

STATE OF FLORIDA AUDITOR GENERAL

Financial, Operational, and Federal Single Audit

Report No. 2016-109
March 2016

WALTON COUNTY DISTRICT SCHOOL BOARD

For the Fiscal Year Ended
June 30, 2015



Sherrill F. Norman, CPA
Auditor General

Board Members and Superintendent

During the 2014-15 fiscal year, Carlene H. Anderson served as Superintendent, and the following individuals served as Board members:

	<u>District No.</u>
Gail Smith, Vice Chair to 11-17-14, Chair from 11-18-14	1
Faye R. Leddon to 11-17-14, Chair	2
Kim Kirby from 11-18-14	2
Sharon Byrd Roberts to 11-17-14	3
William (Bill) Eddins, Jr., from 11-18-14	3
Mark D. Davis, Vice Chair from 11-18-14	4
Dennis A. Wallace to 11-17-14	5
Jason Catalano from 11-18-14	5

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

The team leader was Barbara J. Sturdivant, CPA, and the audit was supervised by Kenneth C. Danley, CPA.

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

This report and other reports prepared by the Auditor General are available at:

www.myflorida.com/audgen

Printed copies of our reports may be requested by contacting us at:

State of Florida Auditor General

Claude Pepper Building, Suite G74 • 111 West Madison Street • Tallahassee, FL 32399-1450 (850) 412-2722

WALTON COUNTY DISTRICT SCHOOL BOARD
TABLE OF CONTENTS

	Page No.
SUMMARY	i
INDEPENDENT AUDITOR'S REPORT	
Report on the Financial Statements	1
Other Reporting Required by <i>Government Auditing Standards</i>	3
MANAGEMENT'S DISCUSSION AND ANALYSIS	5
BASIC FINANCIAL STATEMENTS	
Statement of Net Position	13
Statement of Activities	14
Balance Sheet – Governmental Funds	16
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	18
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	20
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	22
Statement of Fiduciary Assets and Liabilities – Fiduciary Funds	23
Notes to Financial Statements	24
OTHER REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule – General Fund	52
Schedule of Funding Progress – Other Postemployment Benefits Plan	53
Schedule of the District's Proportionate Share of the Net Pension Liability – Florida Retirement System Pension Plan	53
Schedule of District Contributions – Florida Retirement System Pension Plan	53
Schedule of the District's Proportionate Share of the Net Pension Liability – Health Insurance Subsidy Pension Plan	54
Schedule of District Contributions – Health Insurance Subsidy Pension Plan	54
Notes to Required Supplementary Information	55
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	56
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	57
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133	59

WALTON COUNTY DISTRICT SCHOOL BOARD
TABLE OF CONTENTS (CONTINUED)

	Page No.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	61
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS	66
MANAGEMENT’S RESPONSE	67

SUMMARY

SUMMARY OF REPORT ON FINANCIAL STATEMENTS

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

SUMMARY OF REPORT ON INTERNAL CONTROL AND COMPLIANCE

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

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

Additional Matters

Finding 1: District efforts to monitor financial activities of charter schools need improvement.

Finding 2: Controls over virtual instruction program (VIP) operations and related activities could be enhanced by developing and maintaining comprehensive, written VIP policies and procedures.

Finding 3: Some inappropriate information technology (IT) access privileges continue to exist.

Finding 4: District management needs to continue efforts to develop a written, comprehensive IT risk assessment plan.

SUMMARY OF REPORT ON FEDERAL AWARDS

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

AUDIT OBJECTIVES AND SCOPE

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

- Presented the District's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements or on a major Federal program;
- Established internal controls that promote and encourage: (1) compliance with applicable laws, rules, regulations, contracts, and grant agreements; (2) the economic and efficient operation of the District; (3) the reliability of records and reports; and (4) the safeguarding of District assets;

- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements, and those applicable to the District's major Federal programs; and
- Taken corrective actions for findings included in our report No. 2015-148.

The scope of this audit included an examination of the District's basic financial statements and the accompanying Schedule of Expenditures of Federal Awards as of and for the fiscal year ended June 30, 2015. We obtained an understanding of the District's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements and Federal awards. We also examined various transactions to determine whether they were executed, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

AUDIT METHODOLOGY

The methodology used to develop the findings in this report included the examination of pertinent District records in connection with the application of procedures required by auditing standards generally accepted in the United States of America; applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget Circular A-133.



Sherrill F. Norman, CPA
Auditor General

AUDITOR GENERAL STATE OF FLORIDA

Claude Denson Pepper Building, Suite G74
111 West Madison Street
Tallahassee, Florida 32399-1450



Phone: (850) 412-2722
Fax: (850) 488-6975

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

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Walton County District School Board, as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the school internal funds, which represent 60 percent of the assets and 75 percent of the liabilities of the aggregate remaining fund information. In addition, we did not audit the financial statements of the aggregate discretely presented component units, which represent 100 percent of the transactions and account balances of the aggregate discretely presented component units' columns. Those statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the school internal funds and the aggregate discretely presented component units, are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require

that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Walton County District School Board, as of June 30, 2015, and the respective changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

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

As discussed in Note II.B. to the financial statements, financial statement information for Chautauqua Learn and Serve at The Arc of Walton County, Inc., a District-sponsored charter school, is not included in the aggregate discretely presented component units on the accompanying basic financial statements because the charter school's operations are no longer significant. This matter affects the comparability of amounts reported in the 2014-15 fiscal year with the amounts reported for the 2013-14 fiscal year. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS, Budgetary Comparison Schedule – General Fund, Schedule of Funding Progress – Other Postemployment Benefits Plan, Schedule of the District's Proportionate Share of the Net Pension Liability – Florida Retirement System Pension Plan, Schedule of District Contributions – Florida Retirement System Pension Plan, Schedule of the District's Proportionate Share of the Net Pension Liability – Health Insurance Subsidy Pension Plan, Schedule of District Contributions – Health Insurance Subsidy Pension Plan, and Notes to Required Supplementary Information**, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is presented for purposes of additional analysis as required by the United States Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL**

REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.

The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Respectfully submitted,



Sherrill F. Norman, CPA
Tallahassee, Florida
February 25, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Walton County District School Board has prepared the following discussion and analysis to provide an overview of the District's financial activities for the fiscal year ended June 30, 2015. The information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events, and conditions and should be considered in conjunction with the District's financial statements and notes to financial statements found immediately following the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2014-15 fiscal year are as follows:

- As of June 30, 2015, governmental activities assets and deferred outflows of resources exceed liabilities and deferred inflows of resources by \$137,698,307.38.
- The Governmental Accounting Standards Board (GASB) issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, effective for fiscal years beginning after June 15, 2014. The implementation of GASB Statement No. 68 resulted in an adjustment that decreased beginning net position by \$29,352,311. In total, net position increased \$14,242,414.82, which represents an 11.5 percent increase over the 2013-14 fiscal year restated net position.
- General revenues total \$96,490,847.25, or 95.7 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total \$4,376,190.23, or 4.3 percent of all revenues.
- Expenses total \$86,624,622.66. Only \$4,376,190.23 of these expenses was offset by program specific charges, with the remainder paid from general revenues.
- Additions to debt total \$30,600,254.16 primarily because the District issued Certificates of Participation (Series 2015) for the construction of the Walton Middle School.
- At the end of the current fiscal year, the fund balance of the General Fund totals \$8,424,786.36, which is \$6,363,163.88 more than the prior fiscal year balance. The General Fund total assigned and unassigned fund balances was \$8,234,918.61, or approximately 11.2 percent of total General Fund revenues.

OVERVIEW OF FINANCIAL STATEMENTS

The basic financial statements consist of three components: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to financial statements. This report also includes supplementary information intended to furnish additional details to support the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements provide both short-term and long-term information about the District's overall financial condition in a manner similar to those of a private-sector business. The statements include a statement of net position and a statement of activities that are designed to provide consolidated financial information about the governmental activities of the District presented on the accrual basis of accounting. The statement of net position provides information about the District's financial position, its assets, liabilities, and deferred inflows/outflows of resources, using an economic resources measurement focus. Assets plus deferred outflows of resources, less liabilities and deferred inflows of resources, equals net position, which is a measure of the District's financial health. The

statement of activities presents information about the change in the District's net position, the results of operations, during the fiscal year. An increase or decrease in net position is an indication of whether the District's financial health is improving or deteriorating.

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 categorical education and education finance programs provide most of the resources that support these activities.
- Component units – The District presents two separate legal entities in this report. The Seaside School, Inc., and Walton Academy, a division of Walton Academy, Inc., are legally separate organizations and component units that 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 Walton County Public Education Finance Authority, Inc. (Authority), although also a legally separate entity, was formed to facilitate financing for the acquisition of facilities and equipment for the District. Due to the substantive economic relationship between the District and the Authority, the Authority 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, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in assessing a government's near-term financing requirements.

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

The governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances provide detailed information about the District's most significant funds. The District's major funds are the General Fund, Capital Projects – Local Capital Improvement Fund, and Capital Projects – Other Fund. Data from the other governmental funds are combined into a single, aggregated presentation.

The District adopts an annual appropriated budget for its governmental funds. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with the budget.

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.

Notes to Financial Statements

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

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Net Position, End of Year

	Governmental Activities	
	6-30-15	6-30-14
Current and Other Assets	\$ 49,832,764.83	\$ 16,034,034.22
Capital Assets	<u>172,056,242.71</u>	<u>162,390,376.37</u>
Total Assets	<u>221,889,007.54</u>	<u>178,424,410.59</u>
Deferred Outflows of Resources	<u>5,255,989.76</u>	<u>260,861.06</u>
Long-Term Liabilities	72,765,579.72	24,471,180.87
Other Liabilities	<u>4,740,295.20</u>	<u>1,405,887.22</u>
Total Liabilities	<u>77,505,874.92</u>	<u>25,877,068.09</u>
Deferred Inflows of Resources	<u>11,940,815.00</u>	<u>-</u>
Net Position:		
Net Investment in Capital Assets	149,766,062.73	146,572,043.49
Restricted	15,879,241.73	12,455,160.60
Unrestricted (Deficit)	<u>(27,946,997.08)</u>	<u>(6,219,000.53)</u>
Total Net Position	<u>\$ 137,698,307.38</u>	<u>\$ 152,808,203.56</u>

The largest portion of the District's net position is investment in capital assets (e.g., land; buildings; furniture, fixtures, and equipment), 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 represents resources that are subject to external restrictions on how they may be used. The deficit unrestricted net position is due primarily to the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*.

