

Okaloosa County District School Board

Financial Statements and
Supplementary Information

June 30, 2007

Okaloosa County District School Board
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INDEPENDENT AUDITOR'S REPORT

To the Okaloosa County District School Board
and Alexis Tibbetts, Superintendent of Schools
Fort Walton Beach, Florida

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Okaloosa County District School Board (the District) as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the District's discretely presented component units, Okaloosa Public Schools Foundation, Inc., the Okaloosa Academy, Inc., or the Liza Jackson Preparatory School, Inc. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Okaloosa Public Schools Foundation, Inc., the Okaloosa Academy, Inc., and the Liza Jackson Preparatory School, Inc., is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our 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 District as of June 30, 2007, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 14, 2008 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the Budgetary Comparison schedules on pages 3 through 11 and 49, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Okaloosa County District School Board. The Schedule of Expenditures of Federal Awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Destin, Florida
March 14, 2008

Management's Discussion and Analysis

OKALOOSA COUNTY DISTRICT SCHOOL BOARD MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management of the Okaloosa County District School Board has prepared the following discussion and analysis of financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to (a) assist the reader in focusing on significant financial issues, (b) provide an overview and analysis of the District's financial activities, (c) identify changes in the District's financial position, (d) identify material deviations from the approved budget, and (e) highlight significant issues in individual funds. Because the information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events and conditions, it should be considered in conjunction with the District's financial statements and notes to the financial statements.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2006-2007 fiscal year are as follows:

- The District's total net assets increased by \$22,002,653, or 11 percent.
- General revenues totaled \$262,676,842, or 89 percent of all revenues in fiscal year 2006-2007, as compared to \$240,756,660, or 91 percent of all revenues in fiscal year 2005-2006. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions totaled \$32,434,488, or 11 percent as compared to \$23,598,757, or 9 percent in the prior year.
- The unreserved fund balance of the General Fund, representing the net current financial resources available for general appropriation by the Board, totaled \$11,548,576, at June 30, 2007, or 5 percent of General Fund expenditures as compared to \$8,253,869, at June 30, 2006 or 4 percent of General Fund expenditures.
- The District's total long-term liabilities increased by \$67,699,431, or 127 percent, as compared to an increase of \$2,503,188, or 5 percent in the prior year. Within long-term liabilities, the long-term liability for compensated absences increased \$201,431, or 1 percent as compared to an increase of \$3,915,188, or 18 percent in fiscal year 2005-2006; the long-term liability for estimated insurance claims decreased \$397,000, or 8 percent; and the long-term liability for debt increased \$67,895,000, or 290 percent as compared to a decrease of \$2,115,000 or 8 percent in fiscal year 2005-2006.
- During the current year, General Fund expenditures exceeded revenues by \$6,934,465. This may be compared to last year's results in which General Fund expenditures exceeded revenues by \$5,675,905.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements consist of three components:

1. Government-wide financial statements.
2. Fund financial statements.
3. Notes to the financial statements.

Government-wide Financial Statements

The government-wide financial statements provide both short-term and long-term information about the District's overall financial condition in a manner similar to those of a private-sector business. The statements include a statement of net assets and a statement of activities that are designed to provide consolidated financial information about the governmental and business-type activities of the Primary Government presented on the accrual basis of accounting. The statement of net assets provides information about the government's financial position, its assets and liabilities, using an economic resources measurement focus. The difference between the assets and liabilities, the net assets, is a measure of the financial health of the District. The statement of activities presents information about the change in the District's net assets, the results of operations, during the fiscal year. An increase or decrease in net assets is an indication of whether the District's financial health is improving or deteriorating.

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

- Governmental activities – This represents most of the District's services including its educational programs: basic, vocational, adult, and exceptional education. Support functions such as transportation and administration are also included. Local property taxes and the State's education finance program provide most of the resources that support these activities.
- Business-type activities – The District does not have any business-type activities.
- Component units – The District presents three separate legal entities in this report including the Okaloosa Academy, Inc. - Charter School; the Liza Jackson Preparatory School – Charter School; and the Okaloosa Public School Foundation, Inc. Although legally separate organizations, the component units are included in this report because they meet the criteria for inclusion provided by generally accepted accounting principles.

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

Over a period of time, changes in the District's net assets are an indication of improving or deteriorating financial condition. This information should be evaluated in conjunction with other non-financial factors, such as changes in the District's property tax base, student enrollment, and the condition of the District's capital assets including its school buildings and administrative facilities.

Fund Financial Statements

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

All of the District's funds may be classified within one of two broad categories:

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

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

The governmental funds balance sheet and the statement of revenues, expenditures, and changes in fund balances provide detailed information about the District's most significant funds, not the District as a whole. The District's major funds are the General Fund, Capital Projects – Public Education Capital Outlay Fund, Capital Projects – Local Capital Improvement Tax 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 statement 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 an agency fund to account for resources held for student activities groups and for resources held for Employees IRS Section 125 Cafeteria Plan.

Notes to Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The following is a summary of the District's net assets as of June 30, 2007, as compared to June 30, 2006:

Net Assets, End of Year		Governmental Activities	
	6/30/2007	6/30/2006	Increase (Decrease)
Current Assets	\$ 166,739,675	\$ 81,272,150	\$ 85,467,525
Other Assets	178,058,804	169,134,368	8,924,436
Total Assets	344,798,479	250,406,518	94,391,961
Long-term Liabilities	120,860,741	53,161,310	67,699,431
Other Liabilities	8,834,654	4,144,775	4,689,879
Total Liabilities	129,695,395	57,306,085	72,389,310
Invested in Capital Assets - Net of Debt	154,481,612	145,744,368	8,737,244
Restricted	47,467,829	37,486,556	9,981,273
Unrestricted	13,153,543	9,869,509	3,284,034
Total Net Assets	\$ 215,102,984	\$ 193,100,433	\$ 22,002,551

The largest portion of the District's net assets (72% in fiscal year 2006-2007 and 75% in fiscal year 2005-2006) reflects its investment in capital assets (e.g., land, buildings, furniture and equipment), less any related debt still outstanding. The District's investment in capital assets net of debt increased \$8,737,244 or 6%. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending.

The restricted portion of the District's net assets is subject to external restrictions on how they may be used. The District's unrestricted net asset increased \$3,284,034, in fiscal year 2006-2007.

Operating results for the ended June 30, 2007, as compared to June 30, 2006, are as follows:

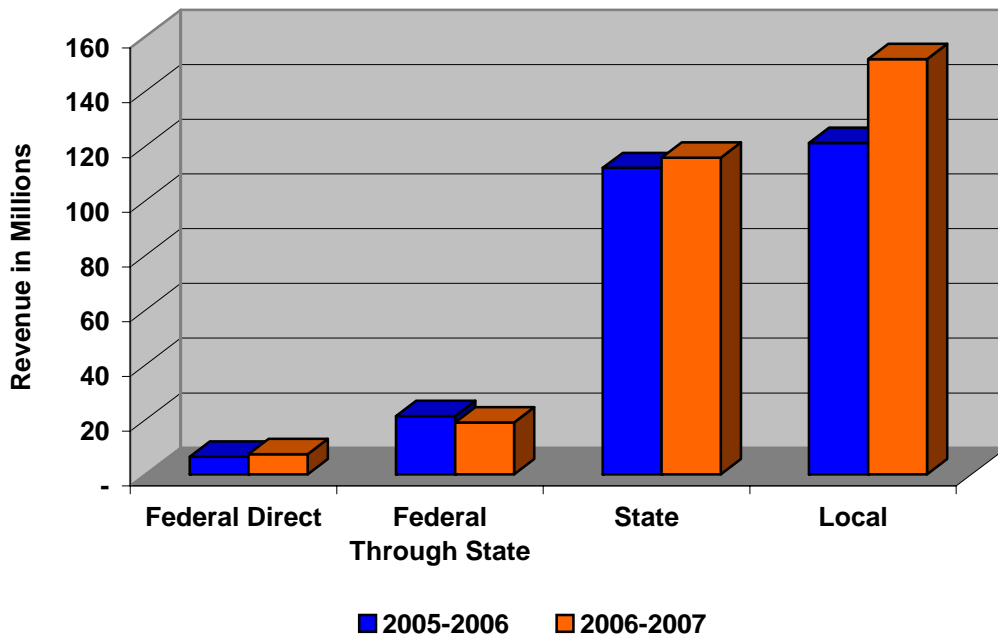
Operating Results for the Year

	Governmental Activities		
	6/30/2007	6/30/2006	Increase (Decrease)
Program Revenues:			
Charges for Services	\$ 8,295,153	\$ 7,890,362	\$ 404,791
Operating Grants and Contributions	10,999,152	10,500,427	498,725
Capital Grants and Contributions	13,140,183	5,207,967	7,932,216
General Revenues:			
Property Taxes Levied for Operations	107,184,765	80,581,211	26,603,554
Property Taxes Levied for Capital Projects	33,669,442	25,505,346	8,164,096
Grants and Contributions not Restricted to Specific Purposes	112,496,623	124,058,677	(11,562,054)
Unrestricted Investment Earnings	5,769,168	3,657,799	2,111,369
Miscellaneous	3,556,844	6,953,629	(3,396,785)
Total Revenues	295,111,330	264,355,418	30,755,912
Functions/Program Expenses:			
Instruction	160,190,536	150,467,765	9,722,771
Pupil Personnel Services	7,681,508	7,459,653	221,855
Instructional Media Services	3,347,211	3,060,406	286,805
Instruction and Curriculum Development	7,974,344	7,315,656	658,688
Instructional Staff Training	812,482	811,981	501
Instruction Related Technology	752,236	1,161,863	(409,627)
Board of Education	2,858,251	880,205	1,978,046
General Administration	693,795	671,524	22,271
School Administration	16,025,645	15,051,747	973,898
Facilities Acquisition and Construction	11,121,276	11,919,695	(798,419)
Fiscal Services	1,589,388	1,418,975	170,413
Food Services	10,388,522	10,479,336	(90,814)
Central Services	2,338,006	3,209,722	(871,716)
Pupil Transportation Services	11,034,679	10,361,128	673,551
Operation of Plant	14,166,730	15,440,985	(1,274,255)
Maintenance of Plant	6,254,722	6,530,667	(275,945)
Administrative Technology Services	3,014,111	2,790,971	223,140
Community Services	1,641,477	1,451,119	190,358
Interest on Long-term Debt	2,705,506	903,995	1,801,511
Unallocated Depreciation Expense	8,518,252	7,494,285	1,023,967
Total Functions/Program Expenses	273,108,677	258,881,678	14,226,999
Increase in Net Assets	\$ 22,002,653	\$ 5,473,740	\$ 16,528,913

