

# Okaloosa County District School Board

Financial Statements and  
Supplementary Information

June 30, 2008

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## INDEPENDENT AUDITOR'S REPORT

To the Okaloosa County District School Board  
and Dr. 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, 2008, 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 Okaloosa Academy, Inc. or Liza Jackson Preparatory School, Inc. which represents 0.6 percent of the total assets of the District. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for Okaloosa Academy, Inc. and Liza Jackson Preparatory School, Inc., is based 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, 2008, 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 16, 2009 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.

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, Budgetary Comparison Schedule, and Schedule of Funding Progress for Other Post-Employment Benefits on pages 3 through 11, 51 and 52, 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.

*Carri Riggs & Ingram, L.L.C.*

Destin, Florida  
March 16, 2009

## Management's Discussion and Analysis

## **OKALOOSA COUNTY DISTRICT SCHOOL BOARD MANAGEMENT'S DISCUSSION AND ANALYSIS**

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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, 2008. 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 2007-2008 fiscal year are as follows:

- The District's total net assets increased by \$8,004,897, or 3.72 percent.
- General revenues totaled \$269,019,329, or 90.70 percent of all revenues in fiscal year 2007-2008, as compared to \$262,676,842, or 89.01 percent for all revenues in fiscal year 2006-2007. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions totaled \$27,575,777, or 9.30 percent as compared to \$32,434,488, or 10.99 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 \$10,540,675, at June 30, 2008, or 4.51 percent of General Fund expenditures as compared to \$11,548,576, at June 30, 2007.
- The District's total long-term liabilities decreased by \$2,683,050, or 2.22 percent, as compared to an increase of \$67,699,431, or 127 percent in the prior year. Within long-term liabilities, the long-term liability for compensated absences increased \$1,240,950, or 4.91 percent as compared to a increase of \$201,431, or 0.8 percent in fiscal year 2006-2007; the long-term liability for estimated insurance claims increased \$40,000, or 0.93 percent; and the long-term liability for debt decreased \$4,150,000, or 4.55 percent as compared to a increase of \$67,895,000 or 290 percent in fiscal year 2006-2007.
- During the current year, General Fund expenditures exceeded revenues by \$7,511,695. This may be compared to last year's results in which General Fund expenditures exceeded revenues by \$6,934,465.

### **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, and Capital Projects – Capital Improvement Tax Construction 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, 2008, as compared to June 30, 2007:

	<b>Net Assets, End of Year</b>		
	<b>Governmental Activities</b>		
	<u>6/30/2007</u>	<u>6/30/2008</u>	<u>Increase (Decrease)</u>
Current Assets	\$ 166,739,675	\$ 135,928,567	\$ (30,811,108)
Other Assets	<u>178,058,804</u>	<u>213,645,508</u>	<u>35,586,704</u>
 Total Assets	 <u>344,798,479</u>	 <u>349,574,075</u>	 <u>4,775,596</u>
 Long-term Liabilities	 120,860,741	 118,177,691	 (2,683,050)
Other Liabilities	<u>8,834,654</u>	<u>8,288,403</u>	<u>(546,251)</u>
 Total Liabilities	 <u>129,695,395</u>	 <u>126,466,094</u>	 <u>(3,229,301)</u>
 Invested in Capital Assets - Net of Debt	 154,481,612	 171,520,014	 17,038,402
Restricted	47,467,929	37,353,869	(10,114,060)
Unrestricted	<u>13,153,543</u>	<u>14,234,098</u>	<u>1,080,555</u>
Total Net Assets	<u>\$ 215,103,084</u>	<u>\$ 223,107,981</u>	<u>\$ 8,004,897</u>

The largest portion of the District's net assets (76.88% in fiscal year 2007-2008 and 71.82% in fiscal year 2006-2007) 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 \$17,038,402 or 11.03%. The increase in investment in capital assets net of debt is primarily related to the increase in net capital assets. 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 \$1,080,555, in fiscal year 2007-2008.

Operating results for the ended June 30, 2008, as compared to June 30, 2007, are as follows:

### Operating Results for the Year

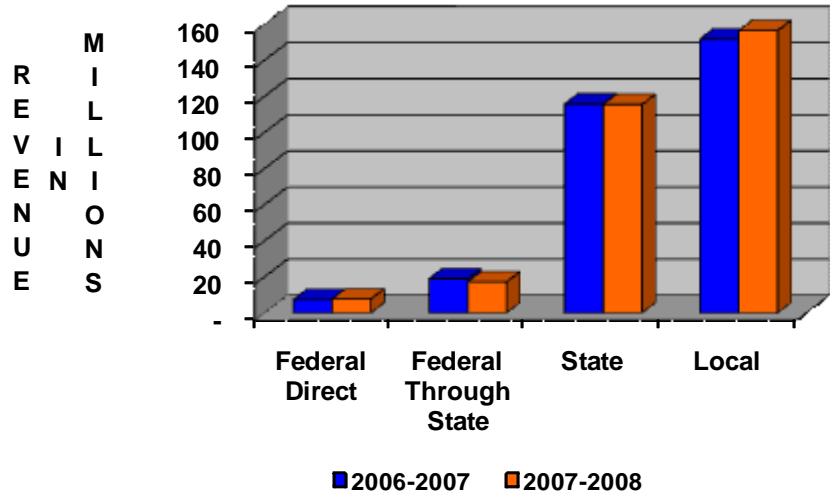
	<b>Governmental Activities</b>		
	6/30/2007	6/30/2008	Increase (Decrease)
Program Revenues:			
Charges for Services	\$ 8,295,153	\$ 7,550,879	\$ (744,273)
Operating Grants and Contributions	10,999,152	10,956,866	(42,286)
Capital Grants and Contributions	13,140,183	9,068,032	(4,072,151)
General Revenues:			
Property Taxes Levied for Operational Purposes	107,184,765	104,128,382	(3,056,383)
Property Taxes Levied for Capital Projects	33,669,442	35,396,744	1,727,301
Grants and Contributions not Restricted to Specific Purposes	112,496,623	120,998,465	8,501,842
Unrestricted Investment Earnings	5,769,168	5,446,408	(322,760)
Miscellaneous	3,556,844	3,049,330	(507,514)
Total Revenues	295,111,330	296,595,106	1,483,776
Functions/Program Expenses:			
Instruction	160,190,536	163,432,893	3,242,357
Instructional Support Services	7,681,508	7,925,730	244,222
Instructional Media Services	3,347,211	3,258,252	(88,959)
Instruction and Curriculum Development Services	7,974,344	8,496,984	522,639
Instructional Staff Training	812,482	708,117	(104,365)
Instruction Related Technology	752,236	768,799	16,563
Board of Education	2,858,251	3,072,789	214,538
General Administration	693,795	704,444	10,648
School Administration	16,025,645	16,278,769	253,124
Facilities Acquisition and Construction	11,121,276	20,102,106	8,980,830
Fiscal Services	1,589,388	1,705,982	116,594
Food Services	10,388,522	10,475,126	86,604
Central Services	2,338,006	3,502,240	1,164,234
Pupil Transportation Services	11,034,679	12,213,462	1,178,783
Operation of Plant	14,166,730	14,597,366	430,636
Maintenance of Plant	6,254,722	7,090,289	835,567
Administrative Technology Services	3,014,111	2,879,642	(134,470)
Community Services	1,641,477	1,629,248	(12,229)
Interest on Long-term Debt	2,705,506	2,984,845	279,339
Unallocated Depreciation Expense	8,518,252	6,763,126	(1,755,126)
Total Functions/Program Expenses	273,108,677	288,590,209	15,481,532
Increase in Net Assets	\$ 22,002,653	\$ 8,004,897	\$ (13,997,756)

Instructional expenses represent 56.63 percent of total governmental expenses in the 2007-2008 fiscal year as compared to 58.65 percent in fiscal year 2006-2007. Instructional expenses increased by \$3,242,357, or 2.02 percent versus an increase of \$9,722,771, or 6.46 percent, in fiscal year 2006-2007. 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, and an increase in Compensated Absences.