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

Operating Results for the Fiscal Year Ended

	Governmental Activities	
	6-30-15	6-30-14
Program Revenues:		
Charges for Services	\$ 1,455,197.94	\$ 1,512,234.81
Operating Grants and Contributions	2,657,663.12	2,451,078.04
Capital Grants and Contributions	263,329.17	258,874.85
General Revenues:		
Property Taxes, Levied for Operational Purposes	53,098,729.26	49,302,726.93
Property Taxes, Levied for Capital Projects	18,056,328.05	16,104,715.88
Grants and Contributions Not Restricted to Specific Programs	22,495,813.19	20,019,821.00
Unrestricted Investment Earnings	-	(18,795.26)
Miscellaneous	2,839,976.75	1,235,859.53
Total Revenues	100,867,037.48	90,866,515.78
Functions/Program Expenses:		
Instruction	42,620,736.70	43,234,929.75
Student Personnel Services	2,338,425.01	2,451,089.13
Instructional Media Services	874,986.18	1,013,784.88
Instruction and Curriculum Development Services	1,846,332.54	1,569,403.17
Instructional Staff Training Services	1,650,861.36	1,302,534.23
Instructional-Related Technology	908,106.00	1,184,823.11
Board	642,961.00	454,095.06
General Administration	364,468.70	440,683.73
School Administration	4,890,796.67	5,012,654.14
Facilities Acquisition and Construction	1,308,608.27	2,775,316.31
Fiscal Services	493,196.46	363,996.12
Food Services	3,538,698.97	3,388,449.09
Central Services	729,133.02	673,669.62
Student Transportation Services	5,484,510.03	5,625,174.75
Operation of Plant	7,798,972.06	7,787,228.68
Maintenance of Plant	1,875,921.11	1,515,211.51
Administrative Technology Services	304,554.99	325,212.74
Community Services	742,180.38	825,580.38
Unallocated Interest on Long-Term Debt	1,893,427.14	913,345.00
Unallocated Depreciation Expense	5,435,224.36	5,340,050.30
Loss on Disposal of Capital Assets	882,521.71	-
Total Functions/Program Expenses	86,624,622.66	86,197,231.70
Change in Net Position	14,242,414.82	4,669,284.08
Net Position, Beginning of Year	152,808,203.56	148,138,919.48
Adjustments to Beginning Net Position (1)	(29,352,311.00)	-
Net Position - Beginning, as Restated	123,455,892.56	148,138,919.48
Net Position - Ending	\$ 137,698,307.38	\$ 152,808,203.56

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

The Governmental Accounting Standards Board (GASB) issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, effective for fiscal years beginning after June 15, 2014. The

implementation of GASB Statement No. 68 resulted in an adjustment that decreased beginning net position by \$29,352,311. The District's results of operations showed an increase in net position of \$14,242,414.82 for the 2014-15 fiscal year, as compared to an increase of \$4,669,284.08 for the preceding fiscal year. Total expenses increased by \$427,390.96, or 0.5 percent, while revenues increased by \$10,000,521.70, or 11 percent, for the 2014-15 fiscal year. Significant changes that contributed to the increases are as follows:

- Property taxes levied for operations and capital projects increased \$5,747,614.50, or 8.8 percent, which is attributable to increases in the property tax roll. Overall, property taxes account for 70.5 percent of the total governmental activities revenues.
- Revenue from grants and contributions not restricted to specific programs increased \$2,475,992.19, or 12.4 percent, which is primarily attributable to increased student enrollment funded through the Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data, and is designed to maintain equity in funding across all Florida school districts, taking into consideration the District's funding ability based on local property tax base.
- Instruction expenses, student personnel services, and instruction and curriculum development services represent 54 percent of total governmental activities expenses for the 2014-15 fiscal year. These expense functions collectively decreased by \$449,927.80, or 1 percent, from the previous fiscal year primarily due to managed attrition of staff.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Governmental Funds

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. Specifically, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as it represents the portion of fund balance that has not been limited to a particular purpose by an external party, the District, or a group or individual delegated authority by the Board to assign resources for particular purposes.

The total fund balances of governmental funds increased by \$30,595,853.53 during the fiscal year to \$45,028,899.47 at June 30, 2015. Approximately 16.7 percent of this amount is unassigned fund balance totaling \$7,505,305.61, which is available for spending at the District's discretion. The remainder of the fund balance is nonspendable, restricted, or assigned to indicate that it is: (1) not in spendable form \$80,970.15; (2) restricted for particular purposes \$36,713,010.71; or (3) assigned for particular purposes \$729,613.

Major Governmental Funds

The General Fund is the District's chief operating fund. At the end of the current fiscal year, unassigned fund balance is \$7,505,305.61, while the total fund balance is \$8,424,786.36. As a measure of the General Fund's liquidity, it may be useful to compare the total assigned and unassigned fund balances to General Fund total revenues. The total assigned and unassigned fund balance is approximately

11.2 percent of the total General Fund revenues, while total fund balance represents approximately 11.5 percent of total General Fund revenues.

Total fund balance increased by \$6,363,163.88 during the fiscal year. Key factors impacting the change in fund balance are as follows:

- Increase in State revenues, primarily due to an increase in FEFP revenues due to increasing student enrollment.
- Increases in property values resulted in increased property tax revenues of \$3,796,002.33.

The Capital Projects – Local Capital Improvement and Capital Projects – Other Fund have total fund balances of \$15,503,537.44 and \$20,833,768.98, respectively. These funds are restricted for the acquisition, construction, and maintenance of capital assets. The fund balances increased in the current fiscal year primarily due to increased property tax revenues received due to increases in property values and the issuance of certificates of participation for the construction of Walton Middle School, respectively. It should be noted that \$3,933,259.80 and \$20,833,768.98, respectively, of fund balance have been encumbered for specific projects.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the 2014-15 fiscal year, the District amended its General Fund budget several times, which resulted in an increase in total budgeted revenues of \$1,236,906.95, or 1.8 percent. At the same time, final budgeted expenditures are more than the original budgeted amounts by \$1,306,626.97. Budget revisions occurred primarily from changes in estimated State funding levels and corresponding adjustments to planned expenditures to ensure maintenance of an adequate fund balance.

Actual revenues exceeded final budgeted amounts by \$3,067,871.23, or 4.4 percent, while actual expenditures are \$1,955,519.75, or 2.7 percent, less than final budgeted amounts. The decrease in expenditures was primarily due to continued cost containment measures implemented by the District. The actual ending fund balance exceeded the estimated fund balance contained in the final amended budget by \$4,159,887.65.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets for its governmental activities as of June 30, 2015, is \$172,056,242.71 (net of accumulated depreciation). This investment in capital assets includes land; land improvements; construction in progress; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; and computer software. The total increase in capital assets for the current fiscal year was 6 percent.

Major capital asset events included the construction of Walton Middle School and a transportation facility, major renovations and additional classrooms at two facilities, and safe lobby additions at all District schools.

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

Long-Term Debt

At June 30, 2015, the District has total long-term debt outstanding of \$43,300,492.72, composed of \$173,905.76 of bonds payable and \$43,126,586.96 of certificates of participation payable. During the current fiscal year, total retirement of debt and premium amortization was \$3,118,094.32.

During the current fiscal year, the District issued \$26,100,000 in Series 2015 Certificates of Participation to finance the construction of Walton Middle School.

During the current fiscal year, the District participated in the State Board of Education's issuance of Series 2014B, Refunding State School Bonds totaling \$162,000. The bonds refunded Series 2005A and 2005B State School Bonds 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.

Additional information on the District's long-term debt can be found in notes to financial statements.

OTHER MATTERS OF SIGNIFICANCE

The Board authorized the issuance of a Tax Anticipation Note (Note), Series 2015, in the amount of \$17,250,000. The proceeds will be used for operating expenses for the fiscal year ending June 30, 2016. The Note is dated August 10, 2015, and the Note is scheduled to mature on March 10, 2016. The stated interest rate is 1.38 percent.

REQUESTS FOR INFORMATION

This report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning information provided in the MD&A or other required supplementary information, and financial statements and notes thereto, or requests for additional financial information should be addressed to the Chief Financial Officer, Walton County District School Board, 145 Park Street, Suite 3, DeFuniak Springs, Florida, 32435.

BASIC FINANCIAL STATEMENTS

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

	Primary Government Governmental Activities	Component Units
ASSETS		
Cash and Cash Equivalents	\$ 48,367,303.41	\$ 1,825,346.00
Investments	4,813.93	7,189.00
Accounts Receivable	919,180.66	13,864.00
Due from Other Agencies	396,926.52	13,526.00
Inventories	80,970.15	-
Prepaid Items	63,570.16	41,986.00
Capital Assets:		
Nondepreciable Capital Assets	23,608,285.27	829,413.00
Depreciable Capital Assets, Net	148,447,957.44	1,658,879.00
TOTAL ASSETS	221,889,007.54	4,390,203.00
DEFERRED OUTFLOWS OF RESOURCES		
Pensions	5,079,446.00	484,705.00
Deferred Charge on Refunding	176,543.76	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	5,255,989.76	484,705.00
LIABILITIES		
Accrued Salaries and Benefits	3,765.44	-
Payroll Deductions and Withholdings	961,367.47	7,710.00
Accounts Payable	1,071,612.19	68,890.00
Construction Contracts Payable	1,861,042.96	-
Construction Contracts Payable - Retained Percentage	797,308.38	-
Due to Other Agencies	3,751.52	-
Advanced Revenues	41,447.24	-
Long-Term Liabilities:		
Portion Due Within One Year	5,343,490.48	20,998.00
Portion Due After One Year	67,422,089.24	835,359.00
TOTAL LIABILITIES	77,505,874.92	932,957.00
DEFERRED INFLOWS OF RESOURCES		
Pensions	11,940,815.00	537,742.00
NET POSITION		
Net Investment in Capital Assets	149,766,062.73	2,473,407.00
Restricted for:		
State Required Carryover Programs	148,585.36	-
Debt Service	104,779.43	-
Capital Projects	15,625,876.94	33,181.00
Unrestricted	(27,946,997.08)	897,621.00
TOTAL NET POSITION	\$ 137,698,307.38	\$ 3,404,209.00

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

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

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary Government			
Governmental Activities:			
Instruction	\$ 42,620,736.70	\$ 446,208.23	\$ -
Student Personnel Services	2,338,425.01	-	-
Instructional Media Services	874,986.18	-	-
Instruction and Curriculum Development Services	1,846,332.54	-	-
Instructional Staff Training Services	1,650,861.36	-	-
Instructional-Related Technology	908,106.00	-	-
Board	642,961.00	-	-
General Administration	364,468.70	-	-
School Administration	4,890,796.67	-	-
Facilities Acquisition and Construction	1,308,608.27	-	152,369.00
Fiscal Services	493,196.46	-	-
Food Services	3,538,698.97	619,246.00	2,657,663.12
Central Services	729,133.02	-	-
Student Transportation Services	5,484,510.03	19,246.13	-
Operation of Plant	7,798,972.06	-	-
Maintenance of Plant	1,875,921.11	12,306.24	110,960.17
Administrative Technology Services	304,554.99	-	-
Community Services	742,180.38	358,191.34	-
Unallocated Interest on Long-Term Debt	1,893,427.14	-	-
Unallocated Depreciation Expense*	5,435,224.36	-	-
Loss on Disposal of Capital Assets	882,521.71	-	-
Total Primary Government	\$ 86,624,622.66	\$ 1,455,197.94	\$ 2,657,663.12
Component Units			
Charter Schools	\$ 5,814,256.00	\$ 79,223.00	\$ 54,438.00