Instructional expenses represent 59 percent of total governmental expenses in the 2006-2007 fiscal year as compared to 58 percent in fiscal year 2005-2006. Instructional expenses increased by approximately \$9,722,771, or 6 percent versus an increase of \$14,575,625, or 11 percent, in fiscal year 2005-2006. The increase in instructional expenditures is due mainly to an increase in salaries for instructional staff, an increase in the number of classroom teachers as a result of Class Size Reduction.

The District received 52 percent of total revenues from local sources, including funds received from property tax levies and interest revenues. State funds accounted for 39 percent of total funds received, while Federal funds contributed 9 percent. Governmental fund revenues totaled \$293,912,688, an increase of approximately \$32,992,178, or 13 percent. Funds received from local sources were \$30,632,858 more than those received during the 2005-2006 fiscal year, while funds received from State sources increased by \$3,755,596, and Federal sources decreased by \$1,396,276, respectively.

Source of Revenue



FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Major Governmental Funds

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved fund balance was \$11,548,576, while the total fund balance was \$47,461,145. For fiscal year 2005-2006, unreserved fund balance was \$8,253,869, while the total fund balance was \$44,181,421. The unreserved fund balance increased by \$3,294,707, in fiscal year 2006-2007 while the total fund balance increased by \$3,279,724, as compared to an increase in fiscal year 2005-2006 in unreserved fund balance of \$2,698,821, and an increase in total fund balance of \$2,752,371.

Key factors in this growth are as follows:

The District has received an increase in local revenues directly related to increases in local property tax values.

The Capital Projects – Public Education Capital Outlay Fund has a total fund balance of \$8,845,833, all of which is restricted for the acquisition, construction, and maintenance of capital assets. This is an increase of \$5,585,446, as compared to total fund balance for fiscal year 2005-2006 of \$3,259,887. The fund balance increased in the current year due to an increase in Classrooms for Kids revenue.

The Capital Projects – Capital Improvement Tax Construction Tax Fund has a total fund balance of \$27,031,684, all of which is restricted for the acquisition, construction, and maintenance of capital assets. This is an increase of \$13,064,414, as compared to total fund balance for fiscal year 2005-2006 of \$13,967,270. The fund balance increased in the current year due to an increase in local capital improvement tax revenues of \$8,727,640.

The Capital Projects – Other Fund has a total fund balance of \$70,870,245, all of which is restricted for the acquisition and construction of capital assets and is primarily comprised of the remaining proceeds of the 2003 Certificates of Participation, 2006 Certificates of Participation, and 2007 Certificates of Participation. This is an increase of \$59,431,862, as compared to total fund balance for fiscal year 2005-2006 of \$11,438,383. The fund balance increased in the current year due to the issuance of the 2006 Certificates of Participation and 2007 Certificates of Participation totaling \$68,359,959 for the purpose of purchasing land and constructing a new elementary school and a new middle school.

BUDGET VARIANCES IN THE GENERAL FUND

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

During the course of the 2006-2007 fiscal year, the District amended its General Fund budget several times, which resulted in an increase in total appropriations, excluding reserves, amounting to \$8,877,960, or 4 percent. At the same time, final budgeted revenues, excluding beginning fund balance, were less than the original budgeted amounts by \$364,026, or less than 1 percent. This resulted in a final budgeted ending fund balance of \$8,400,712, or 21 percent less than the ending fund balance included in the original budget. The decrease in budgeted ending fund balance is primarily a result of the appropriation of project reserves for Lottery-School Recognition and Supplemental Academic Instruction during the fiscal year.

Actual revenues were \$730,648 or less than 1 percent more than the final budgeted amounts, whereas actual expenditures were \$15,143,234, less than the final budgeted amounts. Positive budget variances occurred in all functions. The ending fund balance exceeded the estimated fund balance contained in the final amended budget by \$15,873,882.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets for its governmental and business-type activities as of June 30, 2007, amount to \$178,058,804 (net of accumulated depreciation), as compared to \$169,134,368, in fiscal year 2005-2006. The increase is primarily due to an increase in the capital assets completed and purchased during the fiscal year. The investment in capital assets includes land, improvements other than buildings, buildings and fixed equipment, furniture, fixtures and equipment, motor vehicles, property under capital lease, construction in progress, and computer software.

Major capital asset events during the current fiscal year included the following:

- Construction in progress at June 30, 2007, includes the following:
 - ◆ Classroom Additions:
 - Bob Sikes Elementary School
 - Bluewater Elementary School
 - Edge Elementary School
 - Edwins Elementary School
 - Florosa Elementary School
 - Mary Esther Elementary School
 - Plew Elementary School
 - Shalimar Elementary School
 - Walker Elementary School
 - Wright Elementary School
 - ◆ Roof Replacements:
 - Bruner Middle School
 - Common Campus
 - Crestview High School Fieldhouse
 - Fort Walton Beach High School
 - Oak Hill Elementary School

- ◆ HVAC Replacements:
 - Baker High School
 - Cherokee Elementary School
 - Crestview High School
 - Destin Elementary
 - Fort Walton Beach High School
 - Niceville High School Gym
- ◆ Crestview High School new Locker Hall and Dining Expansion
- ◆ Destin Elementary School Restrooms and Canopy
- ◆ New School Construction:
 - Riverside Elementary School
 - Shoal River Middle School
- ◆ Niceville High School Sewer Upgrade
- ◆ Meigs Middle School Canopy Repair and Replacement
- ◆ Pryor Middle School Canopy, Bus Ramp and Parking Lot
- ◆ Richbourg Middle School Campus Renovations
- ◆ Ruckel Middle School Locker Hall and Restroom Renovations

Additional information on the District's capital assets can be found in Note 5 to the financial statements.

Debt Administration

At June 30, 2007 the District had total long-term debt outstanding of \$91,285,000, as compared to \$23,390,000 in fiscal year 2005-2006. At June 30, 2007, long-term debt was comprised of \$7,595,000, of bonds payable, and \$83,690,000, of certificates of participation payable. During the fiscal year, additional debt of \$69,495,000 was issued and retirement of debt amounted to \$1,600,000.

Additional information on the District's long-term debt can be found in Notes 8 through 11 to the financial statements.

REQUESTS FOR INFORMATION

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

Basic Financial Statements

Okaloosa County District School Board

Statement of Net Assets

June 30,

2007

	Primary Governmental Activities	Component Units
Assets		
Cash and cash equivalents	\$ 1,926,676	\$ 975,127
Investments	149,285,972	28,241
Receivable from Titan Corporation	1,407,228	-
Accounts receivable	197,556	37,475
Deposits receivable	-	45,006
Internal balances	2,661	-
Due from other agencies	11,943,179	27,922
Inventories	371,824	-
Prepaid items	1,604,579	61,681
Capital assets, net	178,058,804	1,198,697
Total Assets	\$ 344,798,479	\$ 2,374,149
Liabilities and Net assets		
Salaries and wages payable	1,916,380	\$ 82,839
Accounts payable and accrued expenses	1,559,638	19,830
Construction contracts payable	3,892,687	-
Due to other governmental agencies	1,438,131	41,389
Deferred revenues	27,818	17,034
Long-term liabilities:		
Portion due within one year	9,268,561	14,799
Portion due after one year	111,592,180	29,611
Total liabilities	129,695,395	205,502
Net assets		
Invested in capital assets, net of related debt	154,481,612	1,154,287
Restricted for:		
State categorical programs	6,200,281	5,300
Capital projects	39,396,518	-
Debt service	1,345,739	-
Other projects	525,391	242,605
Unrestricted	13,153,543	766,455
Total net assets	215,103,084	2,168,647
Total liabilities and net assets	\$ 344,798,479	\$ 2,374,149

See accompanying notes to financial statements.

Functions/Programs	Expenses	Program Revenue	
		Charges for Services	Operating Grants and Contributions
Primary government			
Governmental Activities			
Instruction	\$ 160,190,536	\$ 385,646	\$ -
Pupil personnel services	7,681,508	-	-
Instructional media services	3,347,211	-	-
Instruction and curriculum development	7,974,344	-	-
Instructional staff training	812,482	-	-
Instruction related technology	752,236	-	-
Board of education	2,858,251	-	-
General administration	693,795	-	-
School administration	16,025,645	-	-
Facilities acquisition and construction	11,121,276	-	-
Fiscal services	1,589,388	-	-
Food services	10,388,522	5,518,515	4,766,725
Central services	2,338,006	-	-
Pupil transportation services	11,034,679	574,081	6,232,427
Operation of plant	14,166,730	-	-
Maintenance of plant	6,254,722	-	-
Administrative technology services	3,014,111	-	-
Community services	1,641,477	1,816,911	-
Interest on long-term debt	2,705,506	-	-
Unallocated depreciation/amortization expense	8,518,252	-	-
Total governmental activities	\$ 273,108,677	\$ 8,295,153	\$ 10,999,152
Component Units			
Charter schools/foundations	\$ 6,849,622	\$ 536,276	\$ 720,584

General revenues:

Taxes:

Property taxes, levied for general purposes

Property taxes, levied for capital projects

Grants and contributions not restricted to specific programs

Investment earnings

Miscellaneous

Total general revenues, special items, and transfers

Change in net assets

Net assets - beginning

Net assets - ending

See accompanying notes to financial statements.