Facilities Acquisition and Construction expenses increased \$8,980,830, or 80.75 percent as a result of an increase of repairs and renovations projects as compared to 2006-2007.

The District received 52.59 percent of total revenues from local sources, including funds received from property tax levies and interest revenues. State funds accounted for 38.98 percent of total funds received, while Federal funds contributed 8.43 percent. Governmental fund revenues totaled \$296,277,282, an increase of approximately \$2,364,594, or 0.80 percent. Funds received from local sources were \$4,039,361 more than those received during the 2006-2007 fiscal year, funds received from State decreased by \$239,455, and Federal sources decreased by \$1,435,312, 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 \$10,540,675, while the total fund balance was \$50,510,310. For fiscal year 2006-2007, unreserved fund balance was \$11,548,576, while the total fund balance was \$47,461,145. The unreserved fund balance decreased by \$1,007,901, in fiscal year 2007-2008 while the total fund balance increased by \$3,049,165, as compared to an increase in fiscal year 2006-2007 in unreserved fund balance of \$3,294,707, and an increase in total fund balance of \$3,279,724.

Key factors in this General Fund growth are as follows:

- State revenues increased \$2,872,910, in the current fiscal year primarily due to the impact of the increase in the local property tax base on the Florida Education Finance Program (FEFP). The FEFP formula utilizes student enrollment data and is designed to maintain equity in funding across all Florida school districts, taking into consideration the school district's funding ability based on the local property tax base. As property values increase, the required local effort contribution in the FEFP generally increases the amount which local property taxes must generate.
- Local revenues increased approximately \$2,089,300, in the current year. The increase is primarily due to the increase in local property values.

The Capital Projects – Capital Improvement Tax Construction Tax Fund has a total fund balance of \$22,942,161, all of which is restricted for the acquisition, construction, and maintenance of capital assets. This is a decrease of \$4,089,523, as compared to total fund balance for fiscal year 2006-2007 of \$27,031,684. The fund balance decreased in the current year due to increasing maintenance expenditures and in spite of an increase in local capital improvement tax revenues of \$1,576,372.

The Capital Projects – Other Fund has a total fund balance of \$44,564,462, 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 a decrease of \$26,305,783, as compared to total fund balance for fiscal year 2006-2007 of \$70,870,245. The fund balance decreased in the current year due to the construction of a new elementary 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 2007-2008 fiscal year, the District amended its General Fund budget several times, which resulted in an increase in total appropriations, excluding reserves, amounting to \$3,970,324, or 1.61 percent. At the same time, final budgeted revenues, excluding beginning fund balance, were less than the original budgeted amounts by \$2,937,884, or 1.29 percent. This resulted in a final budgeted ending fund balance of \$6,997,348, or 18.81 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 \$1,414,340 or less than 1 percent more than the final budgeted amounts, whereas actual expenditures were \$17,289,629, less than the final budgeted amounts. The ending fund balance exceeded the estimated fund balance contained in the final amended budget by \$20,308,548.

## 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, 2008, amount to \$213,645,508 (net of accumulated depreciation), as compared to \$178,058,804, in fiscal year 2006-2007. 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, 2008, includes the following:
  - ❖ Classroom Additions:
    - Bob Sikes Elementary School
    - Bluewater Elementary School
    - Edge Elementary School
    - Florosa Elementary School
    - Mary Esther Elementary School
    - Plew Elementary School
    - Shalimar Elementary School
    - Walker Elementary School
    - Wright Elementary
  - ❖ 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 Elementary School
  - Destin Elementary
  - Elliott Point
  - 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
  - Shoal River Middle School
- ❖ Niceville High Sewer Upgrade
- ❖ Meigs Middle School Canopy Repair and Replacement
- ❖ Pryor Middle School Canopy, Bus Ramp and Parking Lot
- ❖ 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, 2008 the District had total long-term debt outstanding of \$87,135,000, as compared to \$91,285,000, in fiscal year 2006-2007. At June 30, 2008, long-term debt was comprised of \$7,820,000, of bonds payable, and \$79,315,000, of certificates of participation payable. During the fiscal year, additional debt of \$915,000 was issued and retirement of debt amounted to \$5,065,000.

Additional information on the District's long-term debt can be found in Notes 9 through 12 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,

2008

	<b>Primary Governmental Activities</b>	<b>Component Units</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 56,438,259	\$ 776,823
Investments	70,644,639	29,212
Accounts receivable	20,959	33,945
Receivable from Titan	469,300	-
Due from other agencies	7,354,582	53,955
Inventories	551,828	-
Prepaid items	-	95,152
Deposits	449,000	45,000
Capital assets, net	213,645,508	1,226,012
<b>Total assets</b>	<b>\$ 349,574,075</b>	<b>\$ 2,260,099</b>
<b>Liabilities and Net assets</b>		
Salaries and wages payable	\$ 1,919,024	\$ 134,381
Accounts payable and accrued expenses	1,076,116	28,621
Construction contracts payable	5,257,897	-
Due to other governmental agencies	35,366	8,045
Deferred revenues	-	15,018
Long-term liabilities:		
Portion due within one year	9,733,669	27,120
Portion due after one year	108,444,022	41,905
<b>Total liabilities</b>	<b>126,466,094</b>	<b>255,090</b>
<b>Net assets</b>		
Invested in capital assets, net of related debt	171,520,014	1,156,987
Restricted for:		
State categorical programs	5,242,625	4,149
Capital projects	30,111,812	81,035
Debt service	1,419,736	-
Other projects	579,696	94,951
Unrestricted	14,234,098	667,887
<b>Total net assets</b>	<b>223,107,981</b>	<b>2,005,009</b>
<b>Total liabilities and net assets</b>	<b>\$ 349,574,075</b>	<b>\$ 2,260,099</b>

See accompanying notes to financial statements.

Functions/Programs	Expenses	Program Revenue	
		Charges for Services	Operating Grants and Contributions
<b>Primary government</b>			
Governmental Activities			
Instruction	\$ 163,432,893	\$ 387,585	\$ -
Pupil personnel services	7,925,730	-	-
Instructional media services	3,258,252	-	-
Instruction and curriculum development	8,496,984	-	-
Instructional staff training	708,117	-	-
Instruction related technology	768,799	-	-
School board	3,072,789	-	-
General administration	704,444	-	-
School administration	16,278,769	-	-
Facilities acquisition and construction	20,102,106	-	-
Fiscal services	1,705,982	-	-
Food services	10,475,126	4,642,400	4,701,882
Central services	3,502,240	-	-
Pupil transportation services	12,213,462	545,613	6,254,984
Operation of plant	14,597,366	-	-
Maintenance of plant	7,090,289	-	-
Administrative technology services	2,879,642	-	-
Community services	1,629,248	1,975,281	-
Interest on long-term debt	2,984,845	-	-
Unallocated depreciation/amortization expense	6,763,126	-	-
<b>Total governmental activities</b>	<b>\$ 288,590,209</b>	<b>\$ 7,550,879</b>	<b>\$ 10,956,866</b>
<b>Component Units</b>			
Charter schools/foundations	\$ 7,446,020	\$ 483,582	\$ 667,116