General Revenues:

Taxes:

Property Taxes, Levied for Operational Purposes

Property Taxes, Levied for Capital Projects

Grants and Contributions Not Restricted to Specific Programs

Unrestricted Investment Earnings

Miscellaneous

Total General Revenues

Change in Net Position

Net Position - Beginning

Adjustments to Beginning Net Position

Net Position - Beginning, as Restated

Net Position - Ending

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

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

**Net (Expense) Revenue and
Changes in Net Position**

Primary Government	
Governmental	Component
Activities	Units
\$ (42,174,528.47)	\$ -
(2,338,425.01)	-
(874,986.18)	-
(1,846,332.54)	-
(1,650,861.36)	-
(908,106.00)	-
(642,961.00)	-
(364,468.70)	-
(4,890,796.67)	-
(1,156,239.27)	-
(493,196.46)	-
(261,789.85)	-
(729,133.02)	-
(5,465,263.90)	-
(7,798,972.06)	-
(1,752,654.70)	-
(304,554.99)	-
(383,989.04)	-
(1,893,427.14)	-
(5,435,224.36)	-
(882,521.71)	-
(82,248,432.43)	-
-	(5,325,393.00)
53,098,729.26	-
18,056,328.05	-
22,495,813.19	5,392,103.00
-	1,916.00
2,839,976.75	246,571.00
96,490,847.25	5,640,590.00
14,242,414.82	315,197.00
152,808,203.56	4,046,527.00
(29,352,311.00)	(957,515.00)
123,455,892.56	3,089,012.00
\$ 137,698,307.38	\$ 3,404,209.00

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

	General Fund	Capital Projects - Local Capital Improvement Fund	Capital Projects - Other Fund
ASSETS			
Cash and Cash Equivalents	\$ 8,605,245.44	\$ 16,980,374.62	\$ 22,582,490.19
Investments	-	-	-
Accounts Receivable	894,898.46	-	-
Due from Other Funds	127,973.04	-	-
Due from Other Agencies	131,704.41	2,800.31	-
Inventories	41,282.39	-	-
TOTAL ASSETS	\$ 9,801,103.74	\$ 16,983,174.93	\$ 22,582,490.19
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accrued Salaries and Benefits	\$ 3,765.44	\$ -	\$ -
Payroll Deductions and Withholdings	937,366.64	-	-
Accounts Payable	400,316.84	107,651.35	462,356.01
Construction Contracts Payable	-	1,026,278.60	834,764.36
Construction Contracts Payable - Retained Percentage	-	345,707.54	451,600.84
Due to Other Funds	17,236.36	-	-
Due to Other Agencies	3,751.52	-	-
Advanced Revenues	13,880.58	-	-
Total Liabilities	1,376,317.38	1,479,637.49	1,748,721.21
Fund Balances:			
Nonspendable:			
Inventories	41,282.39	-	-
Restricted for:			
State Required Carryover Programs	148,585.36	-	-
Debt Service	-	-	-
Capital Projects	-	15,503,537.44	20,833,768.98
Total Restricted Fund Balance	148,585.36	15,503,537.44	20,833,768.98
Assigned for:			
Unforeseen Contingencies	729,613.00	-	-
Unassigned Fund Balance	7,505,305.61	-	-
Total Fund Balances	8,424,786.36	15,503,537.44	20,833,768.98
TOTAL LIABILITIES AND FUND BALANCES	\$ 9,801,103.74	\$ 16,983,174.93	\$ 22,582,490.19

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

Other Governmental Funds	Total Governmental Funds
\$ 199,193.16	\$ 48,367,303.41
4,813.93	4,813.93
24,282.20	919,180.66
17,236.36	145,209.40
262,421.80	396,926.52
39,687.76	80,970.15
<u>\$ 547,635.21</u>	<u>\$ 49,914,404.07</u>

\$ -	\$ 3,765.44
24,000.83	961,367.47
101,287.99	1,071,612.19
-	1,861,042.96
-	797,308.38
127,973.04	145,209.40
-	3,751.52
27,566.66	41,447.24
<u>280,828.52</u>	<u>4,885,504.60</u>

<u>39,687.76</u>	<u>80,970.15</u>
-	148,585.36
104,779.43	104,779.43
122,339.50	36,459,645.92
<u>227,118.93</u>	<u>36,713,010.71</u>
-	729,613.00
-	<u>7,505,305.61</u>
266,806.69	45,028,899.47
<u>\$ 547,635.21</u>	<u>\$ 49,914,404.07</u>

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

Total Fund Balances - Governmental Funds	\$	45,028,899.47
---	-----------	----------------------

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

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		172,056,242.71
--	--	----------------

Prepaid insurance costs associated with the issuance of certificates of participation are not expensed on the government-wide statements, but are reported as a prepaid item and amortized over the life of the debt.		63,570.16
---	--	-----------

Deferred charges on refundings of debt are not expensed in the government-wide statements, but are reported as deferred outflows of resources and amortized over the life of the debt.		176,543.76
--	--	------------

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

Deferred Outflows Related to Pensions	\$ 5,079,446.00	
Deferred Inflows Related to Pensions	<u>(11,940,815.00)</u>	(6,861,369.00)

Long-term liabilities are not due and payable in the fiscal year and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at fiscal year-end consist of:

Certificates of Participation Payable	\$ 43,126,586.96	
Bonds Payable	173,905.76	
Compensated Absences Payable	4,565,092.00	
Net Pension Liability	20,917,395.00	
Other Postemployment Benefits Payable	<u>3,982,600.00</u>	<u>(72,765,579.72)</u>

Net Position - Governmental Activities	\$	<u>137,698,307.38</u>
---	-----------	------------------------------

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

THIS PAGE INTENTIONALLY LEFT BLANK

Walton County District School Board
Statement of Revenues, Expenditures, and Changes in
Fund Balances – Governmental Funds
For the Fiscal Year Ended June 30, 2015

	General Fund	Capital Projects - Local Capital Improvement Fund	Capital Projects - Other Fund
Revenues			
Intergovernmental:			
Federal Direct	\$ 280,954.30	\$ -	\$ -
Federal Through State and Local	294,969.63	-	-
State	16,437,480.84	-	187,203.00
Local:			
Property Taxes	53,098,729.26	18,056,328.05	-
Charges for Services - Food Service	-	-	-
Miscellaneous	3,356,404.15	16,820.35	-
Total Local Revenues	<u>56,455,133.41</u>	<u>18,073,148.40</u>	<u>-</u>
Total Revenues	<u>73,468,538.18</u>	<u>18,073,148.40</u>	<u>187,203.00</u>
Expenditures			
Current - Education:			
Instruction	41,100,837.24	-	-
Student Personnel Services	2,253,004.43	-	-
Instructional Media Services	874,986.18	-	-
Instruction and Curriculum Development Services	895,674.34	-	-
Instructional Staff Training Services	660,969.02	-	-
Instructional - Related Technology	908,106.00	-	-
Board	642,961.00	-	-
General Administration	236,831.58	-	-
School Administration	5,025,716.72	-	-
Facilities Acquisition and Construction	-	1,371,144.93	15,125.00
Fiscal Services	493,196.46	-	-
Food Services	33,354.54	-	-
Central Services	729,133.02	-	-
Student Transportation Services	4,786,990.74	-	-
Operation of Plant	8,014,118.54	-	-
Maintenance of Plant	1,875,921.11	-	-
Administrative Technology Services	304,554.99	-	-
Community Services	351,191.39	-	-
Fixed Capital Outlay:			
Facilities Acquisition and Construction	-	7,405,056.91	7,739,305.50
Other Capital Outlay	26,435.29	1,328,231.58	-
Debt Service:			
Principal	-	-	-
Interest and Fiscal Charges	129,935.63	-	-
Total Expenditures	<u>69,343,918.22</u>	<u>10,104,433.42</u>	<u>7,754,430.50</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>4,124,619.96</u>	<u>7,968,714.98</u>	<u>(7,567,227.50)</u>
Other Financing Sources (Uses)			
Transfers In	2,429,951.00	1,455,305.52	-
Certificates of Participation	-	-	25,673,651.60
Premium on Certificates of Participation	-	-	4,326,348.40
Proceeds of Refunding Bonds	-	-	-
Premium on Refunding Bonds	-	-	-
Payments to Refunding Escrow Agent	-	-	-
Loss Recoveries	119,241.11	-	-
Transfers Out	(310,648.19)	(6,121,631.37)	(1,599,003.52)
Total Other Financing Sources (Uses)	<u>2,238,543.92</u>	<u>(4,666,325.85)</u>	<u>28,400,996.48</u>
Net Change in Fund Balances	6,363,163.88	3,302,389.13	20,833,768.98
Fund Balances, Beginning	2,061,622.48	12,201,148.31	-
Fund Balances, Ending	<u>\$ 8,424,786.36</u>	<u>\$ 15,503,537.44</u>	<u>\$ 20,833,768.98</u>

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

Other Governmental Funds	Total Governmental Funds
\$ 391,608.99	\$ 672,563.29
7,520,009.65	7,814,979.28
451,051.47	17,075,735.31
-	71,155,057.31
619,246.00	619,246.00
154.24	3,373,378.74
<u>619,400.24</u>	<u>75,147,682.05</u>
<u>8,982,070.35</u>	<u>100,710,959.93</u>
2,699,380.65	43,800,217.89
85,420.58	2,338,425.01
-	874,986.18
950,658.20	1,846,332.54
989,892.34	1,650,861.36
-	908,106.00
-	642,961.00
127,637.12	364,468.70
-	5,025,716.72
-	1,386,269.93
-	493,196.46
3,505,344.43	3,538,698.97
-	729,133.02
-	4,786,990.74
-	8,014,118.54
-	1,875,921.11
-	304,554.99
390,988.99	742,180.38
202,369.00	15,346,731.41
51,227.54	1,405,894.41
2,755,000.00	2,755,000.00
<u>1,696,731.26</u>	<u>1,826,666.89</u>
<u>13,454,650.11</u>	<u>100,657,432.25</u>
<u>(4,472,579.76)</u>	<u>53,527.68</u>
4,146,026.56	8,031,283.08
426,348.40	26,100,000.00
-	4,326,348.40
162,000.00	162,000.00
11,905.76	11,905.76
(177,169.42)	(177,169.42)
-	119,241.11
-	<u>(8,031,283.08)</u>
<u>4,569,111.30</u>	<u>30,542,325.85</u>
96,531.54	30,595,853.53
<u>170,275.15</u>	<u>14,433,045.94</u>
<u>\$ 266,806.69</u>	<u>\$ 45,028,899.47</u>

Walton County District School Board
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures,
and Changes in Fund Balances to the Statement of Activities
For the Fiscal Year Ended June 30, 2015

Net Change in Fund Balances - Governmental Funds **\$ 30,595,853.53**

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

Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital outlays in excess of depreciation expense in the current fiscal year. 10,548,388.05

The loss on the disposal of capital assets during the current fiscal year is reported in the statement of activities. In the governmental funds, the cost of these assets was recognized as an expenditure in the fiscal year purchased. Thus, the change in net position differs from the change in fund balance by the undepreciated cost of the disposed assets. (882,521.71)

Long-term debt proceeds provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount by which proceeds exceed repayments in the current fiscal year.