Okaloosa County District School Board
Statement of Activities

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Capital Grants and Contributions	Governmental Activities	Component Units	
\$	-	\$ (159,804,890)	\$ -
	-	(7,681,508)	-
	-	(3,347,211)	-
	-	(7,974,344)	-
	-	(812,482)	-
	-	(752,236)	-
	-	(2,858,251)	-
	-	(693,795)	-
	-	(16,025,645)	-
12,060,714	-	939,438	-
	-	(1,589,388)	-
	-	(103,282)	-
	-	(2,338,006)	-
	-	(4,228,171)	-
	-	(14,166,730)	-
	-	(6,254,722)	-
	-	(3,014,111)	-
	-	175,434	-
1,079,469	-	(1,626,037)	-
	-	(8,518,252)	-
\$ 13,140,183		(240,674,189)	-
\$ 23,361		-	(5,569,401)

107,184,765	-
33,669,442	-
112,496,623	5,687,704
5,769,168	22,222
3,556,844	57,599
262,676,842	5,767,525
22,002,653	198,124
193,100,431	1,970,523
\$ 215,103,084	\$ 2,168,647

See accompanying notes to financial statements.

June 30,

	General Fund	Capital Projects - Public Education Capital Outlay Fund
Assets		
Cash and cash equivalents	\$ 1,736,404	\$ -
Investments	45,761,813	389,452
Accounts receivable, net	25,565	-
Due from other funds	1,349,379	-
Due from other agencies	1,010,602	9,459,963
Inventory	102,611	-
Prepaid items	1,604,579	-
Total assets	\$ 51,590,953	\$ 9,849,415
Liabilities and fund balances		
Liabilities:		
Salaries, benefits and payroll taxes payable	\$ 1,915,788	\$ -
Payroll deductions and withholdings	592	-
Accounts payable	747,479	-
Construction contracts payable	-	1,004,082
Due to other agencies	1,438,131	-
Due to other funds	-	-
Deferred revenue	27,818	-
Total liabilities	4,129,808	1,004,082
Fund balances:		
Reserved for:		
State required carryover programs	8,029,830	-
Encumbrances	1,199,128	305,243
Inventories	102,611	-
Other purposes	26,581,000	8,536,534
Unreserved, reported in:		
General fund	11,548,576	-
Special revenue funds	-	-
Debt service funds	-	-
Capital projects funds	-	3,556
Total fund balances	47,461,145	8,845,333
Total liabilities and fund balances	\$ 51,590,953	\$ 9,849,415

See accompanying notes to financial statements.

Okaloosa County District School Board
Balance Sheet
Governmental Funds

2007

Capital Projects - Local Capital Improvement Tax Fund	Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 190,272	\$ 1,926,676
29,172,832	72,254,418	1,707,457	149,285,972
-	-	171,991	197,556
-	-	-	1,349,379
10,905	837,872	623,837	11,943,179
-	-	269,213	371,824
-	-	-	1,604,579
\$ 29,183,737	\$ 73,092,290	\$ 2,962,770	\$ 166,679,165
\$ -	\$ -	\$ -	\$ 1,915,788
-	-	-	592
696,040	5,010	111,109	1,559,638
1,456,013	1,432,592	-	3,892,687
-	-	-	1,438,131
-	784,443	562,275	1,346,718
-	-	-	27,818
2,152,053	2,222,045	673,384	10,181,372
-	-	-	8,029,830
1,416,622	174,813	26,748	3,122,554
-	-	269,213	371,824
12,550,648	5,459,998	204,501	53,332,681
-	-	-	11,548,576
-	-	65,855	65,855
-	-	1,364,585	1,364,585
13,064,414	65,235,434	358,484	78,661,888
27,031,684	70,870,245	2,289,386	156,497,793
\$ 29,183,737	\$ 73,092,290	\$ 2,962,770	\$ 166,679,165

See accompanying notes to financial statements.

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

<i>June 30,</i>	2007
Total fund balance, governmental funds	\$ 156,497,793
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Receivable from Titan Corporation for transfer of fixed assets is not due and payable in the current period and therefore is not reported in the funds.	1,407,228
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.	178,058,804
Long term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(120,860,741)
Net assets of governmental activities in the statement of net assets	\$ 215,103,084

See accompanying notes to financial statements.

Year ended June 30,

	General Fund	Capital Projects - Public Education Capital Outlay Fund
Revenues		
Intergovernmental:		
Federal direct	\$ 7,174,550	\$ -
Federal through state	418,630	-
State sources	103,457,215	10,877,186
Local sources	109,722,097	55,678
Total revenues	220,772,492	10,932,864
Expenditures		
Current:		
Instruction	151,704,624	-
Pupil personnel services	6,892,156	-
Instructional media services	3,293,164	-
Instructional and curriculum development	4,451,813	-
Instructional staff training	466,785	-
Instruction related technology	740,585	-
Board of education	2,857,919	-
General administration	391,764	-
School administration	15,993,176	-
Facilities acquisition and construction	227,221	2,375,691
Fiscal services	1,587,817	-
Food services	116,965	-
Central services	2,732,853	-
Pupil transportation services	10,431,622	-
Operation of plant	14,160,382	-
Maintenance of plant	6,193,654	-
Administrative technology services	3,012,129	-
Community services	1,640,325	-
Fixed capital outlay:		
Facilities acquisition and construction	218,153	2,968,489
Other capital outlay	593,850	3,238
Debt Service:		
Retirement of principal	-	-
Interest and fiscal charges	-	-
Dues, fees, and issuance costs	-	-
Total expenditures	227,706,957	5,347,418
Excess (deficiency) of revenues over expenditures	(6,934,465)	5,585,446
Other financing sources (uses)		
Certificates of participation issued	-	-
Discount on certificates of participation issued	-	-
Proceeds from sale of capital assets	937,928	-
Loss recoveries	-	-
Transfers in	9,753,389	-
Transfers out	(477,128)	-
Total other financing sources and (uses)	10,214,189	-
Net change in fund balances	3,279,724	5,585,446
Fund balances, July 1, 2006	44,181,421	3,259,887
Fund balances, June 30, 2007	\$ 47,461,145	\$ 8,845,333

See accompanying notes to financial statements.

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

2007				
Capital Projects - Local Capital Improvement Tax Fund	Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds	
\$ -	\$ -	\$ 229,102	\$ 7,403,652	
-	237,168	18,329,931	18,985,729	
-	1,124	1,401,485	115,737,010	
34,881,153	1,358,859	5,768,510	151,786,297	
34,881,153	1,597,151	25,729,028	293,912,688	
-	-	8,778,279	160,482,903	
-	-	782,302	7,674,458	
-	-	50,808	3,343,972	
-	-	3,515,366	7,967,179	
-	-	345,504	812,289	
-	-	11,155	751,740	
-	-	-	2,857,919	
-	-	301,711	693,475	
-	-	16,967	16,010,143	
5,750,425	1,803,847	-	10,157,184	
-	-	-	1,587,817	
-	-	10,266,854	10,383,819	
-	-	-	2,732,853	
-	-	116,048	10,547,670	
-	-	396	14,160,778	
-	-	-	6,193,654	
-	-	-	3,012,129	
-	-	-	1,640,325	
3,173,739	10,096,997	-	16,457,378	
1,163,950	75,235	101,335	1,937,608	
-	-	1,600,000	1,600,000	
-	-	1,539,418	1,539,418	
-	-	1,166,088	1,166,088	
10,088,114	11,976,079	28,592,231	283,710,799	
24,793,039	(10,378,928)	(2,863,203)	10,201,889	
-	68,359,959	1,135,041	69,495,000	
-	-	(83,404)	(83,404)	
-	-	-	937,928	
-	1,164,163	-	1,164,163	
-	402,128	2,165,696	12,321,213	
(11,728,625)	(115,460)	-	(12,321,213)	
(11,728,625)	69,810,790	3,217,333	71,513,687	
13,064,414	59,431,862	354,130	81,715,576	
13,967,270	11,438,383	1,935,256	74,782,217	
\$ 27,031,684	\$ 70,870,245	\$ 2,289,386	\$ 156,497,793	

See accompanying notes to financial statements.

Okaloosa County District School Board

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

<i>Year ended June 30,</i>	2007
Net change in fund balances - total governmental funds:	\$ 81,715,576
Amounts reported for Governmental Activities in the Statement of Activities are different because:	
Capital outlays are reported in governmental funds as an expenditure. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeds depreciation expense in the current	8,806,524
The net effect of miscellaneous transactions involving capital assets (i.e., donations and disposals) is to increase capital assets.	117,913
Revenue for the sale of assets to Titan corporation provides current financial resources to governmental funds, but reduces long-term receivable in the Statement of Net Assets.	(937,928)
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of principal on notes, bonds, and certificates of participation are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. This is the amount by which the proceeds exceeded the debt repayments in the current	(67,895,000)
In the Statement of Activities, certain operating expenses - compensated absences and special termination benefits - are measured by the amounts earned during the year. However, expenditures for these items are measured by the amount of financial resources used (essentially, the amount paid). This is the amount which accrued special termination benefits	(201,432)
In the Statement of Activities, certain operating expenses - insurance claims - include additional amounts for increases in long-term insurance claims liabilities. However, expenditures for these items are measured by the amount of financial resources used (essentially, the amount paid). This is the amount which estimated insurance claims liability decreased.	397,000
Change in net assets of governmental activities	\$ 22,002,653

See accompanying notes to financial statements.