**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

<b>Net (Expense) Revenue and Changes in Net Assets</b>			
<b>Primary Government</b>			
<b>Capital Grants and Contributions</b>	<b>Governmental Activities</b>	<b>Component Units</b>	
\$	-	\$ (163,045,308)	\$ -
	-	(7,925,730)	-
	-	(3,258,252)	-
	-	(8,496,984)	-
	-	(708,117)	-
	-	(768,799)	-
	-	(3,072,789)	-
	-	(704,444)	-
	-	(16,278,769)	-
9,068,032	-	(11,034,074)	-
	-	(1,705,982)	-
	-	(1,130,844)	-
	-	(3,502,240)	-
	-	(5,412,865)	-
	-	(14,597,366)	-
	-	(7,090,289)	-
	-	(2,879,642)	-
	-	346,033	-
	-	(2,984,845)	-
	-	(6,763,126)	-
<b>\$ 9,068,032</b>	<b>-</b>	<b>(261,014,432)</b>	<b>-</b>
<b>\$ 109,483</b>	<b>-</b>	<b>(6,185,839)</b>	<b>-</b>

104,128,382	-
35,396,744	-
120,998,465	6,028,390
5,446,408	20,707
3,049,330	(26,896)
269,019,329	6,022,201
8,004,897	(163,638)
215,103,084	2,168,647
<b>\$ 223,107,981</b>	<b>\$ 2,005,009</b>

See accompanying notes to financial statements.

Okaloosa County District School Board  
Balance Sheet  
Governmental Funds

June 30,

2008

	General Fund	Capital Projects - Local Capital Improvement Tax Fund	Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Cash and cash equivalents	\$ 34,875,604	\$ 16,880,641	\$ 1,110,154	\$ 3,571,860	\$ 56,438,259
Investments	15,569,739	7,631,085	46,488,185	955,630	70,644,639
Accounts receivable, net	18,571	-	-	2,388	20,959
Deposits receivable	449,000	-	-	-	449,000
Due from other funds	628,906	-	-	-	628,906
Due from other agencies	1,733,529	232,279	-	5,388,774	7,354,582
Inventory	115,276	-	-	436,552	551,828
<b>Total assets</b>	<b>\$ 53,390,625</b>	<b>\$ 24,744,005</b>	<b>\$ 47,598,339</b>	<b>\$ 10,355,204</b>	<b>\$ 136,088,173</b>
<b>Liabilities and fund balances</b>					
Liabilities:					
Salaries, benefits and payroll taxes payable	\$ 1,919,024	\$ -	\$ -	\$ -	\$ 1,919,024
Accounts payable	941,319	42,937	14,542	77,318	1,076,116
Construction contracts payable	-	1,758,907	3,019,335	479,655	5,257,897
Due to other agencies	19,972	-	-	15,394	35,366
Due to other funds	-	-	-	628,906	628,906
<b>Total liabilities</b>	<b>2,880,315</b>	<b>1,801,844</b>	<b>3,033,877</b>	<b>1,201,273</b>	<b>8,917,309</b>
Fund balances:					
Reserved for:					
State required carryover programs	5,234,355	-	-	-	5,234,355
Encumbrances	1,722,962	3,383,752	486,437	411,590	6,004,741
Inventories	115,276	-	-	436,552	551,828
Other purposes	32,897,042	-	-	-	32,897,042
Unreserved, reported in:					
General fund	10,540,675	-	-	-	10,540,675
Special revenue funds	-	-	-	144,257	144,257
Debt service funds	-	-	-	1,345,740	1,345,740
Capital projects funds	-	19,558,409	44,078,025	6,815,792	70,452,226
<b>Total fund balances</b>	<b>50,510,310</b>	<b>22,942,161</b>	<b>44,564,462</b>	<b>9,153,931</b>	<b>127,170,864</b>
<b>Total liabilities and fund balances</b>	<b>\$ 53,390,625</b>	<b>\$ 24,744,005</b>	<b>\$ 47,598,339</b>	<b>\$ 10,355,204</b>	<b>\$ 136,088,173</b>

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>	<b>2008</b>
Total fund balances, governmental funds	\$ 127,170,864
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.	469,300
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.	213,645,508
Long term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(118,177,691)
Net assets of governmental activities in the statement of net assets	\$ 223,107,981

See accompanying notes to financial statements.

Year ended June 30,

	General Fund	Capital Projects - Local Capital Improvement Tax Fund
<b>Revenues</b>		
Intergovernmental:		
Federal direct	\$ 7,487,512	\$ -
Federal through state	356,709	-
State sources	106,330,125	-
Local sources	111,811,397	36,457,525
<b>Total revenues</b>	<b>225,985,743</b>	<b>36,457,525</b>
<b>Expenditures</b>		
Current:		
Instruction	155,003,356	-
Pupil personnel services	7,148,734	-
Instructional media services	3,183,820	-
Instructional and curriculum development	4,759,845	-
Instructional staff training	489,822	-
Instruction related technology	765,381	-
Board of education	3,070,211	-
General administration	385,064	-
School administration	16,155,191	-
Facilities acquisition and construction	237,772	-
Fiscal services	1,694,499	-
Food services	87,685	-
Central services	2,532,481	-
Pupil transportation services	11,633,489	-
Operation of plant	14,555,921	-
Maintenance of plant	6,999,973	-
Administrative technology services	2,865,764	-
Community services	1,620,760	-
Fixed capital outlay:		
Facilities acquisition and construction	14,341	22,906,199
Other capital outlay	293,329	-
Debt Service:		
Retirement of principal	-	-
Interest and fiscal charges	-	-
Dues, fees, and issuance costs	-	-
<b>Total expenditures</b>	<b>233,497,438</b>	<b>22,906,199</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>(7,511,695)</b>	<b>13,551,326</b>
<b>Other financing sources (uses)</b>		
Long term bonds issued	-	-
Premium on sale of bonds	-	-
Proceeds from sale of capital assets	937,928	-
Loss recoveries	8,421	-
Transfers in	10,624,511	-
Transfers out	(1,010,000)	(17,640,849)
<b>Total other financing sources and (uses)</b>	<b>10,560,860</b>	<b>(17,640,849)</b>
<b>Net change in fund balances</b>	<b>3,049,165</b>	<b>(4,089,523)</b>
<b>Fund balances, July 1, 2007</b>	<b>47,461,145</b>	<b>27,031,684</b>
<b>Fund balances, June 30, 2008</b>	<b>\$ 50,510,310</b>	<b>\$ 22,942,161</b>

See accompanying notes to financial statements.