Debt Issued	\$	(26,262,000.00)	
Debt Refunded		170,000.00	
Debt Repayments		2,755,000.00	(23,337,000.00)

Premiums on new debt issues are reported as other financing sources in governmental funds, but are deferred and amortized over the life of the debt in governmental activities. (4,338,254.16)

Some revenues and expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as revenues or expenditures in the governmental funds.

Amortized Charge on Debt Refunding	\$	(84,317.30)	
Amortized Premiums		193,094.32	108,777.02

Prepaid insurance costs associated with the issuance of debt are expensed in the governmental funds, but are deferred and amortized over the life of the debt in governmental activities. 63,570.16

Certain governmental fund revenues recognized in the current fiscal year under the modified accrual basis of accounting were previously recognized in governmental activities under the accrual basis of accounting. (195,101.06)

In the statement of activities, the cost of compensated absences is measured by the amounts earned during the fiscal year, while in the governmental funds, expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences used in excess of the amount earned in the current fiscal year. 279,680.99

Other postemployment benefits costs are recorded in the statement of activities under the full accrual basis of accounting, but are not recorded in the governmental funds until paid. This is the net increase in the other postemployment benefits liability for the current fiscal year. (174,525.00)

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

FRS Pension Contribution	\$	2,665,865.00	
HIS Pension Contribution		556,441.00	
FRS Pension Expense		(649,751.00)	
HIS Pension Expense		(999,008.00)	1,573,547.00

Change in Net Position - Governmental Activities **\$ 14,242,414.82**

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

**Walton County District School Board
Statement of Fiduciary Assets and Liabilities – Fiduciary Funds
June 30, 2015**

	<u>Agency Funds</u>
ASSETS	
Cash and Cash Equivalents	\$ 799,787.00
Investments	<u>26,485.00</u>
TOTAL ASSETS	<u><u>\$ 826,272.00</u></u>
LIABILITIES	
Accounts Payable	\$ 6,245.00
Internal Accounts Payable	<u>820,027.00</u>
TOTAL LIABILITIES	<u><u>\$ 826,272.00</u></u>

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

NOTES TO 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, are normally supported by taxes, intergovernmental revenues, and other nonexchange transactions. The primary government is 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 Walton 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 associated with the District's transportation department is allocated to the student transportation services function, while remaining depreciation expense is not readily associated with a particular function and is reported as unallocated.

B. Reporting Entity

The Walton 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 Walton 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. Blended component units, are in substance, part of the primary District's operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the District. The Walton County Public Education Finance Authority, Inc., (Authority) was formed to facilitate financing for the acquisition of facilities and equipment as further discussed in Note III.I.1. Due to the substantive economic relationship between

the District and the Authority, the financial activities of the Authority are included in the accompanying basic financial statements. Separate financial statements for the Authority are not published.

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

The Seaside School, Inc. and Walton Academy, a division of Walton Academy, Inc., (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 charter schools operate under a charter approved by their sponsor, the Walton County District School Board. 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 financial data reported on the accompanying statements was derived from the audited financial statements of The Seaside School, Inc., and Walton Academy, for the fiscal year ended June 30, 2015, and these audit reports are filed in the District's administrative offices at 145 Park Street, Suite 3, DeFuniak Springs, Florida, 32435.

C. Basis of Presentation: Government-wide Financial Statements

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

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

D. Basis of Presentation: Fund Financial Statements

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

The District reports the following major governmental funds:

- General Fund – to account for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.
- Capital Projects – Local Capital Improvement Fund – to account for the financial resources generated by the local capital improvement tax levy to be used for educational capital outlay needs, including land, new construction, maintenance, renovation and remodeling projects,

new and replacement equipment, motor vehicle purchases, and payments for educational facilities and sites due under a lease-purchase agreement.

- Capital Projects – Other Fund – to account for the financial resources primarily generated by certificates of participation to be used for educational capital outlay needs, including new construction.

Additionally, the District reports the following fiduciary fund type:

- Agency Funds – to account for resources of 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 these balances are reported in fund financial statements, certain eliminations are made 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 included in governmental activities are eliminated in the preparation of the government-wide financial statements.

E. Basis of Accounting

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

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

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers revenues to be available if they are collected within 45 days of fiscal year-end. 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 45 days of fiscal year-end). Expenditures are generally recognized when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, claims and judgments, pension benefits, other postemployment benefits, and compensated absences, are only recorded when payment is

due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuances of long-term debt are reported as other financing sources. Allocations of cost, such as depreciation, are not recognized in governmental funds.

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

The charter schools are accounted for as governmental organizations and follow the same accounting model as the District's governmental activities.

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

1. Cash and Cash Equivalents

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

Cash deposits are held by banks qualified as public depositories under Florida law. All deposits are insured by Federal depository insurance, up to specified limits, or collateralized with securities held in Florida's multiple financial institution collateral pool as required by Chapter 280, Florida Statutes.

2. Investments

Investments consist of amounts placed in the SBA debt service accounts for investment of debt service moneys, amounts placed with the SBA for participation in the Florida PRIME investment pool created by Section 218.405, Florida Statutes, and a money market fund held in trust in connection with certificates of participation. The investment pool operates under investment guidelines established by Section 215.47, Florida Statutes.

The District's investments in Florida PRIME, which the SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. These investments and the investments in the money market fund are reported at fair value, which is amortized cost.

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

3. Inventories and Prepaid Items

Inventories consist of expendable supplies held for consumption in the course of District operations. Inventories are stated at the last invoice cost which approximates 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. The costs of inventories are recorded as expenditures when used rather than purchased.

Prepaid insurance costs, incurred in connection with the issuance of certificates of participation, are recorded as a prepaid item on the government-wide financial statements and recognized as an expense over the life of the related debt.

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 \$500. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at fair value at the date of donation. Interest costs incurred during construction of capital assets are not considered material and are not capitalized as part of the cost of construction.

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

<u>Description</u>	<u>Estimated Useful Lives</u>
Improvements Other Than Buildings	7 - 35 years
Buildings and Fixed Equipment	10 - 50 years
Furniture, Fixtures, and Equipment	3 - 25 years
Motor Vehicles	5 - 10 years
Computer Software	5 years

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

5. Pensions

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

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

6. Long-Term Liabilities

Long-term obligations that will be financed from resources to be received in the future by governmental funds are reported as liabilities in the government-wide statement of net position.

Debt premiums and discounts are deferred and amortized over the life of the debt. Certificates of participation payable and bonds payable are reported net of applicable premiums or discounts.

In the governmental fund financial statements, bonds and other long-term obligations are not recognized as liabilities until due. Governmental fund types recognize debt premiums and discounts during the current fiscal year. The face amount of debt issued and premiums on debt issuances are reported as other financing sources.

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 deferred outflows of resources related to deferred charge on refunding, results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred outflows of resources related to pensions are discussed in a subsequent note.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future fiscal periods and so will not be recognized as an inflow of resources (revenue) until that time. This amounts is deferred and recognized as an inflow of resources in the fiscal year that the amounts become available. The deferred inflows of resources related to pensions are discussed in a subsequent note.

8. Net Position Flow Assumption

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

9. Fund Balance Flow Assumptions

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

10. Fund Balance Policies

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

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

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

G. Revenues and Expenditures/Expenses

1. Program Revenues

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

2. State Revenue Sources

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

Normally, such adjustments are treated as reductions or additions of revenue in the fiscal year when the adjustments are made.

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

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

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

3. District Property Taxes

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

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

The Board adopted the 2014 tax levy on September 9, 2014. Tax bills are mailed in October and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to 4 percent for early payment.

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

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

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

4. Federal Revenue Sources

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

5. Compensated Absences

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

II. ACCOUNTING CHANGES

A. Primary Government

The District participates in the FRS defined benefit pension plan and the HIS defined benefit pension plan administered by Florida Division of Retirement. As a participating employer, the District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which requires employers participating in cost-sharing multiple-employer defined benefit pension plans to report the employers' proportionate share of the net pension liabilities and related pension amounts of the defined benefit pension plans. The beginning net position of the District was decreased by \$29,352,311 due to the adoption of this Statement.

B. Discretely Presented Component Units

The District's component units also participate in the FRS defined benefit pension plan and the HIS defined benefit pension plan administered by Florida Division of Retirement. As such, the beginning net position of the component units was decreased by \$930,243 due to the adoption of this Statement. In addition, financial information for Chautauqua Learn and Serve at The Arc of Walton County, Inc., a former component unit of the District, is not included in the District's financial statements for the 2014-15 fiscal year because its operations are no longer significant, decreasing beginning net position of the component units by \$27,272. In total, the beginning net position of the component units was decreased by \$957,515.

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.

B. Investments

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

<u>Investments</u>	<u>Maturities</u>	<u>Fair Value</u>
SBA:		
Florida PRIME (1)	34 Day Average	\$ 6,502,135.75
Debt Service Accounts	6 Months	4,813.93
First American Treasury Obligations Fund - Class Y (1) (2)	33 Day Average	22,582,490.19
Total Investments		\$ 29,089,439.87

Notes: (1) Investments are reported as cash equivalents for financial statement reporting purposes.

(2) The First American Treasury Obligations Fund – Class Y invests exclusively in short-term United States (U.S.) Treasury obligations, including repurchase agreements secured by U.S. Treasury obligations. Shares in this fund are under a trust agreement in connection with Certificates of Participation, Series 2015.

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 does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses from increasing interest rates.

Florida PRIME and First American Treasury Obligations Fund - Class Y use a weighted average days to maturity (WAM). A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the portfolio to interest rate changes.

Credit Risk

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

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

The District's investments in Florida PRIME and First American Treasury Obligations Fund – Class Y are both rated AAAM by Standard & Poor's.

Custodial Credit Risk

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

The District's investment in First American Treasury Obligations Fund – Class Y is held by a trustee in the name of the District.