Okaloosa County District School Board

Statement of Fiduciary Funds

<i>June 30,</i>	2007
Agency Funds	
Assets	
Cash and cash equivalents	\$ 1,192,535
Investments	3,344,851
Total assets	\$ 4,537,386
Liabilities	
Due to other funds	\$ 2,661
Internal accounts payable	4,336,266
Refunds payable and others	198,459
Total liabilities	\$ 4,537,386

See accompanying notes to financial statements.

Okaloosa County District School Board
Statement of Net Assets
Component Units

<i>June 30,</i>	2007
	Total Nonmajor Component Units
Assets	
Cash and cash equivalents	\$ 975,127
Accounts receivable	37,475
Deposits receivable	45,006
Due from other agencies	27,922
Investments	28,241
Prepaid items	61,681
Capital assets, net	1,198,697
<hr/>	
Total assets	\$ 2,374,149
<hr/>	
Liabilities and Net assets	
Salaries and wages payable	\$ 82,839
Accounts payable and accrued expenses	19,830
Due to other governmental agencies	41,389
Deferred revenue	17,034
Long-term liabilities:	
Portion due within one year	14,799
Portion due after one year	29,611
<hr/>	
Total liabilities	205,502
<hr/>	
Net assets	
Invested in capital assets, net of related debt	1,154,287
Restricted for:	
State categorical programs	5,300
Other projects	242,605
Unrestricted	766,455
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Total net assets	2,168,647
<hr/>	
Total liabilities and net assets	\$ 2,374,149
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See accompanying notes to financial statements.

Okaloosa County District School Board
Statement of Activities
Component Units

For the year ended June 30,

2007

	Program Revenue			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Component Unit Activities
Total nonmajor component units					
Current - education:					
Instruction	\$ 3,529,114	\$ 138,147	\$ -	\$ 5,779	\$ (3,385,188)
Pupil personnel services	217,827	-	183,109	-	(34,718)
Instructional media services	30,970	-	-	-	(30,970)
Instruction and curriculum development	198,189	-	-	-	(198,189)
Instructional staff training	33,226	-	-	-	(33,226)
Board of education	40,716	-	-	-	(40,716)
General administration	175,663	-	-	-	(175,663)
School administration	501,604	-	-	-	(501,604)
Facilities acquisition and construction	37,549	-	-	14,002	(23,547)
Fiscal services	200,748	-	-	-	(200,748)
Food services	244,328	163,750	45,247	-	(35,331)
Central services	153,509	-	-	-	(153,509)
Pupil transportation services	338,567	-	-	-	(338,567)
Operation of plant	983,025	-	492,228	-	(490,797)
Maintenance of plant	10,995	-	-	-	(10,995)
Community services	147,448	234,379	-	-	86,931
Interest on long-term debt	6,144	-	-	3,580	(2,564)
Total governmental activities	\$ 6,849,622	\$ 536,276	\$ 720,584	\$ 23,361	(5,569,401)

General revenues:

Grants and contributions not restricted to specific programs	5,687,704
Investment earnings	22,222
Miscellaneous	57,599
Total general revenues	5,767,525
Change in net assets	198,124
Net assets - beginning	1,970,523
Net assets - ending	\$ 2,168,647

See accompanying notes to financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

Based on the application of these criteria, the following component units are included within the District School Board's reporting entity:

Blended Component Units. The Okaloosa School Board Leasing Corporation was formed to facilitate financing for the acquisition of facilities and equipment as further discussed in Note 8. Due to the substantive economic relationship between the Okaloosa County District School Board and the Leasing Corporation, the financial activities of the Leasing Corporation are included in the accompanying basic financial statements. Separate financial statements for the Leasing Corporation are not published.

Discretely Presented Component Units. The component units column in the basic financial statements include the aggregate financial data of the District's other component units as follows:

The Okaloosa Public Schools Foundation, Inc., is a separate not-for-profit corporation organized and operated as direct-support organization under Section 1001.453, Florida Statutes, to receive, hold, invest, and administer property and to make expenditures to or for the benefit of the District. An audit of the Okaloosa Public Schools Foundation, Inc. for the fiscal year ended June 30, 2007, was conducted, and the audit report is on file at the District's administrative office.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

- The Okaloosa Academy, Inc., was established to provide an alternative educational system for “at risk” students. The Academy is a separate not-for-profit entity with a separate board of directors. An audit of the Charter School for the fiscal year ended June 30, 2007, was conducted and is on file at the District’s administrative office.
- The Liza Jackson Preparatory School, Inc., was established to provide a preparatory program of education for students. The School is a separate not-for-profit entity with a separate board of directors. An audit of the Charter School for the fiscal year ended June 30, 2007, was conducted and is on file at the District’s administrative office.

Basis of Presentation

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The District reports the following major governmental funds:

- General Fund – to account for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.
- Capital Projects – Public Education Capital Outlay Fund – to account for the financial resources allocated by the Public Education Capital Outlay and Debt Service Trust Fund to be used for capital outlay needs, including new construction and renovation and remodeling projects.
- Capital Projects – Local Capital Improvement Tax Fund – to account for the financial resources generated by local capital improvement tax levy to be used for educational capital outlay needs including new construction, renovation and remodeling projects, and debt service payments.
- Capital Projects – Other Fund – to account for various financial resources generated by the issuance of certificates of participation and other moneys set aside by the Board for educational capital outlay needs, including new construction and renovation and remodeling projects.

Additionally, the District reports the following fund type:

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

Basis of Accounting

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Governmental fund financial statements are prepared using the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers revenues to be available if they are collected within 30 days of the end of the fiscal year. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made. Under the modified accrual basis of accounting, expenditures are generally recognized when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, and compensated absences, which are recognized when due. Allocations of cost, such as depreciation, are not recognized in governmental funds.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Agency Funds are purely custodial (assets equal liabilities) and thus do not involve measurement of operations.

The Okaloosa Academy, Inc., and Liza Jackson Preparatory School, shown as discretely-presented component units, are accounted for as governmental organizations and follow the same accounting model as the District's governmental activities.

The Okaloosa Public Schools Foundation, Inc., shown as a discretely presented component unit, is accounted for under the not-for-profit basis of accounting and uses the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred.

Deposits and Investments

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments consist of amounts placed with the State Board of Administration for participation in the Local Government Surplus Funds Trust Fund investment pool created by Section 218.405, Florida Statutes, and those made locally. The investment pool operates under investment guidelines established by Section 215.47, Florida Statutes. The District's investment in the Local Government Surplus Trust Funds Trust Fund, a Securities and Exchange Commission Rule 2a7-like external investment pool, is reported at amortized cost, which approximates fair market value. Investments made locally are held by the trustee for the District's Certificates of Participation pursuant to a trust agreement and are reported at fair value.

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

Inventories

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

Capital Assets

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

Interest costs incurred during construction of capital assets are not considered material and are not capitalized as part of the construction.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

Estimates

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

Long-Term Liabilities

Long-term obligations that will be financed from resources to be received in the future by governmental fund types are reported as liabilities in the government-wide statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

In the government-wide financial statements, compensated absences (i.e., paid absences for employee vacation leave and sick leave) are recorded as liabilities to the extent that it is probable that the benefits will result in termination payments. A liability is reported in the governmental fund financial statements only for the current portion of compensated absences expected to be paid using expendable available resources.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

State Revenue Sources

Revenues from State sources for current operations are primarily from the Florida Education Finance Program administered by the Florida Department of Education (Department) under the provisions of Section 1011.62, Florida Statutes. In accordance with this law, the District determines and reports the number of full-time equivalent (FTE) students and related data to the Department. The Department performs certain edit checks on the reported number of FTE and related data and calculates the allocation of funds to the District. The District is permitted to amend its original reporting for a period of nine months following the date of the original reporting. Such amendments may impact funding allocations for subsequent years.

The Department may also adjust subsequent fiscal period allocations based upon an audit of the District's compliance in determining and reporting FTE and related data. Normally, such adjustments are treated as reductions or additions of revenue in the year when the adjustments are made.

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

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

District Property Taxes

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

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

The School Board adopted the 2006 tax levy on September 11, 2006. Taxes become an enforceable lien on property as of January 1; tax bills are mailed in October; and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to four percent for early payment.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Property tax revenues are recognized in the government wide financial statements when the Board adopts the tax levy. Property tax revenues are recognized in the governmental funds financial statements when taxes are received by the District except that revenue is accrued for taxes collected by the Okaloosa County Tax Collector at fiscal year-end but not yet remitted to the District. Because any delinquent taxes collected after June 30 would not be significant, delinquent taxes receivable are not accrued, and no delinquent tax revenue deferral is recorded.

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

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.

Subsequent Pronouncements

The Governmental Accounting Standards Board issued Statement No. 45, "*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*" which becomes effective for the District for its fiscal year beginning July 1, 2007. The District is analyzing the effects of this pronouncement and plans to adopt it by the effective date as required. The District does not anticipate a material impact with the adoption of this standard.

NOTE 2 - BUDGETARY COMPLIANCE AND ACCOUNTABILITY

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

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

NOTE 2 - BUDGETARY COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

- Budgets are prepared using the same modified accrual basis as is used to account for actual transactions.
- Budgetary information is integrated into the accounting system, and, to facilitate budget control, budget balances are encumbered when purchase orders are issued. Appropriations lapse at fiscal year-end, and encumbrances outstanding are honored from the subsequent year's appropriations as described in a subsequent note on reserve for encumbrances.