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

2008

Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 287,871	\$ 7,775,383
11,461	16,810,516	17,178,686
897,389	8,270,041	115,497,555
2,278,445	5,278,291	155,825,658
3,187,295	30,646,719	296,277,282
-	7,895,863	162,899,219
-	729,012	7,877,746
-	53,040	3,236,860
-	3,684,608	8,444,453
-	216,353	706,175
-	-	765,381
-	-	3,070,211
-	317,389	702,453
-	11,000	16,166,191
-	-	237,772
-	-	1,694,499
-	10,357,162	10,444,847
-	-	2,532,481
-	83,095	11,716,584
-	75	14,555,996
-	-	6,999,973
-	-	2,865,764
-	-	1,620,760
28,596,286	10,059,276	61,576,102
-	93,922	387,251
-	5,065,000	5,065,000
-	3,912,485	3,912,485
-	20,396	20,396
28,596,286	42,498,676	327,498,599
(25,408,991)	(11,851,957)	(31,221,317)
-	915,000	915,000
-	33,036	33,036
-	-	937,928
-	-	8,421
-	8,923,130	19,547,641
(896,792)	-	(19,547,641)
(896,792)	9,871,166	1,894,385
(26,305,783)	(1,980,791)	(29,326,932)
70,870,245	11,134,722	156,497,796
\$ 44,564,462	\$ 9,153,931	\$ 127,170,864

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>	<b>2008</b>
Net change in fund balances - total governmental funds:	\$ (29,326,932)
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	35,277,332
The net effect of miscellaneous transactions involving capital assets (i.e., donations and disposals) is to increase capital assets.	309,375
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 debt repayments exceeded the proceeds in the current	4,150,000
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	(1,240,950)
The net change in the liability for post employment health care benefits is reported in the government-wide statements, but not in the governmental fund statements.	(186,000)
In the Statement of Activities, certain operating expenses - insurance claims - include additional amounts for increases in long-term insurance claims liabilities. However, expenditures for these items are measured by the amount of financial resources used (essentially, the amount paid). This is the amount which estimated insurance claims liability increased.	(40,000)
Change in net assets of governmental activities	\$ 8,004,897

See accompanying notes to financial statements.



Okaloosa County District School Board

Statement of Fiduciary Funds

<i>June 30,</i>	<b>2008</b>
<b>Agency Funds</b>	
<b>Assets</b>	
Cash and cash equivalents	\$ 2,101,776
Other receivables	274,481
Investments	1,959,049
<b>Total assets</b>	<b>\$ 4,335,306</b>
<b>Liabilities</b>	
Internal accounts payable	\$ 4,063,440
Refunds payable and others	271,866
<b>Total liabilities</b>	<b>\$ 4,335,306</b>

See accompanying notes to financial statements.

Okaloosa County District School Board  
Statement of Net Assets  
Component Units

<i>June 30,</i>	<b>2008</b>
	<b>Total Nonmajor Component Units</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 776,823
Accounts receivable	33,945
Deposits receivable	45,000
Due from other agencies	53,955
Investments	29,212
Prepaid items	95,152
Capital assets, net	1,226,012
<hr/>	
Total assets	\$ 2,260,099
<hr/>	
<b>Liabilities and Net assets</b>	
Salaries and wages payable	\$ 134,381
Accounts payable and accrued expenses	28,621
Due to other governmental agencies	8,045
Deferred revenue	15,018
Long-term liabilities:	
Portion due within one year	27,120
Portion due after one year	41,905
<hr/>	
Total liabilities	255,090
<hr/>	
Net assets	
Invested in capital assets, net of related debt	1,156,987
Restricted for:	
State categorical programs	4,149
Capital projects	81,035
Other projects	94,951
Unrestricted	667,887
<hr/>	
Total net assets	2,005,009
<hr/>	
Total liabilities and net assets	\$ 2,260,099
<hr/>	

See accompanying notes to financial statements.

Okaloosa County District School Board  
Statement of Activities  
Component Units

For the year ended June 30,

2008

			Program Revenue				Net (Expense) Revenue and Changes in Net Assets
			Operating Grants and Contributions	Capital Grants and Contributions			Primary Government
	Expenses	Charges for Services					Component Unit Activities
<b>Total nonmajor component units</b>							
Current - education:							
Instruction	\$ 3,760,958	\$ 142,725	\$ -	\$ -	\$ -	\$ -	(3,618,233)
Pupil personnel services	224,880	-	177,000	-	-	-	(47,880)
Instructional media services	33,315	-	-	-	-	-	(33,315)
Instruction and curriculum development	213,752	-	-	-	-	-	(213,752)
Instructional staff training	40,399	-	-	-	-	-	(40,399)
Board of education	41,078	-	-	-	-	-	(41,078)
General administration	179,622	-	-	-	-	-	(179,622)
School administration	624,066	-	-	-	-	-	(624,066)
Facilities acquisition and construction	113,551	-	-	102,781	-	-	(10,770)
Fiscal services	213,010	-	-	-	-	-	(213,010)
Food services	218,185	140,073	48,151	-	-	-	(29,961)
Central services	156,921	-	-	-	-	-	(156,921)
Pupil transportation services	382,529	-	-	-	-	-	(382,529)
Operation of plant	1,068,187	-	441,965	-	-	-	(626,222)
Maintenance of plant	10,023	-	-	-	-	-	(10,023)
Community services	157,501	200,784	-	-	-	-	43,283
Interest on long-term debt	8,043	-	-	-	6,702	-	(1,341)
<b>Total governmental activities</b>	<b>\$ 7,446,020</b>	<b>\$ 483,582</b>	<b>\$ 667,116</b>	<b>\$ 109,483</b>	<b>\$ -</b>	<b>\$ -</b>	<b>(6,185,839)</b>

**General revenues:**

Grants and contributions not restricted to specific programs	6,028,390
Investment earnings	20,707
Miscellaneous	(26,896)
Total general revenues	6,022,201
Change in net assets	(163,638)
Net assets - beginning	2,168,647
Net assets - ending	\$ 2,005,009

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, 2008, 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, 2008, 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, 2008, 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 instruction 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 differs 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 – 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 financial resources of the District’s pre-tax flexible benefits plan and the school internal funds, which are used to administer moneys collected at the schools in connection with school, student athletic, class, and club activities.

***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.

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.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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.

Investments consist of amounts placed in State Board of Administration Debt Service accounts for investment of debt service moneys and amounts placed with the State Board of Administration for participation in the Local Government Surplus Funds Trust Fund investment pools created by Section 218.405 and 218.417, Florida Statutes, and those made locally. On December 4, 2007, the State Board of Administration restructured the Local Government Surplus Funds Trust Fund to also establish the Fund B Surplus Funds Trust Fund.

The District's investments in the Local Government Surplus Funds Trust Fund, which the State Board of Administration indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, as of June 30, 2008, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. These investments are reported at fair value, which is amortized cost.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The District's investments in the Fund B Surplus Funds Trust Fund are accounted for as a fluctuation net asset value pool, with a fair value factor of 0.923331 at June 30, 2008. Fund B is not subject to participant withdrawal requests. Distributions from Fund B, as determined by the State Board of Administration, are effected by transferring eligible cash or securities to the Local Government Surplus Funds Trust Fund, consistent with the pro rata allocation of pool shareholders of record at the creation of Fund B. One hundred percent of such distributions from Fund B are available as a liquid balance within the Local Government Surplus Funds Trust Fund.

Investments made locally consist of money market funds 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. Accordingly, the District recognizes the allocation of Public Education Capital Outlay and Classroom for Kids funds as deferred revenue until such time as an encumbrance authorization is received.

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.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The School Board adopted the 2007 tax levy on September 10, 2007. 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.

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.

***Other Postemployment Benefits***

Effective July 1, 2007, the Board adopted the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The effect of this adoption was to establish uniform reporting standards for other postemployment benefit (OPEB) expense and related liabilities, note disclosures, and required supplementary information (RSI) in annual financial reports of governmental entities. The effects of this implementation have been included in the District's financial statements. See Note 18 for a description of the OPEB expenditures and liabilities. GASB statement No. 45, improves the relevance and usefulness of financial reporting by: (a) requiring systematic, accrual-basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' years of service and (b) providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan.