C. Changes in Capital Assets

Changes in capital assets are presented in the table below:

	Beginning Balance	Additions	Deletions	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	\$ 5,860,409.86	\$ 3,376,677.35	\$ -	\$ 9,237,087.21
Land Improvements	83,602.06	-	-	83,602.06
Construction in Progress	2,171,944.66	12,115,651.34	-	14,287,596.00
Total Capital Assets Not Being Depreciated	8,115,956.58	15,492,328.69	-	23,608,285.27
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	6,666,580.52	142,694.20	-	6,809,274.72
Buildings and Fixed Equipment	190,729,689.94	356,180.49	3,993,072.22	187,092,798.21
Furniture, Fixtures, and Equipment	13,710,252.00	729,310.92	180,646.97	14,258,915.95
Motor Vehicles	11,054,058.97	32,111.52	-	11,086,170.49
Computer Software	873,118.91	-	249,754.76	623,364.15
Total Capital Assets Being Depreciated	223,033,700.34	1,260,297.13	4,423,473.95	219,870,523.52
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	3,688,785.41	433,502.52	-	4,122,287.93
Buildings and Fixed Equipment	46,955,819.15	4,024,091.91	3,122,347.61	47,857,563.45
Furniture, Fixtures, and Equipment	10,461,075.82	946,834.63	168,849.87	11,239,060.58
Motor Vehicles	6,881,963.81	769,013.41	-	7,650,977.22
Computer Software	771,636.36	30,795.30	249,754.76	552,676.90
Total Accumulated Depreciation	68,759,280.55	6,204,237.77	3,540,952.24	71,422,566.08
Total Capital Assets Being Depreciated, Net	154,274,419.79	(4,943,940.64)	882,521.71	148,447,957.44
Governmental Activities Capital Assets, Net	\$ 162,390,376.37	\$ 10,548,388.05	\$ 882,521.71	\$ 172,056,242.71

Depreciation expense was charged to functions as follows:

<u>Function</u>	<u>Amount</u>
GOVERNMENTAL ACTIVITIES	
Student Transportation Services	\$ 769,013.41
Unallocated	5,435,224.36
Total Depreciation Expense - Governmental Activities	<u>\$ 6,204,237.77</u>

D. Retirement Plans

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

General Information about the FRS

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

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

The District's pension expense totaled \$1,648,759 for the fiscal year ended June 30, 2015.

FRS Pension Plan

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

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

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

DROP, subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with an FRS participating employer. An employee may participate in DROP for a period not to exceed 60 months after electing to participate, except that certain instructional personnel may participate for up to 96 months. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest. The net pension liability does not include amounts for DROP participants, as these members are considered retired and are not accruing additional pension benefits.

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

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

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

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

<u>Class</u>	<u>Percent of Gross Salary</u>	
	<u>Employee</u>	<u>Employer (1)</u>
FRS, Regular	3.00	7.37
FRS, Elected County Officers	3.00	43.24
DROP - Applicable to		
Members from All of the Above Classes	0.00	12.28
DROP - Terminated in Elected Officers' Class	0.00	7.98
FRS, Reemployed Retiree	(2)	(2)

Notes: (1) Employer rates include 1.26 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.04 percent for administrative costs of the Investment Plan.

(2) Contribution rates are dependent upon retirement class in which reemployed.

The District's contributions to the Plan totaled \$2,665,865 for the fiscal year ended June 30, 2015.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2015, the District reported a liability of \$6,896,031 for its proportionate share of the Plan's net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014. The District's proportionate share of the net pension liability was based on the District's 2013-14 fiscal year contributions relative to the 2013-14 fiscal year contributions of all participating members. At June 30, 2014, the District's proportionate share was 0.113022439 percent, which was a decrease of 0.000071429 from its proportionate share measured as of June 30, 2013.

For the fiscal year ended June 30, 2015, the District recognized Plan pension expense of \$649,751. In addition, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 426,747
Change of assumptions	1,194,278	-
Net difference between projected and actual earnings on FRS pension plan investments	-	11,503,724
Changes in proportion and differences between District FRS contributions and proportionate share of contributions	-	10,344
District FRS contributions subsequent to the measurement date	2,665,865	-
Total	\$ 3,860,143	\$ 11,940,815

The deferred outflows of resources related to pensions, totaling \$2,665,865, resulting from District contributions to the Plan subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2016	\$ (2,733,066)
2017	(2,733,066)
2018	(2,733,066)
2019	(2,733,066)
2020	142,865
Thereafter	42,862
Total	\$ (10,746,537)

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

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

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

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

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

assumptions, and includes an adjustment for the inflation assumption. The target allocation and best estimates of arithmetic and geometric real rates of return for each major asset class are summarized in the following table:

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

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

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

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

	1% Decrease (6.65%)	Current Discount Rate (7.65%)	1% Increase (8.65%)
District's proportionate share of the net pension liability	\$ 29,495,240	\$ 6,896,031	\$ (11,902,199)

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

HIS Pension Plan

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

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

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

The District's contributions to the HIS Plan totaled \$556,441 for the fiscal year ended June 30, 2015.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources Related to Pensions. At June 30, 2015, the District reported a net pension liability of \$14,021,364 for its proportionate share of the HIS Plan's net pension liability. The current portion of the net pension liability is the District's proportionate share of benefit payments expected to be paid within 1 year, net of the District's proportionate share of the pension plan's fiduciary net position available to pay that amount. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014. The District's proportionate share of the net pension liability was based on the District's 2013-14 fiscal year contributions relative to the total 2013-14 fiscal year contributions of all participating members. At June 30, 2014, the District's proportionate share was 0.149957201 percent, which was an increase of 0.002096743 from its proportionate share measured as of June 30, 2013.

For the fiscal year ended June 30, 2015, the District recognized the HIS Plan pension expense of \$999,008. In addition, the District reported deferred outflows of resources of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>
Change of assumptions	\$ 498,936
Net difference between projected and actual earnings on HIS pension plan investments	6,731
Changes in proportion and differences between District HIS contributions and proportionate share of HIS contributions	157,195
District contributions subsequent to the measurement date	556,441
Total	\$ 1,219,303

The deferred outflows of resources related to pensions, totaling \$556,441, resulting from District contributions to the HIS Plan subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2016	\$ 107,510
2017	107,510
2018	107,510
2019	107,510
2020	105,828
Thereafter	126,994
Total	\$ 662,862

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

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

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

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

Discount Rate. The discount rate used to measure the total pension liability was 4.29 percent. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal

to the municipal bond rate selected by the HIS Plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable municipal bond index.

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

	1% Decrease (3.29%)	Current Discount Rate (4.29%)	1% Increase (5.29%)
District's proportionate share of the net pension liability	\$ 15,948,166	\$ 14,021,364	\$ 12,413,036

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

2. FRS – Defined Contribution Pension Plan

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

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined benefit plan. District employees participating in DROP are not eligible to participate in the Investment Plan. Employer and employee contributions, including amounts contributed to individual member's accounts, are defined by law, but the ultimate benefit depends in part on the performance of investment funds. Benefit terms, including contribution requirements, for the Investment Plan are established and may be amended by the Florida Legislature. The Investment Plan is funded with the same employer and employee contribution rates that are based on salary and membership class (Regular Class, Elected County Officers, etc.), as the FRS defined benefit plan. Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Costs of administering the plan, including the FRS Financial Guidance Program, are funded through an employer contribution of 0.04 percent of payroll and by forfeited benefits of plan members. Allocations to the investment member's accounts during the 2014-15 fiscal year were as follows:

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

For all membership classes, employees are immediately vested in their own contributions and are vested after 1 year of service for employer contributions and investment earnings. If an accumulated benefit obligation for service credit originally earned under the FRS Pension Plan is transferred to the Investment Plan, the member must have the years of service required for FRS Pension Plan vesting (including the service credit represented by the transferred funds) to be vested for these funds and the earnings on the funds. Nonvested employer contributions are placed in a suspense account for up to 5 years. If the employee returns to FRS-covered employment within the 5-year period, the employee will regain control over their account. If the employee does not return within the 5-year period, the employee will forfeit the accumulated account balance. For the fiscal year ended June 30, 2015, the information for the amount of forfeitures was unavailable from the SBA; however, management believes that these amounts, if any, would be immaterial to the District.

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

The District's Investment Plan pension expense totaled \$433,930, for the fiscal year ended June 30, 2015.

E. Other Postemployment Benefit Obligations

Plan Description. The Other Postemployment Benefits Plan (OPEB Plan) is a single-employer defined benefit plan administered by the District. Pursuant to the provisions of Section 112.0801, Florida Statutes, employees who retire from the District are eligible to participate in the District's health and hospitalization plan for medical, prescription drug, 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 recommendations of the Insurance Committee and 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. For the 2014-15 fiscal year, 115 retirees received other postemployment benefits. The District

provided required contributions of \$274,592 toward the annual OPEB cost, net of retiree contributions totaling \$531,790, which represents 1.3 percent of covered payroll.

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

<u>Description</u>	<u>Amount</u>
Normal Cost (service cost for 1 year)	\$ 242,414
Amortization of Unfunded Actuarial Accrued Liability	<u>234,756</u>
Annual Required Contribution	477,170
Interest on Net OPEB Obligation	130,617
Adjustment to Annual Required Contribution	<u>(158,670)</u>
Annual OPEB Cost (Expense)	449,117
Contribution Toward the OPEB Cost	<u>(274,592)</u>
Increase in Net OPEB Obligation	174,525
Net OPEB Obligation, Beginning of Year	<u>3,808,075</u>
Net OPEB Obligation, End of Year	<u><u>\$ 3,982,600</u></u>

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

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2012-13	\$ 471,429	50.8%	\$ 3,556,243
2013-14	493,928	49.0%	3,808,075
2014-15	449,117	61.1%	3,982,600

Funded Status and Funding Progress. As of October 1, 2014, the most recent valuation date, the actuarial accrued liability for benefits was \$5,539,947, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$5,539,947 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$41,538,892, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 13.3 percent.

Actuarial valuations of an ongoing OPEB Plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include

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

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 October 1, 2014, used the entry age normal cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2015, and the District's 2014-15 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 3.43 percent rate of return on invested assets, which is the District's long-term expectation of investment returns. The actuarial assumptions also included a payroll growth rate of 3.43 percent per year, projected salary increases of 3.7 to 7.8 percent per year, and an annual healthcare cost trend rate of 7.5 percent beginning October 1, 2015, to an ultimate rate of 4.47 percent after 25 years. The investment rate of return and payroll growth rate include a general price inflation of 2.5 percent. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis over a 30-year period. The remaining amortization period at June 30, 2015, was 24 years.