NOTE 3 - INVESTMENTS

Investments at June 30, 2007, are shown below:

Investment	Maturities	Fair Value
Investment in State Board of Administration Local Governmental Surplus Funds - Trust Funds (1 - 3)	26 Day Average	\$ 149,094,792
Investment in State Board of Administration Debt Service Accounts	6 months	191,180
Total investments, primary government		\$ 149,285,972

Notes:

- (1) State Board of Administration Local Government Surplus Funds, totaling \$3,654,285 are held under trust agreements for the Certificates of Participation, Series 2003.
- (2) State Board of Administration Local Government Surplus Funds, totaling \$27,031,811 are held under trust agreements for the Certificates of Participation, Series 2006.
- (3) State Board of Administration Local Government Surplus Funds, totaling \$37,000,491 are held under trust agreements for the Certificates of Participation, Series 2007.

Interest Rate Risk

- 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.

NOTE 3 – INVESTMENTS (CONTINUED)

Credit Risk

- Section 218.415(17), Florida Statutes, limits investments in money market funds to Securities and Exchange Commission registered money market funds with the highest credit rating from a nationally recognized rating agency, and investments in interest-bearing time deposits to qualified public depositories, as defined in Section 280.02, Florida Statutes. The District's investments policy limits investments to those prescribed by Florida Statutes and State Board of Education rules.
- The District's investments in the State Board of Administration Debt Service Accounts and State Board of Administration Local Government Surplus Funds Trust Fund investment pool are to provide for debt service payments on bond debt issued by the State Board of Education for the benefit of the District. The District relies on policies developed by the State Board of Administration for managing credit risk for this account.
- As of June 30, 2007, the investments in the State Board of Administration Debt Service Accounts and State Board of Administration Local Government Surplus Funds Trust Fund investment pool were unrated.

NOTE 4 - RECEIVABLE FROM TITAN CORPORATION

The "Receivable from Titan Corporation" totals \$1,407,228 and represents the remaining uncollected balance of the proceeds on the sale of the District's computer hardware assets to Titan Corporation during the fiscal year ended June 30, 2004. The computer hardware assets were sold at net book value to Titan Corporation, and the District is leasing them back. The proceeds are being paid to the District in monthly installments of approximately \$78,161 as a reduction of the District's monthly lease payment over a period of five years through December 31, 2008. See Note 7 for additional information.

Okaloosa County District School Board

Notes to Financial Statements

NOTE 5 - CHANGES IN CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2007 are shown below:

	Balance 7/1/2006	Additions and Reclassifications	Deletions	Balance 6/30/2007
Governmental Activities				
<i>Capital assets not being depreciated:</i>				
Land	\$ 6,484,792	\$ 3,967,701	\$ -	\$ 10,452,493
Construction in progress	3,231,381	11,616,077	(4,851,434)	9,996,024
Total capital assets not being depreciated	9,716,173	15,583,778	(4,851,434)	20,448,517
<i>Capital assets being depreciated:</i>				
Improvements other than buildings	11,209,559	1,896,449	-	13,106,008
Buildings and fixed equipment	208,972,564	3,876,980	(9,000)	212,840,544
Furniture, fixtures and equipment	20,010,791	918,835	(1,743,243)	19,186,383
Motor vehicles	13,153,874	973,871	-	14,127,745
Computer software	3,699,091	114,419	(128,738)	3,684,772
Audio-visual materials	17,211	-	(4,631)	12,580
Total capital assets being depreciated	257,063,090	7,780,554	(1,885,612)	262,958,032
<i>Less accumulated depreciation for:</i>				
Improvements other than buildings	6,797,164	1,141,523	-	7,938,687
Buildings and fixed equipment	63,928,114	5,711,703	(9,000)	69,630,817
Furniture, fixtures and equipment	14,407,674	1,679,963	(1,743,243)	14,344,394
Motor vehicles	9,566,601	761,445	-	10,328,046
Computer software	2,928,131	293,828	(128,738)	3,093,221
Audio-visual materials	17,211	-	(4,631)	12,580
Total accumulated depreciation	97,644,895	9,588,462	(1,885,612)	105,347,745
Total capital assets being depreciated, net	159,418,195	(1,807,908)	-	157,610,287
Governmental activities - capital assets, net	\$ 169,134,368	\$ 13,775,870	\$ (4,851,434)	\$ 178,058,804

Okaloosa County District School Board

Notes to Financial Statements

NOTE 5 - CHANGES IN CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions as follows:

Function	Amount
Instruction	\$ 534,789
Pupil transportation services	478,396
Maintenance of plant	56,995
Unallocated	8,518,282
	<hr/>
	\$ 9,588,462

NOTE 6 - CAFETERIA PLAN

The Board has established a cafeteria plan under Section 125 of the Internal Revenue Code whereby District employees and retirees are allowed to set aside monies, which qualify for salary reductions under Internal Revenue Service guidelines, to be used exclusively for the payment of medical and child care expenses. The cafeteria plan is accounted for in an Agency Fund.

NOTE 7 - COMMITMENTS AND CONTINGENCIES

The District leases their computer hardware assets from Titan Corporation. The lease expires December 31, 2008, and contains an option to extend for one additional five year term. Total expense under this operating lease for the fiscal year ended June 30, 2007, was \$7,490,535.

The following table represents future minimum lease payments for the next five years:

Fiscal Year Ending June 30	Amount
2008	\$ 7,462,813
2009	3,699,398
	<hr/>
	\$ 11,162,211

NOTE 8 - CERTIFICATES OF PARTICIPATION PAYABLE

The District entered into a financing arrangement on November 1, 2003, which was characterized as a lease-purchase agreement, with the Okaloosa School Board Leasing Corporation (the Corporation) whereby the District issued \$17,040,000 of Certificates of Participation, Series 2003, with interest rates ranging from 2.00 percent to 4.25 percent to finance various educational facilities and to accomplish the current refunding of \$3,850,000 in outstanding Certificates of Participation, Series 1992, with an interest rate of 6.25 percent.

As a condition of the financing arrangements, the District has given ground leases on District property to the Okaloosa School Board Leasing Corporation, with a rental fee of \$10 per year. The initial term of the lease for the Series 2003 Certificates commenced on November 1, 2003, and ends on the earlier of the date on which the 2003 Certificates have been paid in full or provision for their payment has been made, or July 1, 2029. The properties covered by the ground leases are, together with the improvements constructed thereon from the financing proceeds, leased back to the District. If the District fails to renew the leases and to provide for the rent payments through to term, the District may be required to surrender the sites included under the ground leases for the benefit of the securers of the Certificates for a period of time specified by the arrangements, which may be up through the last day of the ground lease terms.

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

Series 2003 (Refunding Series 1992)

- Baker School – Portions of Land, Improvements, and Additions
- Choctawhatchee High School – Portions of Land, Improvements, and Additions
- Crestview High School – Portions of Land, Improvements, and Additions
- Lewis Middle School – Portions of Land, Improvements, and Additions
- Okaloosa Applied Technology Center – Portions of Land, Improvements and Additions
- Niceville High School – Portions of Land, Improvements, and Additions
- Richbourg Middle School – Portions of Land, Improvements, and Additions
- Silver Sands School – Portions of Land, Improvements, and Additions

On February 28, 2005, the Board approved an amendment to the 2003 Certificates of Participation master lease-purchase agreement to add the following properties to the ground lease:

- Bluewater Elementary School – Portion of Land, Improvements, and Additions
- Bob Sikes Elementary School – Portions of Land, Improvements, and Additions

Series 2006

On December 1, 2006, the 2003 Certificates of Participation master lease-purchase agreement was amended for a Series 2006 Certificates of Participation in the amount of \$29,005,000 to add the following property to the ground lease:

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

Okaloosa County District School Board

Notes to Financial Statements

NOTE 8 - CERTIFICATES OF PARTICIPATION PAYABLE (CONTINUED)

Series 2007

On May 1, 2007, the 2003 Certificates of Participation master lease-purchase agreement was amended for a Series 2007 Certificates of Participation in the amount of \$40,490,000 to add the following property to the ground lease:

- Shoal River Middle School – Portion of Land, Building, Site work
- Land

The lease payments are payable by the District, semiannually, on January 1 and July 1 at an interest rate ranging from 2.00 percent to 4.25 percent for Certificates of Participation 2003, interest ranging from 3.25 percent to 4.00 percent for Certificates of Participation 2006, and interest rates ranging from 4.00 percent to 4.25 percent for Certificates of Participation 2007. The following is a schedule by years of future minimum lease payments under the lease agreement together with the present value of minimum lease payments as of June 30:

Certificates of Participation - 2003

Fiscal Year Ending June 30	Principal	Interest	Total
2008	\$ 985,000	\$ 516,730	\$ 1,501,730
2009	1,010,000	493,090	1,503,090
2010	1,035,000	465,315	1,500,315
2011	1,070,000	434,265	1,504,265
2012	1,105,000	398,955	1,503,955
2013-2017	6,165,000	1,350,450	7,515,450
2018-2019	2,825,000	180,570	3,005,570
Total	\$ 14,195,000	\$ 3,839,375	\$ 18,034,375

Certificates of Participation - 2006

Fiscal Year Ending June 30	Principal	Interest	Total
2008	\$ 1,620,000	\$ 1,092,155	\$ 2,712,155
2009	1,685,000	1,027,355	2,712,355
2010	1,750,000	959,955	2,709,955
2011	1,810,000	903,080	2,713,080
2012	1,875,000	839,730	2,714,730
2013-2017	10,415,000	3,150,773	13,565,773
2018-2021	9,850,000	1,004,400	10,854,400
Total	\$ 29,005,000	\$ 8,977,448	\$ 37,982,448