# Okaloosa County District School Board

## Notes to Financial Statements

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### 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.
- 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, 2008, are shown below:

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<b>Investment</b>	<b>Maturities</b>	<b>Fair Value</b>
State Board of Administration:		
Local Government Surplus Funds Trust		
Fund Investment Pool	20.22 Day Avg	\$ 59,393,755
Fund B Surplus Funds Trust Fund	9.22 Year Avg	7,313,417
Debt Service Accounts	6 Months	178,269
Dreyfus Treasury Prime Cash Management Fund	52 Days	3,759,198
<b>Total investments, primary government</b>		<b>\$ 70,644,639</b>

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**NOTE 3 – INVESTMENTS (CONTINUED)**

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.
- The maturity of the State Board of Administration Local Government Surplus Funds Trust Fund Investment Pool is based on the weighted average days to maturity (WAM). A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the portfolio to interest rate changes. The maturity of the State Board of Administration Local Government Fund B Surplus Funds Trust Fund is based on the weighted average life (WAL). A portfolio's WAL is the dollar weighted average length of time until securities held reach maturity. WAL is based on legal final maturity dates as of June 30, 2008.

Credit Risk

- Section 218.415(17), Florida Statutes, limits investments to the State Board of Administration Local Government Surplus Funds Trust Fund, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperative Act as provided in Section 163.01, Florida Statutes; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; investments in interest-bearing time deposits or savings accounts in qualified public depositories, as defined in Section 280.02, Florida Statutes; and direct obligations of the United States Treasury. The District does not have a formal investment policy that limits its investment choices.
- The District's investments in the State Board of Administration Debt Service accounts are to provide for debt service payments on bond debt issued by the State Board of Education for the benefit of the District. The District relies on policies developed by the State Board of Administration for managing credit risk for this account.
- As of June 30, 2008, the District's investment in Local Government Surplus Funds Trust Fund Investment Pool is rated AAAM by Standard & Poor's. The Fund B Surplus Funds Trust Fund is unrated.
- As of June 30, 2008, the District's investment in the Dreyfus Treasury Prime Cash Management Fund was rated AAA by Standard & Poor's and AAA by Moody's Investors Service.

**NOTE 3 – INVESTMENTS (CONTINUED)**

Custodial Credit Risk

- The District’s investment of \$3,759,198 in the Dreyfus Treasury Prime Cash Management Fund and State Board of Administration Fund B Surplus Funds Trust Fund are held by the trustee in the District’s name.

**NOTE 4 - RECEIVABLE FROM TITAN CORPORATION**

The “Receivable from Titan Corporation” totals \$469,300 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 8 for additional information.

**NOTE 5 - 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	\$ 628,906	\$ -
Nonmajor governmental funds	-	628,906
TOTAL	\$ 628,906	\$ 628,906

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

Okaloosa County District School Board

Notes to Financial Statements

**NOTE 5 - INTERFUND RECEIVABLES AND PAYABLES (CONTINUED)**

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

Funds	Interfund	
	Transfers In	Transfers Out
Major funds:		
General (1) (2) (3)	\$ 10,624,511	\$ 1,010,000
Capital projects:		
Capital improvement tax (1) (4)	-	17,640,849
Other capital projects (2)	-	896,792
Nonmajor governmental funds (3) (4)	8,923,130	-
<b>TOTAL</b>	<b>\$ 19,547,641</b>	<b>\$ 19,547,641</b>

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 Charter School capital outlay.
- (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.

Okaloosa County District School Board

Notes to Financial Statements

**NOTE 6 - CHANGES IN CAPITAL ASSETS**

Changes in capital assets for the year ended June 30, 2008 are shown below:

	Balance 7/1/2007	Additions and Reclassifications	Deletions	Balance 6/30/2008
<b>Governmental Activities</b>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 10,452,493	\$ 959,333	\$ -	\$ 11,411,826
Construction in progress	9,996,024	38,067,511	5,994,800	42,068,735
<b>Total capital assets not being depreciated</b>	<b>20,448,517</b>	<b>39,026,844</b>	<b>5,994,800</b>	<b>53,480,561</b>
<i>Capital assets being depreciated:</i>				
Improvements other than buildings	13,106,008	377,224	-	13,483,232
Buildings and fixed equipment	212,840,544	6,265,731	18,000	219,088,275
Furniture, fixtures and equipment	19,186,383	1,307,736	992,730	19,501,389
Motor vehicles	14,127,745	2,250,540	775,910	15,602,375
Computer software	3,684,772	73,173	34,363	3,723,582
Audio-visual materials	12,580	-	-	12,580
<b>Total capital assets being depreciated</b>	<b>262,958,032</b>	<b>10,274,404</b>	<b>1,821,003</b>	<b>271,411,433</b>
<i>Less accumulated depreciation for:</i>				
Improvements other than buildings	7,938,687	776,407	-	8,715,094
Buildings and fixed equipment	69,630,817	4,459,174	16,000	74,073,991
Furniture, fixtures and equipment	14,344,394	1,360,660	959,980	14,745,074
Motor vehicles	10,328,046	857,043	775,910	10,409,179
Computer software	3,093,221	229,725	32,378	3,290,568
Audio-visual materials	12,580	-	-	12,580
<b>Total accumulated depreciation</b>	<b>105,347,745</b>	<b>7,683,009</b>	<b>1,784,268</b>	<b>111,246,486</b>
<b>Total capital assets being depreciated, net</b>	<b>157,610,287</b>	<b>2,591,395</b>	<b>36,735</b>	<b>160,164,947</b>
<b>Governmental activities - capital assets, net</b>	<b>\$ 178,058,804</b>	<b>\$ 41,618,239</b>	<b>\$ 6,031,535</b>	<b>\$ 213,645,508</b>



Okaloosa County District School Board

Notes to Financial Statements

**NOTE 6 - CHANGES IN CAPITAL ASSETS (CONTINUED)**

Depreciation expense was charged to functions as follows:

<b>Function</b>	<b>Amount</b>
Instruction	\$ 429,419
Pupil transportation services	433,384
Maintenance of plant	57,080
Unallocated	6,763,126
	<b>\$ 7,683,009</b>

**NOTE 7 - 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 8 - COMMITMENTS AND CONTINGENCIES**

The District leases its computer hardware assets from Titan Corporation. The lease expires December 31, 2013. Total expense under this operating lease for the fiscal year ended June 30, 2008, was \$6,977,350.

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

<b>Fiscal Year Ending June 30,</b>	<b>Amount</b>
2009	\$ 6,777,849
2010	6,916,819
2011	7,054,318
2012	7,167,377
2013	7,281,070
Thereafter	3,644,025
	<b>\$ 38,841,458</b>

Okaloosa County District School Board

Notes to Financial Statements

**NOTE 9 - CHANGES IN LONG-TERM LIABILITIES**

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

Description	Balance 7/1/2007	Additions	Deductions	Balance 6/30/2008	Due in One Year
Bonds payable	\$ 7,595,000	\$ 915,000	\$ (690,000)	\$ 7,820,000	\$ 725,000
Certificates of participation payable	83,690,000	-	(4,375,000)	79,315,000	4,810,000
Estimated insurance claims payable	4,292,000	2,775,524	(2,735,524)	4,332,000	2,171,000
Compensated absences payable	25,283,741	3,416,266	(2,175,316)	26,524,691	2,027,669
Other post employment benefits payable	-	186,000	-	186,000	-
<b>Total</b>	<b>\$ 120,860,741</b>	<b>\$ 7,292,790</b>	<b>\$ (9,975,840)</b>	<b>\$ 118,177,691</b>	<b>\$ 9,733,669</b>

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

**NOTE 10 - 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 secured financing of various educational facilities in the total amount of \$17,040,000. The financing was accomplished through the issuance of Certificates of Participation, Series 2003, to be repaid from the proceeds of rent paid by the District.