F. Construction and Other Significant Commitments

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

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

Major Funds		
Capital Projects - Local Capital Improvement	Capital Projects - Other	Total Governmental Funds
<u>\$ 3,933,259.80</u>	<u>\$ 20,833,768.98</u>	<u>\$ 24,767,028.78</u>

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

Project	Contract Amount	Completed to Date	Balance Committed
Walton Middle School	\$ 24,569,323.97	\$ 6,803,074.28	\$ 17,766,249.69
Freeport Elementary School Classroom Additions	2,116,198.20	1,483,018.11	633,180.09
Safety and Security Project	1,884,022.00	460,698.57	1,423,323.43
Bay Elementary School Window Replacement	1,148,953.00	791,882.68	357,070.32
Paxton School Track	492,294.57	357,384.00	134,910.57
Emerald Coast Technical College Parking	460,178.91	393,258.00	66,920.91
Freeport Transportation Facility	228,713.00	176,026.40	52,686.60
Total	\$ 30,899,683.65	\$ 10,465,342.04	\$ 20,434,341.61

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. The Walton County District School Board is a member of the Panhandle Area Educational Consortium - Risk Management Consortium (Consortium) under which several district school boards have established a combined limited self-insurance program for property protection, cyber liability, general liability, automobile liability, workers' compensation, employee dishonesty, equipment breakdown, and other coverage deemed necessary by the members of the Consortium. Section 1001.42(12)(k), Florida Statutes, provides the authority for the District to enter into such a risk management program. The Consortium is self-sustaining through member assessments (premiums) and purchases coverage through commercial companies for claims in excess of specified amounts. The Board of Directors for the Consortium is composed of superintendents of all participating districts. The Washington County District School Board serves as fiscal agent for the Consortium. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past 3 fiscal years.

The District's health and hospitalization insurance program is provided through purchased commercial insurance with minimum deductibles for each line of coverage.

H. Changes in Short-Term Debt

The following is a schedule of changes in short-term debt:

	Beginning Balance	Additions	Deductions	Ending Balance
GOVERNMENTAL ACTIVITIES				
Tax Anticipation Note, Series 2014	\$ 0	\$ 17,250,000	\$ 17,250,000	\$ 0

In August 2014, the District acquired \$17,250,000 by issuing a Tax Anticipation Note (Note), Series 2014, to meet current operating needs pending receipt of property tax proceeds. During the period January 2015 through March 2015, the District repaid the Note at par plus interest of \$129,935.63.

I. Long-Term Liabilities

1. Certificates of Participation (Certificates)

The District entered into a financing arrangement on June 1, 1999, which was characterized as a master lease-purchase agreement, with the Walton County Public Education Finance Authority,

Inc. (Authority), to issue Certificates and to provide a vehicle for future Certificate financings. Through such arrangements, the District secured financing of various educational facilities. Such financings are repaid from the proceeds of rents paid by the District.

Certificates of participation at June 30, 2015, are as follows:

Issue	Original	Principal		Refunded by Series	Balance at June 30, 2015
	Amount	Paid	Refunded		
1999	\$ 25,960,000	\$ 9,915,000	\$16,045,000	2005	\$ -
2005	16,660,000	9,330,000	-	-	7,330,000
2010	10,075,000	4,625,000	-	-	5,450,000
2015	26,100,000	-	-	-	26,100,000

As a condition of the financing arrangements, the District gave ground leases on District property to the Leasing Corporation with a rental fee of \$10 per year. The term of the ground lease for the Series 1999 and 2005 Certificates ends on the earlier of the date on which all the Series 1999 and 2005 Certificates and any refunding certificates have been paid in full, or June 30, 2029. The term of the ground lease for the Series 2010 Certificates ends on the earlier of the date on which the Series 2010 Certificates have been paid in full, or 10 years from the final maturity date of the Series 2010 Certificates and any refunding certificates. The term of the ground lease for the Series 2015 Certificates ends on the earlier of the date on which all the Series 2015 Certificates and any Refunding Certificates have been paid in full, or 10 years from the final maturity date of the Series 2015 Certificates and any refunding certificates. The properties covered by the ground lease are, together with the improvements constructed thereon from the financing proceeds, leased back to the District. If the District fails to renew the lease and to provide for the rent payments through to term, the District may be required to surrender the sites included under the ground lease agreements for the benefit of the securers of the Certificates as specified by the arrangements.

The District properties included in the various ground leases under these arrangements include properties at Freeport High School, South Walton High School, Emerald Coast Middle School, and Walton Middle School (which is currently under construction).

The lease payments are payable by the District semiannually on January 1 and July 1 for all Certificate Series.

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

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 5,340,985.00	\$ 3,540,000.00	\$ 1,800,985.00
2017	5,350,890.00	3,690,000.00	1,660,890.00
2018	5,349,102.00	3,825,000.00	1,524,102.00
2019	5,350,207.50	4,000,000.00	1,350,207.50
2020	3,282,919.00	2,115,000.00	1,167,919.00
2021-2025	10,459,000.00	5,560,000.00	4,899,000.00
2026-2030	10,457,250.00	7,095,000.00	3,362,250.00
2031-2035	10,457,250.00	9,055,000.00	1,402,250.00
Total Minimum Lease Payments	56,047,603.50	38,880,000.00	17,167,603.50
Plus: Unamortized Premium	4,246,586.96	4,246,586.96	-
Total Certificates of Participation	<u>\$ 60,294,190.46</u>	<u>\$ 43,126,586.96</u>	<u>\$ 17,167,603.50</u>

2. Bonds Payable

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

<u>Bond Type</u>	<u>Amount Outstanding</u>	<u>Interest Rates (Percent)</u>	<u>Annual Maturity To</u>
State School Bonds:			
Series 2014B Refunding	\$ 162,000	2.0 - 5.0	2020

The bonds were issued to finance capital outlay projects of the District. These bonds are issued by the State Board of Education (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.

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

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
State School Bonds:			
2016	\$ 104,688.02	\$ 96,000.00	\$ 8,688.02
2017	48,240.00	45,000.00	3,240.00
2018	17,990.00	17,000.00	990.00
2019	2,140.00	2,000.00	140.00
2020	2,040.00	2,000.00	40.00
Total Bond Payments	175,098.02	162,000.00	13,098.02
Plus: Unamortized Premium	11,905.76	11,905.76	-
Total State School Bonds	<u>\$ 187,003.78</u>	<u>\$ 173,905.76</u>	<u>\$ 13,098.02</u>

3. Defeased Debt

On December 2, 2014, the Florida Department of Education issued State School Bonds, Series 2014B, (Refunding Bonds) which were used to refund \$115,000 and \$55,000 of the District's State School Bonds, Series 2005A and 2005B (Refunded Bonds), respectively. The District's pro rata share of the net proceeds of the Refunding Bonds totaling \$177,169.42 (which included an \$11,905.76 premium and is after deduction of \$278 for the District's pro rata share of issuance costs), were used to call the District's portion of the remaining outstanding debt on January 1, 2015. The Refunding Bonds reduced the District's total debt service payments over the next 5 years by \$10,651.98.

4. Changes in Long-Term Liabilities

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

Description	Beginning Balance	Additions	Deductions	Ending Balance	Due In One Year
GOVERNMENTAL ACTIVITIES					
Certificates of Participation Payable	\$ 15,400,000.00	\$ 26,100,000.00	\$ 2,620,000.00	\$ 38,880,000.00	\$ 3,540,000.00
Unamortized Premium	113,332.88	4,326,348.40	193,094.32	4,246,586.96	369,300.21
Total Certificates of Participation Payable	15,513,332.88	30,426,348.40	2,813,094.32	43,126,586.96	3,909,300.21
Bonds Payable	305,000.00	162,000.00	305,000.00	162,000.00	96,000.00
Unamortized Premium	-	11,905.76	-	11,905.76	7,055.27
Total Bonds Payable	305,000.00	173,905.76	305,000.00	173,905.76	103,055.27
Compensated Absences Payable	4,844,772.99	589,370.88	869,051.87	4,565,092.00	860,434.00
Net Pension Liability (1)	32,341,685.00	3,338,361.00	14,762,651.00	20,917,395.00	470,701.00
Other Postemployment Benefits Payable	3,808,075.00	449,117.00	274,592.00	3,982,600.00	-
Total Governmental Activities	\$ 56,812,865.87	\$ 34,977,103.04	\$ 19,024,389.19	\$ 72,765,579.72	\$ 5,343,490.48

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

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

J. Fund Balance Reporting

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

- **Nonspendable Fund Balance.** Nonspendable fund balance is the net current financial resources that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. Generally, not in spendable form means that an item is not expected to be converted to cash.
- **Restricted Fund Balance.** Restricted fund balance is the portion of fund balance on which constraints have been placed by creditors, grantors, contributors, laws or regulations of other governments, constitutional provisions, or enabling legislation. Restricted fund balance places the most binding level of constraint on the use of fund balance.
- **Unassigned Fund Balance.** The unassigned fund balance is the portion of fund balance that is the residual classification for the General Fund. This balance represents amounts that have

not been assigned to other funds and that have not been restricted, committed, or assigned for specific purposes.

K. Interfund Receivables and Payables

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

<u>Funds</u>	<u>Interfund</u>	
	<u>Receivables</u>	<u>Payables</u>
Major:		
General	\$ 127,973.04	\$ 17,236.36
Nonmajor Other Governmental	17,236.36	127,973.04
Total	\$ 145,209.40	\$ 145,209.40

Interfund receivables and payables represent amounts due for expenditures paid on behalf of other funds and other miscellaneous items. These amounts are expected to be repaid within 1 year.

L. Revenues

1. Schedule of State Revenue Sources

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

<u>Source</u>	<u>Amount</u>
Categorical Educational Program - Class Size Reduction	\$ 8,882,761.00
Florida Education Finance Program	5,472,270.00
Workforce Development Program	756,681.00
Voluntary Prekindergarten Program	516,416.18
School Recognition	432,030.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	261,221.50
Charter School Capital Outlay	187,203.00
Gross Receipts Tax (Public Education Capital Outlay)	152,369.00
Miscellaneous	414,783.63
Total	\$ 17,075,735.31

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

2. Property Taxes

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

	<u>Millages</u>	<u>Taxes Levied</u>
<u>General Fund</u>		
Nonvoted School Tax:		
Required Local Effort	2.850	\$ 38,080,035.31
Basic Discretionary Local Effort	0.748	9,994,339.09
Voted School Tax:		
Additional Operating	0.500	6,680,707.95
<u>Capital Projects - Local Capital Improvement Fund</u>		
Nonvoted Tax:		
Local Capital Improvements	1.393	18,612,452.35
Total	<u>5.491</u>	<u>\$73,367,534.70</u>

M. Interfund Transfers

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

<u>Funds</u>	<u>Interfund</u>	
	<u>Transfers In</u>	<u>Transfers Out</u>
Major:		
General	\$ 2,429,951.00	\$ 310,648.19
Capital Projects:		
Local Capital Improvement	1,455,305.52	6,121,631.37
Other	-	1,599,003.52
Nonmajor Other Governmental	4,146,026.56	-
Total	<u>\$ 8,031,283.08</u>	<u>\$ 8,031,283.08</u>

The District made transfers from the General Fund to the Capital Projects – Local Capital Improvement Fund to restore erroneous charges from the prior fiscal year and to the nonmajor governmental funds to supplement food service operations. The District made transfers from the Capital Projects – Local Capital Improvement Fund to the General Fund to supplement maintenance operations and pay for other advertised projects and property and casualty insurance premiums. The District made transfers from the Capital Projects – Other Fund to the General Fund to transfer charter school capital outlay moneys for subsequent disbursement to the charter schools and to the Capital Projects – Local Capital Improvement Fund to repay a temporary loan.