Okaloosa County District School Board

Notes to Financial Statements

NOTE 8 - CERTIFICATES OF PARTICIPATION PAYABLE (CONTINUED)

Certificates of Participation - 2007

Fiscal Year Ending June 30	Principal	Interest	Total
2008	\$ 1,770,000	\$ 1,917,084	\$ 3,687,084
2009	2,115,000	1,572,415	3,687,415
2010	2,200,000	1,487,815	3,687,815
2011	2,290,000	1,399,815	3,689,815
2012	2,380,000	1,308,215	3,688,215
2013-2017	13,405,000	5,034,675	18,439,675
2018-2022	16,330,000	2,103,598	18,433,598
	\$ 40,490,000	\$ 14,823,617	\$ 55,313,617

NOTE 9 - BONDS PAYABLE

Bonds payable at June 30, 2007, are as follows:

Bond Type	Interest Rates (Percent)	Annual Maturity To	Amount Outstanding
State School Bonds:			
Series 1998-A	4.50 - 5.50	2008	\$ 120,000
Series 1999-A	4.00 - 4.75	2019	410,000
Series 2004-A	3.00 - 4.625	2008	5,000
Series 2005-A	5.000	2016	5,325,000
Series 2005-B, Refunding	5.000	2018	805,000
District Revenue Bonds:			
Series 1994-A	5.40 - 6.10	2015	930,000
Total bonds payable			\$ 7,595,000

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

State School Bonds

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

Okaloosa County District School Board

Notes to Financial Statements

NOTE 9 - BONDS PAYABLE (CONTINUED)

District Revenue Bonds

These bonds are generally referred to as "Series 1994 Revenue Refunding Bonds" and are authorized by Chapter 65-843 Laws of Florida, Special Acts of 1965, and Chapter 67-1793, Laws of Florida, Special Acts of 1967, which provide that the bonds be secured from the pari-mutuel tax proceeds distributed annually to the District from the state's Pari-Mutuel Tax Collection Trust Fund pursuant to Chapter 550, Florida Statutes (effective July 1, 2000, tax proceeds are distributed pursuant to Section 212.20(6)(d)7.a., Florida Statutes). The annual distribution is remitted by the Florida Department of Financial Services to the District. As required by the bond resolution, the Board has established and maintained adequate resources in the sinking fund.

Amounts payable for the planned extended repayment of bonds payable at June 30, 2007 are as follows:

Year Ending June 30,	Total	Principal	Interest
State School Bonds:			
2008	\$ 925,763	\$ 595,000	\$ 330,763
2009	897,012	595,000	302,012
2010	907,525	635,000	272,525
2011	910,963	670,000	240,963
2012	907,612	700,000	207,612
2013-2017	3,797,244	3,325,000	472,244
2018-2019	153,950	145,000	8,950
Total State School Bonds	8,500,069	6,665,000	1,835,069
District Revenue Bonds:			
2008	150,754	95,000	55,754
2009	150,243	100,000	50,243
2010	149,369	105,000	44,369
2011	148,200	110,000	38,200
2012	151,600	120,000	31,600
2013-2015	449,714	400,000	49,714
Total District Revenue Bonds	1,199,880	930,000	269,880
Total	\$ 9,699,949	\$ 7,595,000	\$ 2,104,949

NOTE 10 - DEFEASED DEBT

The Florida Department of Education issued Capital Outlay Refunding Bonds, Series 2005B, dated July 1, 2005, with an average interest rate of 4.99 percent, to advance-refund callable portions of the District's State School Bonds, Series 1998A. The District's portion of the Refunding bonds, totaling \$810,000, are being issued to advance-refund the \$915,000 principal amount of the District's State School Bonds, Series 1998A, that mature on or after January 1, 2009. The District's pro rata share of net proceeds totaling \$885,798 (after deduction of \$3,048 by the Florida Department of Education for the District's pro rata share of underwriting fees, insurance, and other issuance costs) were placed in an irrevocable trust to provide for future debt service payments. As a result, \$915,000 of the State School Bonds, Series 1998A, is considered to be in-substance defeased and the liability for these bonds has been removed from the government-wide financial statements.

The Series 2005B bonds were issued to reduce the total debt service payments over the next 13 years by approximately \$149,863 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$48,090.

NOTE 11 - CHANGES IN LONG-TERM LIABILITIES

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

Description	Balance 7/1/2006	Additions	Deductions	Balance 6/30/2007	Due in One Year
Bonds payable	\$ 8,230,000	\$ -	\$ (635,000)	\$ 7,595,000	\$ 690,000
Certificates of participation payable	15,160,000	69,495,000	(965,000)	83,690,000	4,375,000
Estimated insurance claims payable	4,689,000	1,296,622	(1,693,622)	4,292,000	2,171,000
Compensated absences payable	25,082,310	2,947,697	(2,746,266)	25,283,741	2,032,561
Total	\$ 53,161,310	\$ 73,739,319	\$ (6,039,888)	\$ 120,860,741	\$ 9,268,561

For the governmental activities, compensated absences are generally liquidated with resources of the General Fund.

NOTE 12 - RESERVE FOR ENCUMBRANCES

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

Okaloosa County District School Board

Notes to Financial Statements

NOTE 12 - RESERVE FOR ENCUMBRANCES (CONTINUED)

The Florida Department of Education requires that fund balances be reserved at fiscal year-end to report an amount likely to be expended from the 2007-2008 fiscal year budget as a result of purchase orders outstanding at June 30, 2007.

NOTE 13 - SCHEDULE OF STATE REVENUE SOURCES

The following is a schedule of the District's State revenue for the 2006-2007 fiscal year:

Sources	Amount
Florida education finance program	\$ 62,190,788
Categorical educational programs:	
Class size reduction	22,928,010
Transportation	6,232,427
Instructional materials	2,931,989
School recognition funds	2,596,517
Discretionary lottery funds	1,157,431
Other	1,280,084
Gross receipts tax (Public Education Capital Outlay)	4,045,339
Classrooms for kids (Public Education Capital Outlay)	6,831,847
Workforce development	2,615,913
Motor vehicles license tax (general fund, capital outlay and debt service)	1,107,199
Charter school capital outlay	963,925
Racing commission funds	190,750
Food service supplement	112,870
State forest funds	17,346
Mobile home license tax	65,036
Miscellaneous	469,539
Total	\$ 115,737,010

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

Okaloosa County District School Board

Notes to Financial Statements

NOTE 14 - INTERFUND RECEIVABLES AND PAYABLES

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

Funds	Interfund	
	Receivables	Payables
Major funds:		
General	\$ 1,349,379	\$ -
Other capital projects	-	784,443
Nonmajor governmental funds	-	562,275
Fiduciary funds	-	2,661
TOTAL	\$ 1,349,379	\$ 1,349,379

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

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

Funds	Interfund	
	Transfers In	Transfers Out
Major funds:		
General (1) (2) (3)	\$ 9,753,389	\$ 477,128
Capital projects:		
Capital improvement tax (1) (4)	-	11,728,625
Other capital projects (2)	402,128	115,460
Nonmajor governmental funds (3) (4)	2,165,696	-
TOTAL	\$ 12,321,213	\$ 12,321,213

Notes:

- (1) Transfers made from the Capital Improvement Tax Fund to the General Fund were for maintenance and repair of school facilities and for the lease of computers for instructional purposes.
- (2) Transfers made from the General Fund to Other Capital Projects were made to fund facilities construction.
- (3) Transfers made from General Fund to Nonmajor Governmental Funds were made to facilitate food service operations.
- (4) Transfers made from Capital Improvement Tax Fund to Nonmajor Governmental Funds were made to fund the current debt service payment on certificates of participation.

NOTE 15 - PROPERTY TAXES

The following is a summary of millages and taxes levied on the 2006 tax roll for the 2006-2007 fiscal year:

	Millages	Taxes Levied
<u>General Fund</u>		
Nonvoted School Tax:		
Required local effort	5.156	\$ 92,730,873
Basic discretionary local effort	0.510	9,171,407
Supplemental discretionary local effort	0.182	3,273,138
<u>Capital Projects Funds</u>		
Nonvoted Tax:		
Local capital improvements	1.938	34,855,133
Total	7.786	\$ 140,030,551

NOTE 16 - STATE RETIREMENT PROGRAM***Defined Benefit Plan***

All regular employees of the District are covered by the Florida Retirement System (FRS), a State-administered cost-sharing, multiple-employer, defined benefit retirement plan (Plan). Plan provisions are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code, wherein Plan eligibility, contributions, and benefits are defined and described in detail. Essentially all regular employees of participating employers are eligible and must enroll as members of the FRS.

Benefits in the defined benefit plan vest at six years of service. All members are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, which may include up to four years of credit for military service. The Plan also includes an early retirement provision but imposes a penalty for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability and death benefits, and annual cost-of-living adjustments as well as supplements for certain employees to cover social security benefits lost by virtue of retirement system membership.

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

NOTE 16 - STATE RETIREMENT PROGRAM (CONTINUED)***Funding Policy***

The contribution rates for Plan members are established, and may be amended, by the State of Florida. During the 2006-2007 fiscal year, contribution rates were as follows:

Class or Plan	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	-	9.85
Florida Retirement System, Elected County Officers	-	16.53
Teachers Retirement System, Plan E	6.25	11.35
Deferred Retirement Option Program - Applicable to Members From All of the Above Classes or Plans	-	10.91
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes:

(A) Employer rates include 1.11 percent for the post-employment health insurance supplement and 0.05 percent for administrative costs of the Public Employee Optional Retirement Program.