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, which refunded Series 1992, 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.

**NOTE 10 - CERTIFICATES OF PARTICIPATION PAYABLE (CONTINUED)**

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

Series 2003 (Refunding Series 1992)

- Baker School – ESE Suites
- Choctawhatchee High School – Additions
- Crestview High School – Additions
- Fort Walton Beach High School – Additions
- Lewis Middle School – New band room and ESE Suites
- Niceville High School – Additions
- Okaloosa Applied Technology Center – CHOICE classroom and school entrance construction and renovation
- Richbourg Middle School – ESE Suites
- Silver Sands School – ESE Classroom
- Walker Elementary School

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 Bay Elementary School
- Bob Sikes Elementary School – Classroom addition

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

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

Okaloosa County District School Board

Notes to Financial Statements

**NOTE 10 - CERTIFICATES OF PARTICIPATION PAYABLE (CONTINUED)**

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
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	1,140,000	360,280	1,500,280
2014-2018	6,410,000	1,109,540	7,519,540
2019	1,440,000	61,200	1,501,200
<b>Subtotal</b>	<b>13,210,000</b>	<b>3,322,645</b>	<b>16,532,645</b>

*Certificates of Participation - 2006*

Fiscal Year Ending June 30,	Principal	Interest	Total
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	1,940,000	774,105	2,714,105
2014-2018	10,795,000	2,770,668	13,565,668
2019-2021	7,530,000	610,400	8,140,400
<b>Subtotal</b>	<b>27,385,000</b>	<b>7,885,293</b>	<b>35,270,293</b>

Okaloosa County District School Board

Notes to Financial Statements

**NOTE 10 - CERTIFICATES OF PARTICIPATION PAYABLE (CONTINUED)**

*Certificates of Participation - 2007*

Fiscal Year Ending June 30,	Principal	Interest	Total
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	2,475,000	1,213,015	3,688,015
2014-2018	13,940,000	4,498,475	18,438,475
2019-2022	13,320,000	1,426,783	14,746,783
Subtotal	38,720,000	12,906,533	51,626,533
Total	\$ 79,315,000	\$ 24,114,471	\$ 103,429,471

**NOTE 11 - BONDS PAYABLE**

Bonds payable at June 30, 2008, are as follows:

Bond Type	Interest Rates (Percent)	Annual Maturity To	Amount Outstanding
State School Bonds:			
Series 1999-A	4.125 - 4.75	2019	\$ 380,000
Series 2005-A	5.000	2016	4,885,000
Series 2005-B, Refunding	5.000	2018	805,000
Series 2008-A	4.0 - 5.00	2028	915,000
District Revenue Bonds:			
Series 1994	5.80 - 6.10	2015	835,000
Total bonds payable			\$ 7,820,000

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.

**NOTE 11 - 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, 2008 are as follows:

Year Ending June 30,	Total	Principal	Interest
<b>State School Bonds:</b>			
2009	\$ 955,279	\$ 625,000	\$ 330,279
2010	978,725	665,000	313,725
2011	981,188	700,000	281,188
2012	976,788	730,000	246,788
2013	980,888	770,000	210,888
2014-2018	3,311,281	2,830,000	481,281
2019-2023	421,275	290,000	131,275
2024-2028	431,625	375,000	56,625
<b>Total State School Bonds</b>	<b>9,037,049</b>	<b>6,985,000</b>	<b>2,052,049</b>
<b>District Revenue Bonds:</b>			
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	149,400	125,000	24,400
2014-2015	300,314	275,000	25,314
<b>Total District Revenue Bonds</b>	<b>1,049,126</b>	<b>835,000</b>	<b>214,126</b>
<b>Total</b>	<b>\$ 10,086,175</b>	<b>\$ 7,820,000</b>	<b>\$ 2,266,175</b>

Okaloosa County District School Board

Notes to Financial Statements

**NOTE 12 - 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 as been removed from the government-wide financial statements.

The Series 2005B bonds were issued to reduce the total debt service payments over the following 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 13 - PROPERTY TAXES**

The following is a summary of millages and taxes levied on the 2007 tax roll for the 2007-2008 fiscal year:

	Millages	Taxes Levied
<u>General Fund</u>		
Nonvoted School Tax:		
Required local effort	5.024	\$ 95,086,271
Basic discretionary local effort	0.510	9,650,810
Supplemental discretionary local effort	0.167	3,162,496
<u>Capital Projects Funds</u>		
Nonvoted Tax:		
Local capital improvements	1.938	36,678,028
Total	7.639	\$ 144,577,605

Okaloosa County District School Board

Notes to Financial Statements

**NOTE 14 - SCHEDULE OF STATE REVENUE SOURCES**

The following is a schedule of the District's State revenue for the 2007-2008 fiscal year:

Sources	Amount
Florida education finance program	\$ 60,599,043
Categorical educational programs:	
Class size reduction	27,611,491
Transportation	6,254,984
Instructional materials	3,047,898
School recognition funds	2,379,414
Discretionary lottery funds	1,382,223
Other	1,413,680
Gross receipts tax (Public Education Capital Outlay)	4,085,797
Classrooms for kids (Public Education Capital Outlay)	2,769,177
Workforce development	2,521,152
DJJ Supplemental	565,254
Motor vehicles license tax (general fund, capital outlay and debt service)	1,124,919
Charter school capital outlay	896,793
Racing commission funds	190,750
Food service supplement	111,533
State forest funds	51,341
Mobile home license tax	49,032
Miscellaneous	443,074
<b>Total</b>	<b>\$ 115,497,555</b>

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

**NOTE 15 - 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.

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 2008-2009 fiscal year budget as a result of purchase orders outstanding at June 30, 2008.



**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.

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.

***Funding Policy***

The contribution rates for Plan members are established, and may be amended, by the State of Florida. During the 2007-2008 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.

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

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, 2008, June 30, 2007, and June 30, 2006, totaled \$15,339,980, \$14,687,818, and \$10,921,064, 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 2007 - 2008 fiscal year. Required employer contributions made to the program for the fiscal year ended June 30, 2008, totaled \$1,133,589.

***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 2007-2008 fiscal year was \$182,788.

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.

**NOTE 18 – OTHER POSTEMPLOYMENT BENEFITS**

Effective for the 2007-2008 fiscal year, the District implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for certain postemployment health care benefits provided by the District. The requirements of this Statement are being implemented prospectively, with the actuarially determined liability of \$17,078,000 at the July 1, 2007 date of transition amortized over 30 years. Accordingly, for financial reporting purposes, no liability is reported for the postemployment health care benefits liability at the date of transition.

- ***Plan Description***

Pursuant to the provisions of Section 112.0801, Florida Statutes, former employees who retire from the District, and eligible dependents, may continue to participate in the District's health and hospitalization plan for medical, and prescription drug coverage. The District subsidizes the premium rates paid by retirees by allowing them to participate in the plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the plan on average than those of active employees. Additionally, certain retirees receive insurance coverage at a lower (explicitly subsidized) premium rate than active employees. The benefits provided under this defined benefit plan are provided for employees actively enrolled in the District health care plans at the time of retirement. Retirees are required to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible. The rates paid by retirees eligible for Medicare are reduced by the Medicare premium.