IV. SUBSEQUENT EVENTS

The Board authorized the issuance of a Tax Anticipation Note (Note), Series 2015, in the amount of \$17,250,000. The proceeds will be used for operating expenses for the fiscal year ending June 30, 2016. The Note is dated August 10, 2015, and the Note is scheduled to mature on March 10, 2016. The stated interest rate is 1.38 percent.

OTHER REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule General Fund For the Fiscal Year Ended June 30, 2015

	General Fund			Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues				
Intergovernmental:				
Federal Direct	\$ 245,000.00	\$ 245,000.00	\$ 280,954.30	\$ 35,954.30
Federal Through State and Local	325,000.00	437,011.67	294,969.63	(142,042.04)
State	14,678,985.00	15,379,998.00	16,437,480.84	1,057,482.84
Local:				
Property Taxes	52,504,275.00	52,504,275.00	53,098,729.26	594,454.26
Miscellaneous	1,410,500.00	1,834,382.28	3,356,404.15	1,522,021.87
Total Local Revenues	53,914,775.00	54,338,657.28	56,455,133.41	2,116,476.13
Total Revenues	69,163,760.00	70,400,666.95	73,468,538.18	3,067,871.23
Expenditures				
Current - Education:				
Instruction	40,936,807.00	41,776,121.13	41,100,837.24	675,283.89
Student Personnel Services	2,526,567.00	2,290,325.70	2,253,004.43	37,321.27
Instructional Media Services	938,917.00	914,947.47	874,986.18	39,961.29
Instruction and Curriculum Development Services	914,540.00	955,187.12	895,674.34	59,512.78
Instructional Staff Training Services	681,115.00	751,633.28	660,969.02	90,664.26
Instructional - Related Technology	1,041,393.00	1,248,951.35	908,106.00	340,845.35
Board	371,828.00	642,961.00	642,961.00	-
General Administration	257,312.00	232,736.55	236,831.58	(4,095.03)
School Administration	5,201,111.00	5,133,940.83	5,025,716.72	108,224.11
Fiscal Services	387,207.00	484,880.70	493,196.46	(8,315.76)
Food Services	17,210.00	33,354.54	33,354.54	-
Central Services	745,548.00	860,493.23	729,133.02	131,360.21
Student Transportation Services	4,718,812.00	4,775,023.16	4,786,990.74	(11,967.58)
Operation of Plant	8,038,279.00	8,089,651.56	8,014,118.54	75,533.02
Maintenance of Plant	1,811,472.00	1,885,937.37	1,875,921.11	10,016.26
Administrative Technology Services	598,818.00	360,883.04	304,554.99	56,328.05
Community Services	685,875.00	732,474.31	351,191.39	381,282.92
Fixed Capital Outlay:				
Other Capital Outlay	-	-	26,435.29	(26,435.29)
Debt Service:				
Interest and Fiscal Charges	120,000.00	129,935.63	129,935.63	-
Total Expenditures	69,992,811.00	71,299,437.97	69,343,918.22	1,955,519.75
Excess (Deficiency) of Revenues Over Expenditures	(829,051.00)	(898,771.02)	4,124,619.96	5,023,390.98
Other Financing Sources (Uses)				
Transfers In	2,348,150.00	2,442,748.00	2,429,951.00	(12,797.00)
Loss Recoveries	-	119,241.11	119,241.11	-
Transfers Out	(50,000.00)	(93,505.00)	(310,648.19)	(217,143.19)
Total Other Financing Sources (Uses)	2,298,150.00	2,468,484.11	2,238,543.92	(229,940.19)
Net Change in Fund Balances	1,469,099.00	1,569,713.09	6,363,163.88	4,793,450.79
Fund Balances, Beginning	1,618,127.00	2,695,185.62	2,061,622.48	(633,563.14)
Fund Balances, Ending	\$ 3,087,226.00	\$ 4,264,898.71	\$ 8,424,786.36	\$ 4,159,887.65

**Schedule of Funding Progress –
Other Postemployment Benefits Plan**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (1) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
10/01/10	\$ -	\$ 7,185,173	\$ 7,185,173	0.0%	\$ 33,151,003	21.7%
10/01/12	-	4,955,272	4,955,272	0.0%	43,110,403	11.5%
10/01/14	-	5,539,947	5,539,947	0.0%	41,538,892	13.3%

Note: (1) The District's OPEB actuarial valuation used the entry age normal cost method to estimate the actuarial accrued liability.

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

	2014	2013
District's proportion of the FRS net pension liability	0.113022439%	0.113093868%
District's proportionate share of the FRS net pension liability	\$ 6,896,031	\$ 19,468,488
District's covered-employee payroll (2)	\$ 44,557,617	\$ 42,945,352
District's proportionate share of the FRS net pension liability as a percentage of its covered-employee payroll	15.48%	45.33%
FRS Plan fiduciary net position as a percentage of the total pension liability	96.09%	88.54%

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

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

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

	2015	2014
Contractually required FRS contribution	\$ 2,665,865	\$ 2,475,671
FRS contributions in relation to the contractually required contribution	2,665,865	2,475,671
FRS contribution deficiency (excess)	\$ -	\$ -
District's covered-employee payroll (2)	\$ 44,207,768	\$ 44,557,617
FRS contributions as a percentage of covered-employee payroll	6.03%	5.56%

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

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

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

	<u>2014</u>	<u>2013</u>
District's proportion of the HIS net pension liability	0.149957201%	0.147860458%
District's proportionate share of the HIS net pension liability	\$ 14,021,364	\$ 12,873,197
District's covered-employee payroll (2)	\$ 44,557,617	\$ 42,945,352
District's proportionate share of the HIS net pension liability as a percentage of its covered-employee payroll	31.47%	29.98%
HIS Plan fiduciary net position as a percentage of the total pension liability	0.99%	1.78%

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

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

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

	<u>2015</u>	<u>2014</u>
Contractually required HIS contribution	\$ 556,441	\$ 513,703
HIS contributions in relation to the contractually required contribution	556,441	513,703
HIS contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll (2)	\$ 44,207,768	\$ 44,557,617
HIS contributions as a percentage of covered-employee payroll	1.26%	1.15%

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

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

1. Budgetary Basis of Accounting

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

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

2. Expenditures Over Appropriations in Individual Funds

For the fiscal year ended June 30, 2015, expenditures exceeded appropriations for the following fund:

Fund/Activity	Expenditures		Variance Unfavorable
	Budget	Actual	
General:			
General Administration	\$ 232,736.55	\$ 236,831.58	\$ (4,095.03)
Fiscal Services	484,880.70	493,196.46	(8,315.76)
Student Transportation Services	4,775,023.16	4,786,990.74	(11,967.58)
Fixed Capital Outlay:			
Other Capital Outlay	-	26,435.29	(26,435.29)

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

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

4. 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 4.63 percent to 4.29 percent.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass -Through Grantor Number	Amount of Expenditures (1)	Amount Provided to Subrecipients
United States Department of Agriculture:				
Indirect:				
Child Nutrition Cluster:				
Florida Department of Agriculture and Consumer Services:				
School Breakfast Program	10.553	14002	\$ 540,813.98	\$ -
National School Lunch Program	10.555 (2)	14001	2,061,247.74	-
Summer Food Service Program for Children	10.559	14006	14,045.40	-
Total Child Nutrition Cluster			<u>2,616,107.12</u>	<u>-</u>
Florida Department of Financial Services:				
Schools and Roads - Grants to States	10.665	None	4,407.25	-
Total United States Department of Agriculture			<u>2,620,514.37</u>	<u>-</u>
United States Department of Education:				
Direct:				
Impact Aid	84.041 (3)	N/A	223,753.00	
Federal Pell Grant Program	84.063	N/A	391,608.99	-
Total Direct			<u>615,361.99</u>	<u>-</u>
Indirect:				
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027	263	1,499,783.12	-
Special Education - Preschool Grants	84.173	267	55,561.21	-
Total Special Education Cluster			<u>1,555,344.33</u>	<u>-</u>
Florida Department of Education:				
Title I Grants to Local Educational Agencies	84.010	212, 223, 226	2,040,575.34	54,437.25
Career and Technical Education - Basic Grants to States	84.048	161	145,616.00	-
Education for Homeless Children and Youth	84.196	127	24,999.99	-
Rural Education	84.358	110	79,621.27	-
English Language Acquisition Grants	84.365	102	13,761.54	-
Improving Teacher Quality State Grants	84.367	224	454,482.74	-
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	RA111, RG311, RL111	589,195.22	-
Total Indirect			<u>4,903,596.43</u>	<u>54,437.25</u>
Total United States Department of Education			<u>5,518,958.42</u>	<u>54,437.25</u>
United States Department of Defense:				
Direct:				
Air Force Junior Reserve Officers Training Corps	None	N/A	57,201.30	-
Total Expenditures of Federal Awards			<u>\$ 8,196,674.09</u>	<u>\$ 54,437.25</u>

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

(2) Noncash Assistance for National School Lunch Program. Includes \$236,536.74 of donated food received during the fiscal year. Donated foods are valued at fair value as determined at the time of donation.

(3) Impact Aid. Expenditures are for grant number/program S041A-2015-1272.



Sherrill F. Norman, CPA
Auditor General

AUDITOR GENERAL STATE OF FLORIDA

Claude Denson Pepper Building, Suite G74
111 West Madison Street
Tallahassee, Florida 32399-1450



Phone: (850) 412-2722
Fax: (850) 488-6975

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Walton County District School Board, as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 25, 2016, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the school internal funds and the aggregate discretely presented component units, as described in our report on the District's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

We noted certain additional matters that are discussed in the accompanying **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**.

District's Response to Findings

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

Purpose of this Report

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

Respectfully submitted,



Sherrill F. Norman, CPA
Tallahassee, Florida
February 25, 2016



Sherrill F. Norman, CPA
Auditor General

AUDITOR GENERAL STATE OF FLORIDA

Claude Denson Pepper Building, Suite G74
111 West Madison Street
Tallahassee, Florida 32399-1450



Phone: (850) 412-2722
Fax: (850) 488-6975

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

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

Report on Compliance for Each Major Federal Program

We have audited the Walton County District School Board's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major Federal programs for the fiscal year ended June 30, 2015. The District's major Federal programs are identified in the **SUMMARY OF AUDITOR'S RESULTS** section of the accompanying **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the fiscal year ended June 30, 2015.

