prior year audit findings on the financial statements:

Finding # per AG Report No. 2016-129	Management Letter Comments	Finding continues to be relevant	Finding has been addressed by management
2015-1	Background Screenings		X
2015-2	Collection and Use of Social Security Numbers		X
2015-3	Construction Administration – Total Program Manager Services		X
2015-4	Virtual Instruction Program – Policies and Procedures		X
2015-5	Virtual Instruction Program – Options		X
2015-6	Virtual Instruction Program – Written Parental Notifications		X
2015-7	Virtual Instruction Program – Provider Contract		X
2015-8	Virtual Instruction Program – Provider Background Screenings		X
2015-9	Virtual Instruction Program – Computing Resources		X
2015-10	Information Technology – Risk Assessment		X
2015-11	Information Technology – Security Incident Response Plan		X
2015-12	Information Technology – Security Awareness Training Program		X
2015-13	Information Technology – Access Privileges		X
2015-14	Information Technology Security Controls – User Authentication, Data Loss Prevention, and Monitoring of Application Activity		X

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

Audit Report and Schedule Paragraph No.	Program/Area	Brief Description	Status

N/A - There were no findings in the prior year.

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MANAGEMENT LETTER

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

Report on the Financial Statements

We have audited the financial statements of the Okaloosa County District School Board ("District") as of and for the fiscal year ended June 30, 2016, and have issued our report thereon dated March 20, 2017.

Auditors' Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and Chapter 10.800, Rules of the Auditor General.

Other Reporting Requirements

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*, Independent Auditor's Report on Compliance For Each Major Federal Program and Report on Internal Control over Compliance, Schedule of Findings and Questioned Costs, and our Independent Accountant's Report in accordance with Chapter 10.800, Rules of the Auditor General. Disclosures in those reports and schedule, which are dated March 20, 2017, should be considered in conjunction with this management letter.

Prior Audit Findings

Section 10.804(1)(f)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. See "Summary Schedule of Prior Audit Findings" for further information.

Financial Condition

Section 10.804(1)(f)2., Rules of the Auditor General, requires a statement be included as to whether or not the Okaloosa County District School Board has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the Okaloosa County District School Board did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Pursuant to Sections 10.804(1)(f)5.a. and 10.805(7), Rules of the Auditor General, we applied financial condition assessment procedures for the Okaloosa County District School Board. It is management's responsibility to monitor the Okaloosa County District School Board's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

Transparency

Section 10.804(1)(f)6., Rules of the Auditor General, requires that we report the results of our determination as to whether the Okaloosa County District School Board maintains on its Web site the information specified in Section 1011.035, Florida Statutes. (Section 1011.035, Florida Statutes, provides that district school boards include a plain language version of each proposed, tentative, and official budget that describes each budget item in terms that are easily understandable to the public.) In connection with our audit, we determined that the Okaloosa County District School Board maintained on its Web site the information specified in Section 1011.035, Florida Statutes.

Other Matters

Section 10.804(1)(f)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.

Section 10.804(1)(f)4., Rules of the Auditor General, requires that we address noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

Purpose of this Letter

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

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

CARR, RIGGS & INGRAM, LLC

Miramar Beach, Florida
March 20, 2017

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ATTESTATION REPORT ON COMPLIANCE WITH SECTION 218.415 FLORIDA STATUTES

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

We have examined Okaloosa County District School Board's compliance with the requirements of Section 218.415, Florida Statutes, *Local Government Investment Policies*, during the year ended June 30, 2016. Management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on the District's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the District's compliance with specified requirements.

In our opinion, the District complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2016.

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

Carr, Riggs & Ingram, L.L.C

CARR, RIGGS & INGRAM, LLC

Miramar Beach, Florida
March 20, 2017