- ***Funding Policy***

The District has not advance-funded or established a funding methodology for the annual Other Postemployment Benefit (OPEB) costs or the net OPEB obligation. For the 2007-2008 fiscal year, 586 retirees received postemployment health care benefits. The District provided required contributions of \$966,000 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees for claims expenses (net of reinsurance), administrative expenses, and reinsurance premiums, and net of retiree contributions totaling \$1,152,000.

**NOTE 18 - OTHER POST EMPLOYMENT BENEFITS (CONTINUED)**

- **Annual OPEB Cost and Net OPEB Obligation**

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

<u>Year ended June 30,</u>	<u>2008</u>
Normal Cost (service cost for one year)	\$ 445,000
Amortization of Unfunded Actuarial Accrued Liability (UAAL)	652,000
Interest on Normal Cost and Amortization	55,000
Annual Required Contribution (ARC)	1,152,000
Interest on Net OPEB Obligation	-
Adjustment to Annual Required Contribution	-
Annual OPEB Cost (Expense)	1,152,000
Contributions made	(966,000)
Increase (decrease) in Net OPEB Obligation	186,000
Net OPEB Obligation, beginning of year	-
Net OPEB Obligation, end of year	\$ 186,000

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2008 (first year of implementation), was as follows:

Fiscal year Ending	Annual OPEB Cost	Amount Contributed	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2008	\$ 1,152,000	\$ 966,000	83.90%	\$ 186,000

- **Funded Status and Funding Progress**

As of June 30, 2008, the actuarial accrued liability for benefits was \$17,078,000, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$17,078,000. The covered payroll (annual payroll of active participating employees) was \$102,423,962 for the 2007-08 fiscal year, and the ratio of unfunded actuarial accrued liability to the covered payroll was 16.67 percent.

**NOTE 18 - OTHER POST EMPLOYMENT BENEFITS (CONTINUED)**

- ***Actuarial Method and Assumptions***

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and termination, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes are based on the substantive plan provisions, as understood by the employer and participating members, and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and participating members. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The District's initial OPEB actuarial valuation as of July 1, 2007, used the Unit Credit actuarial method with amortization on a level percentage basis, to estimate the unfunded and funded actuarial liability as of June 30, 2008. The Unit Credit actuarial method provides the most logical correlation between accruing and expensing of the retiree benefits. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 5 percent discount rate. The actuarial assumptions also included a payroll growth rate of 4 percent per year, and an annual healthcare cost trend rate of 10 percent initially for the 2007-2008 fiscal year, reduced by 1 percent per year, to an ultimate rate of 5 percent after five years. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2008, is 29 years.

Okaloosa County District School Board

Notes to Financial Statements

**NOTE 19 - 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	\$ 234,533	\$ 229,400	\$ 5,133
Bruner Middle School - roof replacement	349,844	190,624	159,220
Cherokee Elementary School - new HVAC and site work	2,854,203	1,578,796	1,275,407
Classroom additions:			
Bluewater Elementary School	2,725,582	2,670,668	Complete
Bob Sikes Elementary School	1,178,195	1,117,003	Complete
Bob Sikes Elementary School	2,858,513	2,763,770	94,743
Edge Elementary School	2,432,341	2,036,410	395,931
Florosa Elementary School	4,493,806	2,685,256	1,808,550
Mary Esther Elementary School	1,774,826	1,588,578	186,248
Plew Elementary School	1,432,796	1,272,476	160,320
Shalimar Elementary School	2,201,597	2,081,049	120,548
Walker Elementary School	2,001,995	1,950,057	Complete
Wright Elementary School	1,763,281	1,442,478	320,803
Common Campus:Roof Replacement	2,813,376	1,264,686	1,548,690
Crestview High School			
New locker hall and dining expansion	2,212,211	2,195,745	16,466
Fieldhouse roofing and HVAC replacement	5,062,690	3,337,535	1,725,155
Destin Middle School: Walkway Canopy Extensions	56,617	18,673	37,944
Destin Elementary School - HVAC, restrooms & canopy	3,868,043	2,442,903	1,425,140
Elliott Point Elementary School: Chiller Renovation	2,563,932	888,057	1,675,875
Ft. Walton Beach High School - roof & HVAC replacement	577,513	409,392	168,121
New School Construction			
Riverside Elementary School	23,792,286	12,827,075	10,965,211
Shoal River Middle School	29,079,461	11,954,431	17,125,030
Redstone Extension	2,458,507	201,699	2,256,808
Niceville High School			
Sewer upgrade	1,042,505	926,319	116,186
Concession Stand	747,543	92,603	654,940
Replace HVAC in gym	408,324	222,351	185,973
Meigs Middle School - canopy replacements & repair	188,119	146,898	41,221
Oak Hill Elementary School - roof replacement	555,042	231,611	323,431
Pryor Middle School - canopy, bus ramp, and parking lot	1,967,774	1,669,418	298,356
Ruckel Middle School -			
Renovation of locker hall & restrooms	1,049,968	940,777	109,191
<b>Total</b>	<b>\$104,745,423</b>	<b>\$ 61,376,738</b>	<b>\$ 43,200,641</b>

**NOTE 20 - 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 cover 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, 2008, an actuarially determined liability discounted to a present value of \$4,332,000, 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, 2008, \$4,332,000 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
2006 - 2007	\$ 4,689,000	1,296,622	(1,693,622)	\$ 4,292,000
2007 - 2008	4,292,000	2,775,524	(2,735,524)	4,332,000

**NOTE 21 - LITIGATION**

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

Required Supplementary Information  
(Other Than MD&A)



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

Year ended June 30,

2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Intergovernmental:				
Federal direct	\$ 5,491,561	\$ 6,918,800	\$ 7,487,512	\$ 568,712
Federal through state	300,000	300,000	356,709	56,709
State sources	114,370,554	106,330,125	106,330,125	-
Local sources	107,347,172	111,022,478	111,811,397	788,919
<b>Total revenues</b>	<b>227,509,287</b>	<b>224,571,403</b>	<b>225,985,743</b>	<b>1,414,340</b>
<b>Expenditures</b>				
Instruction	164,017,867	162,059,955	155,003,356	7,056,599
Pupil personnel services	7,437,760	7,543,444	7,148,734	394,710
Instructional media services	3,240,252	3,258,124	3,183,820	74,304
Instructional and curriculum development	5,535,943	5,562,075	4,759,845	802,230
Instructional staff training	572,522	661,946	489,822	172,124
Instruction related technology	746,270	820,133	765,381	54,752
Board of education	1,405,213	2,133,994	3,070,211	(936,217)
General administration	396,699	457,488	385,064	72,424
School administration	16,339,451	16,769,545	16,155,191	614,354
Facilities acquisition and construction	500,665	454,980	237,772	217,208
Fiscal services	1,831,591	1,819,820	1,694,499	125,321
Food services	-	87,685	87,685	-
Central services	4,710,386	4,790,852	2,532,481	2,258,371
Pupil transportation services	10,893,400	12,034,029	11,633,489	400,540
Operation of plant	15,780,001	18,440,862	14,555,921	3,884,941
Maintenance of plant	8,019,828	8,571,472	6,999,973	1,571,499
Administrative technology services	3,332,560	2,981,318	2,865,764	115,554
Community services	2,056,335	2,339,345	1,620,760	718,585
Fixed capital outlay:				
Facilities acquisition and construction	-	-	14,341	(14,341)
Other capital outlay	-	-	293,329	(293,329)
<b>Total expenditures</b>	<b>246,816,743</b>	<b>250,787,067</b>	<b>233,497,438</b>	<b>17,289,629</b>
Excess (deficiency) of revenues over expenditures	(19,307,456)	(26,215,664)	(7,511,695)	18,703,969
<b>Other financing sources (uses)</b>				
Proceeds from sale of capital assets	-	937,928	937,928	-
Loss recoveries	-	8,421	8,421	-
Transfers in	10,650,000	10,624,511	10,624,511	-
Transfers out	-	(1,010,000)	(1,010,000)	-
<b>Total other financing sources and (uses)</b>	<b>10,650,000</b>	<b>10,560,860</b>	<b>10,560,860</b>	<b>-</b>
Net change in fund balances	(8,657,456)	(15,654,804)	3,049,165	18,703,969
Fund balances - beginning	47,461,145	47,461,145	47,461,145	-
Adjustment to fund balances	(1,604,579)	(1,604,579)	-	1,604,579
<b>Fund balances - ending</b>	<b>\$ 37,199,110</b>	<b>\$ 30,201,762</b>	<b>\$ 50,510,310</b>	<b>\$ 20,308,548</b>