Report on Internal Control Over Compliance

District management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

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

Respectfully submitted,



Sherrill F. Norman, CPA
Tallahassee, Florida
February 25, 2016

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	No
Identification of major programs:	
CFDA Numbers:	Name of Federal Program or Cluster:
10.553, 10.555, and 10.559	Child Nutrition Cluster
84.063	Federal Pell Grant Program
Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	Yes

ADDITIONAL MATTERS

Finding 1: Monitoring Charter Schools

Each charter school, pursuant to State law,¹ must provide monthly² financial statements (reports) to its sponsor. State law³ provides that a charter school is subject to an expedited review by its sponsor if any one of four specified conditions, including failure to file required financial reports, occur. An expedited review, in part, requires:

- The sponsor to notify the charter school governing board and the Florida Department of Education (FDOE) within 7 business days after the condition occurs.⁴
- The charter school governing board and the sponsor to develop a corrective action plan and file the plan with the FDOE within 30 business days after the above notification.⁵

During the 2014-15 fiscal year, the District sponsored The Seaside School, Inc., Walton Academy, and Chautauqua Learn and Serve at The Arc of Walton County, Inc. (Chautauqua), which are three charter schools operated by separate not-for-profit corporations organized to provide educational programs for students. The Seaside School, Inc., and Walton Academy provided the required financial reports to the District during the 2014-15 fiscal year. However, as of December 2015, District personnel indicated that the last monthly financial report from Chautauqua was received in January 2015 and that the financial reports had been untimely because of key Chautauqua personnel turnover. Further, contrary to State law,⁴ the District did not notify Chautauqua's governing board or the FDOE of the delinquent monthly financial reports until December 7, 2015, subsequent to our inquiry. As of January 2016, the District and Chautauqua's governing Board had not developed a corrective action plan and, based on Chautauqua's January 2015 monthly financial report, Chautauqua reported a fund balance deficit of \$3,678 in the General Fund.

Failure to comply with the expedited review requirements, which include timely notifying a charter school's governing board of the need to develop a corrective action plan, timely developing and filing the corrective action plan with the FDOE, and monitoring compliance with the plan, increases the risk that a charter school may not take the necessary actions to continue operations.

Recommendation: The District should enhance procedures to ensure that, for charter schools subject to expedited reviews, corrective action plans are developed, timely submitted to the FDOE, and appropriately monitored.

¹ Section 1002.33(9)(g), Florida Statutes.

² If the charter school is designated as a high-performing charter school pursuant to Section 1002.331, Florida Statutes, the high-performing charter school may provide quarterly financial statements.

³ Section 1002.345(1)(a)2., Florida Statutes.

⁴ Section 1002.345(1)(b), Florida Statutes.

⁵ Section 1002.345(1)(c), Florida Statutes.

Finding 2: Virtual Instruction Program – Policies and Procedures

State law⁶ provides that school districts are to prescribe and adopt standards and policies to provide each student the opportunity to receive a complete education. Education methods to implement such standards and policies may include the delivery of learning courses through traditional school settings, blended courses consisting of both traditional classroom and online instructional techniques, participation in a virtual instruction program (VIP), or other methods. State law⁷ establishes VIP requirements and requires school districts to include mandatory provisions in VIP provider contracts; make available optional types of virtual instruction; provide timely, written parental notification of VIP options; ensure the eligibility of students participating in the VIPs; and provide computer equipment, Internet access, and instructional materials to eligible students.

During the 2014-15 fiscal year, the District enrolled 624 part-time and 19 full-time VIP students. The District's student progression plan identified the basis for eligibility, information relating to attendance and withdrawals, student assessments, and VIP options available to the students. However, due, in part, to recent changes in key personnel, the District did not have comprehensive, written VIP policies and procedures to identify the processes necessary to ensure compliance with statutory requirements, document personnel responsibilities, provide consistent guidance to staff during personnel changes, ensure sufficient and appropriate training of personnel, or establish a reliable standard to measure the effectiveness and efficiency of operations. Additionally, the lack of comprehensive, written VIP policies and procedures may have contributed to the following control deficiencies and instances of noncompliance:

- State law⁸ requires each school district to provide information to parents and students about a student's right and choice to participate in a VIP. In addition, State law⁹ requires school districts to provide parents with timely, written notification of open enrollment for its VIP. While the District's methods used to provide information about the District's VIP to parents and students were adequate, parents were not timely notified of the District's open enrollment period, as the notification was provided on the first day of the 2014-15 school year (28 days after the District's open enrollment period began). Additionally, while State law¹⁰ requires an open enrollment period to last 90 days or more and end 30 days before the first day of the school year, the District's open enrollment period only lasted 61 days and ended 5 weeks into the school year. District personnel indicated that they waited to establish the open enrollment period until master schedules had been finalized at the schools so the District VIP courses offered could be selected. However, without notifications timely provided to parents, and compliance with open enrollment period requirements, the District potentially limited student access to virtual instruction.
- State law¹¹ requires the District to provide to each full-time VIP student who qualifies for free or reduced price school lunches, or who is on the direct certification list, and who does not have a computer or Internet access at home, with all necessary equipment, including, but not limited to, a computer, monitor, and printer (if necessary), and Internet access for online delivery of instruction. However, the District did not provide computers or Internet access to any VIP students

⁶ Section 1001.41(3), Florida Statutes.

⁷ Section 1002.45, Florida Statutes.

⁸ Section 1002.45(10), Florida Statutes.

⁹ Section 1002.45(1)(b), Florida Statutes.

¹⁰ Ibid.

¹¹ Section 1002.45(3)(d), Florida Statutes.

during the 2014-15 school year. District personnel indicated that, during the enrollment process, they only inform the parents and students who inquire about the availability of computing resources. Consequently, District records did not evidence that the parents of all eligible VIP students were contacted to determine whether the students had all the necessary computer resources to participate in the VIP. Without evidence of direct communications to parents regarding the availability of computer resources and documented determinations that families had the necessary computing resources, the District cannot demonstrate that eligible students had the necessary resources to successfully complete VIP courses.

Recommendation: To enhance the effectiveness of VIP operations and related activities, the District should develop and maintain comprehensive, written VIP policies and procedures. Such policies and procedures should ensure that timely, written notifications are provided to parents about all VIP options and the availability of VIP resources for qualifying students.

Finding 3: Information Technology – Access Privileges

Access controls are intended to protect District data and information technology (IT) resources from unauthorized disclosure, modification, or destruction. Effective access controls provide employees access to IT resources based on a demonstrated need to view, change, or delete data and restrict employees from performing incompatible functions or functions inconsistent with their assigned responsibilities. Periodic reviews of assigned IT access privileges are necessary to ensure that employees can only access those IT resources that are necessary to perform their assigned job responsibilities and that assigned access privileges enforce an appropriate separation of incompatible duties.

Our review of six selected user accounts' access privileges to the District's finance and human resource applications disclosed that:

- Four finance employees had update access privileges to functions within the finance application that allowed the employees to input journal entries, process payments, and add or update vendor, invoice, and purchase order information.
- Two payroll employees had update access privileges to functions within the finance application that allowed the employees to input journal entries, process payments, and add or modify employee profiles, job codes, pay rates, and pay grades.

These access privileges were unnecessary for the employees to perform their assigned job responsibilities and permitted the employees to perform incompatible duties.

District personnel indicated that reviews of assigned IT access privileges were not performed during the 2014-15 fiscal year because District personnel were in the process of developing procedures for periodic reviews of access privileges and a user-friendly access monitoring report. Although the District had certain controls (e.g., supervisory monitoring of expenditures and check disbursement controls) that somewhat compensated for the noted deficiencies, the existence of unnecessary or inappropriate IT access privileges and lack of periodic reviews of access privileges increase the risk that unauthorized disclosure, modification, or destruction of District data and IT resources may occur. A similar finding was noted in our report No. 2015-148.

Recommendation: The District should continue its efforts to develop procedures for periodic review of access privileges and timely remove or adjust any unnecessary or inappropriate access detected.

Finding 4: Information Technology – Risk Assessment

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

Although the District had developed a written IT risk assessment which addressed high-level risks (e.g., extreme weather, funding issues, unauthorized access to data), the District had not developed a comprehensive, written IT risk assessment. A comprehensive, written IT risk assessment would consider, in addition to high-level risks, specific threats and vulnerabilities at the Districtwide, system, and application levels. A comprehensive, written IT risk assessment would also document the range of risks that District systems and data may be subject to, including those posed by internal and external users, as well as plans for the mitigation of identified risks. The absence of a written, comprehensive IT risk assessment may lessen the District's assurance that all likely threats and vulnerabilities have been identified, the most significant risks have been addressed, and appropriate decisions have been made regarding which risks to accept and which risks to mitigate through appropriate controls. A similar finding was noted in our report No. 2015-148.

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

PRIOR AUDIT FOLLOW-UP

The District had taken corrective actions for findings included in our report No. 2015-148, except as discussed in Findings 3 and 4 and shown in Table 1.

Table 1
Findings Also Noted in the Previous Audit Report

2013-14 Fiscal Year Audit Report No. 2015-148,	
Finding	Finding
3	11
4	13

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

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

Audit Report No. and Federal Awards Finding No.	Program/Area	Brief Description	Status	Comments
2015-148		There were no prior Federal audit findings.		

MANAGEMENT'S RESPONSE



Carlene Anderson
Superintendent of Schools

145 Park Street
DeFuniak Springs, FL 32435
(850) 892-1100
FAX: (850) 892-1190
www.walton.k12.fl.us

January 29, 2016

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

Dear Ms. Norman:

Please find enclosed the management response to audit findings for the school year ended June 30, 2015, based upon the preliminary and tentative audit report for the Walton County School District.

We appreciate the professionalism of your staff and office in completing this work.

Sincerely,


Carlene Anderson
Superintendent
Walton County School District

Walton



COUNTY SCHOOL DISTRICT

Carlene Anderson
Superintendent of Schools

145 Park Street
DeFuniak Springs, FL 32435
(850) 892-1100
FAX: (850) 892-1190
www.walton.k12.fl.us

MANAGEMENT RESPONSE:

Finding #1: Monitoring Charter Schools

The District has taken measures to ensure all charter school financial statements are received and reviewed timely. Any charter schools requiring expedited reviews will follow process and compliance with FDOE guidelines and applicable Florida Statutes.

Finding #2: Virtual Instruction Program – Policies and Procedures

The District will develop and maintain comprehensive, written VIP policies and procedures. These procedures will cover the notification to parents about all VIP options and the availability of these resources to all qualifying students. The District will ensure policies are followed and notifications are communicated to parents.

Finding #3: Information Technology – Access Privileges

The Walton County School District has taken measures to improve the process of adding new users to the District information technology platform, ensure the periodic review of users to job function, and delete terminated employees timely.

Finding #4: Information Technology – Risk Assessment

The District has completed a comprehensive, written IT risk assessment through an inter-disciplinary District team and is currently using the assessment to develop risk mitigation plans for the priorities identified through the risk assessment process.