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

The District's liability for participation in the Plan is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the District. The District's contributions to the Plan (including employee contributions) for the fiscal years ended June 30, 2007, June 30, 2006, and June 30, 2005, totaled \$14,687,818, \$10,921,064, and \$9,689,995, respectively, which were equal to the required contributions for each fiscal year.

Defined Contribution Plan

Effective July 1, 2002, the Public Employee Optional Retirement Program (PEORP) was implemented as a defined contribution plan alternative available to all FRS members in lieu of the defined benefit plan. Employee contributions are defined by law, but ultimate benefit depends in part on the performance of investment funds. The PEORP is funded by employer contributions that are based on salary and membership class (Regular Class, Special Risk Class, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. There were 346 District participants in the PEORP during the 2006 - 2007 fiscal year. Required employer contributions made to the program for the fiscal year ended June 30, 2007, totaled \$977,090.

NOTE 16 - STATE RETIREMENT PROGRAM (CONTINUED)

Pension Reporting

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

NOTE 17 - SPECIAL TERMINATION BENEFITS

District School Board policy provides for the payment of retirement incentive bonuses to employees who are eligible to retire under an existing State retirement system and have 10 years of creditable service earned in the District, if they retire no later than June 30 of their first year of normal retirement eligibility. The total paid by the District pursuant to this retirement incentive during the 2006-2007 fiscal year was \$205,798.

In addition, employees who are eligible for payment of 100 percent of their unused sick leave and have more than 50 days of sick leave may formally resign for retirement purposes a maximum of three years in advance of the date of their first opportunity for normal retirement and receive payment for accumulated sick leave in up to three annual payments. The payments are deposited into the District's 401(a) Plan on behalf of the employees.

Okaloosa County District School Board

Notes to Financial Statements

NOTE 18 - CONSTRUCTION CONTRACT COMMITMENTS

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

Project	Contract Amount	Completed to Date	Balance Committed
Baker High School - new HVAC in gym	\$ 218,033	\$ 86,654	\$ 131,379
Bruner Middle School - roof replacement	374,724	11,070	363,654
Cherokee Elementary School - new HVAC and site work	2,879,567	171,133	2,708,434
Classroom additions:			
Bluewater Elementary School	2,281,582	1,191,415	1,090,167
Bob Sikes Elementary School	4,562,699	2,749,853	1,812,846
Edge Elementary School	2,357,594	489,702	1,867,892
Edwins Elementary School	1,132,225	106,598	1,025,627
Florosa Elementary School	4,375,994	187,468	4,188,526
Mary Esther Elementary School	2,056,962	398,312	1,658,650
Plew Elementary School	1,308,046	104,731	1,203,315
Shalimar Elementary School	2,201,597	165,123	2,036,474
Walker Elementary School	1,890,995	1,435,472	455,523
Wright Elementary School	1,763,281	103,755	1,659,526
Okaloosa Applied Technology Center - roof replacement	3,348,905	131,442	3,217,463
Crestview High School			
New locker hall and dining expansion	1,669,511	992,144	677,367
Fieldhouse roofing and HVAC replacement	1,238,650	23,603	1,215,047
Destin Elementary School - HVAC, restrooms & canopy	853,662	130,093	723,569
Ft. Walton Beach High School - roof & HVAC replacement	595,882	261,601	334,281
New School Construction			
Riverside Elementary School	23,323,679	958,355	22,365,324
Shoal River Middle School	29,548,068	761,390	28,786,678
Niceville High School			
Sewer upgrade	155,250	71,178	84,072
Replace HVAC in gym	308,324	13,946	294,378
Meigs Middle School - canopy replacements & repair	213,716	92,438	121,278
Oak Hill Elementary School - roof replacement	579,242	47,330	531,912
Pryor Middle School - canopy, bus ramp, and parking lot	1,065,266	68,326	996,940
Richbourg Middle School - campus renovations	5,845,380	217,606	5,627,774
Ruckel Middle School -			
Renovation of locker hall & restrooms	713,004	405,822	307,182
Total	\$ 96,861,838	\$ 11,376,560	\$ 85,485,278

NOTE 19 - RISK MANAGEMENT PROGRAMS

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Coverage for these risks is provided for in a variety of different ways. For most general liability claims, the District relies upon the sovereign immunity limits of Section 768.28, Florida Statutes, which limits the District's liability to \$100,000 for each claimant and \$200,000 in any one occurrence; however, the District did purchase a commercial general liability policy for certain special events. The District is, to some extent, also self-insured for property losses, worker's compensation, automotive liability, crime, and errors and omissions. To limit its exposure to property losses, the District purchased excess property insurance with varying deductibles, sub-limits, and policy maximums through the Florida School Boards Insurance Trust (FSBIT). FSBIT is a self-insurance fund for Florida school boards established under the authority set forth in Section 1001.42, Florida Statutes. Likewise, the District limited its exposure for worker's compensation, automotive liability, crime, and errors and omissions by purchasing commercial insurance policies which covers losses exceeding specified limits up to certain policy maximums. Health, life and dental insurance coverage for District employees are also provided through commercially purchased insurance.

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

The District reports all of its risk management activities in the General Fund. At June 30, 2007, an actuarially determined liability discounted to a present value of \$4,292,000, assuming an investment rate of return of 4% per annum, is reported as estimated insurance claims payable in long-term liabilities. As of June 30, 2007, \$4,292,000 of the District's fund balance was reserved to fund future claims.

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

	Beginning-of-Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year End
2005 - 2006	\$ 3,986,000	\$ 2,925,983	\$ (2,222,983)	\$ 4,689,000
2006 - 2007	4,689,000	1,296,622	(1,693,622)	4,292,000

NOTE 20 - LITIGATION

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

NOTE 21 – SUBSEQUENT EVENTS

As discussed in Note 3, at June 30, 2007, the District had \$152,439,643 invested in the State Board of Administration's Local Government Surplus Funds Trust Fund Investment Pool (Pool). On December 4, 2007, the State Board of Administration restructured the Pool and implemented temporary restrictions on the withdrawal of moneys that were on deposit including the requirement that a redemption fee be paid for withdrawals in excess of amounts to be periodically set by the State Board of Administration. Information regarding the restructuring and withdrawal restrictions is available from the District and the State Board of Administration. The District had \$79,650,989 invested in the Pool as of February 28, 2008.

Required Supplementary Information
(Other Than MD&A)

Okaloosa County District School Board
Budget and Actual (with Variances)
General Fund

Year ended June 30,

2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental:				
Federal direct	\$ 6,026,843	\$ 7,021,542	\$ 7,174,550	\$ 153,008
Federal through state	339,000	418,630	418,630	-
State sources	109,406,918	103,457,215	103,457,215	-
Local sources	104,633,109	109,144,457	109,722,097	577,640
Total revenues	220,405,870	220,041,844	220,772,492	730,648
Expenditures				
Instruction	152,814,684	157,634,241	151,704,624	5,929,617
Pupil personnel services	6,927,935	7,015,313	6,892,156	123,157
Instructional media services	3,188,182	3,365,929	3,293,164	72,765
Instructional and curriculum development	5,364,006	5,151,364	4,451,813	699,551
Instructional staff training	686,397	655,770	466,785	188,985
Instruction related technology	983,888	904,613	740,585	164,028
Board of education	4,217,399	4,893,012	2,857,919	2,035,093
General administration	371,604	429,998	391,764	38,234
School administration	15,574,617	16,448,314	15,993,176	455,138
Facilities acquisition and construction	467,719	394,518	227,221	167,297
Fiscal services	1,389,648	1,672,640	1,587,817	84,823
Food services	-	116,965	116,965	-
Central services	4,619,125	3,861,034	2,732,853	1,128,181
Pupil transportation services	9,620,954	10,683,384	10,431,622	251,762
Operation of plant	14,965,557	15,228,380	14,160,382	1,067,998
Maintenance of plant	6,670,314	7,479,752	6,193,654	1,286,098
Administrative technology services	3,353,098	3,328,098	3,012,129	315,969
Community services	2,079,676	2,473,130	1,640,325	832,805
Fixed capital outlay:				
Facilities acquisition and construction	172,562	276,748	218,153	58,595
Other capital outlay	765,163	836,988	593,850	243,138
Total expenditures	234,232,528	242,850,191	227,706,957	15,143,234
Excess (deficiency) of revenues over expenditures	(13,826,658)	(22,808,347)	(6,934,465)	15,873,882
Other financing sources (uses)				
Proceeds from sale of capital assets	-	937,928	937,928	-
Transfers in	10,036,645	9,753,389	9,753,389	-
Transfers out	(120,000)	(477,128)	(477,128)	-
Total other financing sources and (uses)	9,916,645	10,214,189	10,214,189	-
Net change in fund balances	(3,910,013)	(12,594,158)	3,279,724	15,873,882
Fund balances - beginning	44,181,421	44,181,421	44,181,421	-
Fund balances - ending	\$ 40,271,408	\$ 31,587,263	\$ 47,461,145	\$ 15,873,882

Single Audit Section

Okaloosa County District School Board
 Schedule Of Expenditures Of Federal Awards
 For The Year Ended June 30, 2007