Okaloosa County District School Board

Schedule of Funding Progress for Other Postemployment Benefits

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
7/1/07	\$ -	\$ 17,078,000	\$ 17,078,000	0%	\$ 102,423,962	16.67%

# Single Audit Section

Okaloosa County District School Board  
 Schedule Of Expenditures Of Federal Awards  
 For The Year Ended June 30, 2008

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
<b>United States Department of Agriculture</b>				
Indirect:				
Florida Department of Agriculture and Consumer Services:				
Food Donation (Note 2A)	10.555	None	\$ 535,683	\$ -
Florida Department of Education:				
Child Nutrition Cluster:				
School Breakfast Program	10.553	321	768,938	-
National School Lunch Program	10.555	300	3,133,823	-
Summer Food Service Program	10.559	323	147,588	-
Total Child Nutrition Cluster			4,050,349	-
<b>Total United States Department of Agriculture</b>			4,586,032	-
<b>United States General Services Administration</b>				
Indirect:				
Florida Department of Management Services:				
Donation of Federal Surplus Personal Property (Note 2B)	39.003	None	1,000	-
<b>United States Department of Education</b>				
Direct:				
Impact Aid	84.041	N/A	5,854,472	135,771
Federal Pell Grant Program	84.063	N/A	288,491	-
Total Direct			6,142,963	135,771
Indirect:				
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027	263	5,633,224	-
Special Education - Preschool Grants	84.173	267	226,964	-
Total Special Education Cluster			5,860,188	-
Florida Department of Education:				
Title I Grants to Local Educational Agencies	84.010	212, 222, 223, 228	4,335,279	-
Vocational Education - Basic Grants to States	84.048	151	303,618	-
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	72,621	-
Education for Homeless Children and Youth	84.196	127	66,807	49,722
Even Start - State Educational Agencies	84.213	219	50,019	-
State Grants for Innovative Projects	84.298	113	53,040	-
Education Technology State Grants	84.318	121	40,216	-
English Language Acquisition Grants	84.365	102	108,502	-
Improving Teacher Quality State Grants	84.367	224	1,284,461	-

(continued)

Okaloosa County District School Board  
 Schedule Of Expenditures Of Federal Awards (Continued)  
 For The Year Ended June 30, 2008

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
<b>United States Department of Education (continued)</b>				
Indirect (continued):				
Florida Department of Education (continued):				
Hurricane Education Recovery	84.938	104	521	-
Total Indirect			12,175,272	49,722
<b>Total United States Department of Education</b>			18,318,235	185,493
<b>United States Department of Homeland Security:</b>				
Indirect:				
Florida Department of Community Affairs				
Public Assistance Grants (Note 3)	97.036	None	11,581	-
<b>Total United States Department of Transportation</b>			11,581	-
<b>United States Department of Defense</b>				
Direct:				
Public Law 102-484 (Note 4)	None	N/A	793,713	-
Air Force Junior Reserve Officers Training Corps	None	N/A	203,646	-
Army Junior Reserve Officers Training Corps	None	N/A	123,274	-
<b>Total United States Department of Defense</b>			1,120,633	-
<b>Total Expenditures of Federal Awards</b>			\$ 24,037,481	\$ 185,493

Notes:

- 1) Basis of Presentation. The Schedule of Expenditures of Federal Awards represents amounts expended from Federal Programs during the 2007-2008 fiscal year as determined based on the modified accrual basis of accounting. The amounts reported on the Schedule have been reconciled to and are in material agreement with amounts recorded in the District's accounting records from which the basic financial statements have been reported.
- 2) Noncash Assistance:
  - (A) Food Distribution - Represents the amount of donated food used during the 2007-2008 fiscal year. Commodities are valued at fair value as determined at the time of donation.
  - (B) Donation of Federal Surplus Personal Property - Represents 23.3% of the original acquisition costs of the donated Federal surplus personal property obtained during the 2007-2008 fiscal year.
- 3) Public Assistance Grants - The amount reported as expenditures represents hurricane related loss recoveries for the 2007-2008 fiscal year as follows:  
 \$11,462 for small projects which generally represent the final payment of eligible costs made upon the approval of the project (not necessarily expenditures already incurred) and \$119 for allowable administrative costs.
- 4) 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, 2008

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**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, 2008:

- 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: Impact Aid (CFDA 84.041), Special Education (CFDA 84.027), Public Law 102-484.
- The threshold for distinguishing between Types A and B programs was \$721,124.
- 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, 2008

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**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, 2008

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

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<b>Audit Report and Schedule Paragraph No.</b>	<b>Program/Area</b>	<b>Brief Description</b>	<b>Status</b>	<b>Comments</b>
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There are no prior audit findings.



**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, 2008, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 16, 2009. 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 Academy, Inc., and 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.

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

Destin, Florida  
March 16, 2009

**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, 2008. 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, 2008.

**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 16, 2009

## 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 Okaloosa County District School Board (the District), as of and for the year ended June 30, 2008, and have issued our report thereon dated March 16, 2009.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters, Independent Auditor's report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control over Compliance, and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated March 16, 2009, 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 which governs the conduct of district school board audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditor's reports or schedule.

Section 10.804(1)(f)1., Rules of the Auditor General, requires that we determine whether or not corrections have been taken to address findings and recommendations made in the preceding annual financial audit report. There were no recommendations made in the preceding annual financial audit report.

Section 10.804(1)(f)3., Rules of the Auditor General, requires our audit include 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.

Section 10.804(1)(f)4., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.

Section 10.804(1)(f)5., Rules of the Auditor General, requires that we address violations of laws, regulations, contracts or grant agreements, or abuse that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.

Section 10.804(1)(f)6., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that are inconsequential to the determination of financial statement amounts, considering both quantitative and qualitative factors: (1) violations of laws, regulations, contracts or grant agreements, or abuse that have occurred, or are likely to have occurred, and (2) control deficiencies that are not significant deficiencies, including, but not limited to: (a) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the annual financial statements); (b) failures to properly record financial transactions; and (c) inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. In connection with our audit, we did not have any such findings.

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

Pursuant to Sections 10.804(l)(f)7.a. and 10.805(6), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the District's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of management, the Florida Auditor General 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 16, 2009