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass- Through Grantor Number	Amount of Expenditures (Note 1)	Amount Provided to Subrecipients
United States Department of Agriculture				
Indirect:				
Florida Department of Agriculture and Consumer Services:				
Food Distribution (Note 2)	10.550	None	\$ 566,282	\$ -
Florida Department of Education:				
Child Nutrition Cluster:				
School Breakfast Program	10.553	321	760,235	-
National School Lunch Program	10.555	300	3,073,241	-
Summer Food Service Program	10.559	323	247,313	-
Total Child Nutrition Cluster			4,080,789	-
Florida Department of Financial Services:				
Schools and Roads - Grants to States	10.665	None	373	-
Total United States Department of Agriculture			4,647,444	-
United States Department of Homeland Security				
Indirect:				
Florida Department of Community Affairs:				
Public Assistance Grants	97.036	None	41,566	-
Florida Department of Education:				
Homeland Security Grant Program	97.067	532	16,852	-
Total United States Department of Homeland Security			58,418	-
United States Department of Education				
Direct:				
Impact Aid	84.041	N/A	5,654,880	115,664
Federal Pell Grant Program	84.063	N/A	229,777	-
Total Direct			5,884,657	115,664
Indirect:				
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027	262, 263	6,426,738	-
Special Education - Preschool Grants	84.173	267	233,883	-
Total Special Education Cluster			6,660,621	-
Florida Department of Education:				
Title I Grants to Local Educational Agencies	84.010	212, 222, 223, 228	4,408,312	-
Vocational Education - Basic Grants to States	84.048	151	265,896	-
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	126,835	-
Education for Homeless Children and Youth	84.196	127	85,500	85,500

(continued)

Okaloosa County District School Board
Schedule Of Expenditures Of Federal Awards (Continued)
For The Year Ended June 30, 2007

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass- Through Grantor Number	Amount of Expenditures (Note 1)	Amount Provided to Subrecipients
United States Department of Education (continued)				
Indirect (continued):				
Florida Department of Education (continued):				
Even Start	84.213	219	353,180	-
State Grants for Innovative Programs	84.298	113	43,010	-
Educational Technology State Grants	84.318	121	44,549	-
English Language Acquisition Grants	84.365	102	52,085	-
Improving Teacher Quality State Grants	84.367	224	1,511,934	-
Hurricane Education Recovery	84.938	104	7,773	-
Total Indirect			13,559,695	85,500
Total United States Department of Education			19,444,352	201,164
United States Department of Transportation:				
Indirect:				
Florida Department of Financial Services				
Highway Planning and Construction	20.205	A0054	195,721	-
Total United States Department of Transportation			195,721	-
United States Department of Defense				
Direct:				
Public Law 102-484 (Note 3)	None	N/A	794,682	-
Public Law 106-398	None	N/A	18,419	-
Air Force Junior Reserve Officers Training Corps	None	N/A	208,989	-
Army Junior Reserve Officers Training Corps	None	N/A	114,982	-
Base Realignment and Closure	None	N/A	381,923	-
Total United States Department of Defense			1,518,995	-
Total Expenditures of Federal Awards			\$ 25,864,930	\$ 201,164

Notes:

- 1) Basis of Presentation. The Schedule of Expenditures of Federal Awards represents amounts expended from Federal Programs during the 2006-2007 fiscal year 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:
Food Distribution - Represents the amount of donated food used during the 2006-2007 fiscal year. Commodities are valued at fair value as determined at the time of donation.
- 3) Public Law 102-484 – as most recently amended by Section 559 of Public Law 108-375.

Okaloosa County District School Board Schedule Of Findings And Questioned Costs For The Year Ended June 30, 2007

Summary Of Audit Results

As required by United States Office of Management and Budget *Circular A-133*, Section 505, the following is a summary of the results of the audit of the Okaloosa County District School Board for the fiscal year ended June 30, 2007:

- The auditor's report expresses an unqualified opinion on the basic financial statements of the Okaloosa County District School Board.
- No significant deficiencies relating to the audit of the basic financial statements are reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
- No instances of noncompliance material to the basic financial statements of the Okaloosa County District School Board which would be required to be reported in accordance with *Government Auditing Standards* were disclosed during the audit.
- No significant deficiencies relating to the audit of the major federal award programs are reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with *OMB Circular A-133*.
- The auditor's report on compliance for the major federal award programs for the Okaloosa County District School Board is unqualified.
- There were no audit findings relative to the major federal award programs for Okaloosa County District School Board.
- The programs tested as major programs included: Child Nutrition Cluster (CFDA 10.555), Impact Aid (CFDA 84.041), Special Education (CFDA 84.027), Improving Teacher Quality (CFDA 84.367), Public Law 102-484.
- The threshold for distinguishing between Types A and B programs was \$775,948.
- The Okaloosa County District School Board was not determined to be a low-risk auditee, as defined in *OMB Circular A-133*.

Findings – Financial Statement Audit

- The results of our audit of the Okaloosa County District School Board did not disclose any findings required to be reported in accordance with GAGAS

Okaloosa County District School Board
Schedule Of Findings And Questioned Costs (Continued)
For The Year Ended June 30, 2007

Findings And Questioned Costs – Major Federal Award Programs Audit

- The results of our audit of the Okaloosa County District School Board did not disclose any findings or questioned costs required to be reported under the provision of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. No corrective action plan is required because there were no findings required to be reported under the Federal Single Audit Act.

Okaloosa County District School Board
 Summary Schedule Of Prior Audit Findings
 For The Year Ended June 30, 2007

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

Audit Report and Schedule Paragraph No.	Program/Area	Brief Description	Status	Comments
2006-01	Title I Grants to Local Education Agencies, CFDA 84.010	The District should identify schools requiring improvement and adequately communicate the improvement process to parents.	Corrected	N/A
2006-02	Title I Grants to Local Education Agencies, CFDA 84.010	The District should ensure that all eligible students are provided required choice options available to them under the provision of law.	Corrected	N/A
2006-03	Title I Grants to Local Education Agencies, CFDA 84.010	The District should enhance its procedures to ensure that employees working solely on a single cost objective complete semi-annual certifications; and, for employees who split their time between multiple cost objectives, that distribution of salaries reflects an after-the-fact distribution of the actual activity of each employee and account for the total activity for which the employee is compensated. In addition, the District should document to the grantor (FL DOE) the allowability of the \$2,671 in estimated questioned costs noted or those moneys should be restored to the Title I program.	Corrected	N/A
2006-04	CFDA 84.063	Material weakness and material noncompliance noted. The district should continue its efforts to complete the necessary corrective actions to address the deficiencies cited in the US DOE's review and single audit.	Corrected	N/A

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

To the Okaloosa County District School Board
and Alexis Tibbetts, Superintendent of Schools
Fort Walton Beach, Florida

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Okaloosa County District School Board (District) as of and for the fiscal year ended June 30, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 14, 2008. Our report was modified to include a reference to 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. Other auditors audited the financial statements of Okaloosa Public Schools Foundation, Inc., the Okaloosa Academy, Inc., and the Liza Jackson Preparatory School, Inc., as described in our report on the Okaloosa County District School Board'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 separately by those auditors.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also considered material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of District management, the School Board, and appropriate governmental agencies and is not intended to be and should not be used by anyone other than these specified parties.

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

Destin, Florida
March 14, 2008

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Okaloosa County District School Board
and Alexis Tibbetts, Superintendent of Schools
Fort Walton Beach, Florida

Compliance

We have audited the compliance of the Okaloosa County District School Board (District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the fiscal year ended June 30, 2007. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of District management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2007.

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Internal Control over Compliance

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

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of District management, the School Board, and appropriate governmental agencies and is not intended to be and should not be used by anyone other than these specified parties.

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

Destin, Florida
March 14, 2008

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MANAGEMENT LETTER

To the Okaloosa County District School Board
and Alexis Tibbetts, Superintendent of Schools
Fort Walton Beach, Florida

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Okaloosa County District School Board (the District), as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 14, 2008.

We conducted our audit in accordance with United States generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We have issued our 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*. Disclosures in this report, which are dated March 14, 2008, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.800, Rules of the Auditor General. Those rules (Section 10.804(1)(d)) require that we address in the management letter, if not already addressed in the auditor's report on internal controls and compliance, whether or not inaccuracies, shortages, defalcations, fraud, and/or violations of laws, rules, regulations, and contractual provisions reported in the preceding annual financial audit report have been corrected. Any inaccuracies, shortages, defalcations, fraud, and/or violations of laws, rules, regulations, and contractual provisions disclosed in the preceding annual financial audit report have been corrected.

The Rules of the Auditor General (Section 10.804(1)(d)1.) require that we address in the management letter, if not already addressed in the auditor's report on internal controls and compliance, whether or not recommendations made in the preceding annual financial audit report have been followed. Any recommendations made in the preceding annual financial audit report have been followed.

As required by the Rules of the Auditor General (Section 10.804(1)(d)4.), the scope of our audit included a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the District complied with Section 218.415, Florida Statutes.

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The Rules of the Auditor General (Section 10.804(1)(d)5.), require disclosure in the management letter of the following matters if not already addressed in the Auditor's report on compliance and internal controls: (1) violations of laws, rules, regulations, and contractual provisions or abuse that have occurred, or are likely to have occurred; (2) improper or illegal expenditures; (3) improper or inadequate accounting procedures (e. g., the omission of required disclosures from the financial statements); (4) failures to properly record financial transactions; and (5) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. Our audit disclosed none of the preceding matters.

As required by the Rules of the Auditor General (Section 10.804(1)(d)2.), the scope of our audit included a review of the provisions of Section 218.503(1), Florida Statutes, regarding financial emergencies. In connection with our audit, we determined that the District is not in a state of financial emergency as a consequence of the conditions described by Section 218.503(1), Florida Statutes.

Current Year Recommendations

There are no current year recommendations.

This management letter is intended solely for the information and use of District management and appropriate governmental agencies and is not intended to be and should not be used by anyone other than these specified parties.

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

Destin, Florida
March 14, 2008