

Okaloosa County District School Board

Financial Statements and
Supplementary Information

June 30, 2010

Okaloosa County District School Board
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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, 2010, 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 represent 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, 2010, 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 30, 2011 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Budgetary Comparison Schedules, and Schedule of Funding Progress for Other Post-Employment Benefits on pages 3 through 9, 46 through 48 and 49, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. 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 financial statements of the Okaloosa County District School Board. The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

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

Miramar Beach, Florida
March 30, 2011

Management's Discussion and Analysis

OKALOOSA COUNTY DISTRICT SCHOOL BOARD MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management of the Okaloosa County District School Board has prepared the following discussion and analysis to provide an overview of the District's financial activities for the fiscal year ended June 30, 2010. The information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events and conditions and should be considered in conjunction with the District's financial statements and notes to the financial statements.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2009-2010 fiscal year are as follows:

- The District's total net assets decreased by \$12,661,122 or 5.82%.
- General revenues totaled \$250,289,361, or 94.46% of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total \$14,673,552, or 5.54% of all revenues.
- Total long-term liabilities decreased by \$6,547,734, or 5.83%. Within long-term liabilities, the long-term liability for compensated absences decreased \$1,077,734, or 4.05%; the liability for estimated insurance claims increased \$278,000, or 7.30%; and the liability for post employment healthcare benefits payable increased by \$37,000, or 13.75% in the third year after establishing this liability.
- The unreserved fund balance of the General Fund, representing the net current financial resources available for general appropriation by the Board, totals \$9,044,308, at June 30, 2010, or 4.37% of total General Fund expenditures.
- General Fund expenditures exceeded revenues by \$10,682,557.

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. This information should be evaluated in conjunction with other non-financial factors, such as changes in the District's property base, student enrollment, and the condition of the District's capital assets, including its school buildings and administrative facilities.

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

The Okaloosa School Board Leasing Corporation, Inc., although also a legally separate entity, 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.

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. The financial resources measurement focus allows the governmental fund statements to provide information on near-term inflows and outflows of spendable resources as well as balances of spendable resources available at the end of the fiscal year.

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, the Capital Projects – Local Capital Improvement

Tax Fund, Capital Projects - Other Fund, Special Revenue - Other Federal Programs Fund, and Special Revenue - ARRA Economic Stimulus 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, Special Revenue Fund - Other Federal Programs Fund and Special Revenue - ARRA Economic Stimulus Fund to demonstrate compliance with the budget.

Fiduciary Funds: Fiduciary funds are used to report assets, such as student activity funds, held in a trustee or fiduciary capacity for the benefit of external parties. 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 and 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

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, 2010, as compared to June 30, 2009:

Net Assets, End of Year

	Governmental Activities		
	6/30/2010	6/30/2009	Increase (Decrease)
Current Assets	\$ 84,510,563	\$ 105,457,076	\$ (20,946,513)
Other Assets	230,695,723	231,383,628	(687,905)
Total Assets	315,206,286	336,840,704	(21,634,418)
Long-term Liabilities	105,708,200	112,255,934	(6,547,734)
Other Liabilities	4,470,214	6,895,777	(2,425,563)
Total Liabilities	110,178,414	119,151,711	(8,973,297)
Invested in Capital Assets - Net of Debt	162,177,683	169,890,444	(7,712,761)
Restricted	23,859,867	30,350,772	(6,490,905)
Unrestricted	18,990,322	17,447,777	1,542,545
Total Net Assets	\$ 205,027,872	\$ 217,688,993	\$ (12,661,121)

The largest portion of the District's net assets (79.10%) reflects its investment in capital assets (e.g., land, improvements other than buildings; buildings and fixed equipment; furniture, fixtures and equipment; motor vehicles; construction in progress; and audio visual materials and computer software), less any related debt still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending.

The restricted portion of the District's net assets (11.63%) represents resources that are subject to external restrictions on how they may be used. The unrestricted net assets (9.27%) may be used to meet the District's ongoing obligations to students, employees, and creditors.

The key elements of the changes in the District's net assets for the fiscal year ended June 30, 2010, as compared to June 30, 2009, are as follows:

Operating Results for the Year

	Governmental Activities		
	<u>6/30/2010</u>	<u>6/30/2009</u>	<u>Increase (Decrease)</u>
Program Revenues:			
Charges for Services	\$ 6,599,169	\$ 6,881,851	\$ (282,682)
Operating Grants and Contributions	5,469,124	10,920,463	(5,451,339)
Capital Grants and Contributions	2,605,259	4,240,350	(1,635,091)
General Revenues:			
Property Taxes Levied for Operational Purposes	102,560,464	105,861,876	(3,301,412)
Property Taxes Levied for Capital Projects	25,079,047	30,277,097	(5,198,050)
Grants and Contributions not Restricted to Specific Purposes	116,465,770	108,456,432	8,009,338
Unrestricted Investment Earnings	1,532,780	(287,141)	1,819,921
Miscellaneous	4,651,300	2,951,748	1,699,552
Total Revenues	<u>264,962,913</u>	<u>269,302,676</u>	<u>(4,339,763)</u>
Functions/Program Expenses:			
Instruction	153,531,739	153,385,638	146,101
Pupil Personnel Services	6,858,147	7,849,577	(991,430)
Instructional Media Services	1,936,423	2,295,546	(359,123)
Instruction and Curriculum Development Services	7,529,704	8,157,906	(628,202)
Instructional Staff Training	716,190	434,208	281,982
Instruction Related Technology	793,660	556,797	236,863
Board of Education	1,443,938	1,456,087	(12,149)
General Administration	1,247,697	864,901	382,796
School Administration	14,545,044	14,890,102	(345,058)
Facilities Acquisition and Construction	21,104,157	22,144,765	(1,040,608)
Fiscal Services	1,684,187	1,789,941	(105,754)
Food Services	8,912,655	10,092,030	(1,179,375)
Central Services	4,158,928	2,245,495	1,913,433
Pupil Transportation Services	11,265,627	11,219,556	46,071
Operation of Plant	16,018,791	15,050,607	968,184
Maintenance of Plant	7,661,059	6,534,388	1,126,671
Administrative Technology Services	2,743,759	2,895,759	(152,000)
Community Services	1,359,030	1,452,745	(93,715)
Interest on Long-term Debt	3,269,702	3,481,808	(212,106)
Unallocated Depreciation Expense	10,843,598	7,923,805	2,919,793
Total Functions/Program Expenses	<u>277,624,035</u>	<u>274,721,661</u>	<u>2,902,374</u>
Increase (Decrease) in Net Assets	<u>\$ (12,661,122)</u>	<u>\$ (5,418,985)</u>	<u>\$ (7,242,137)</u>

Grants and contributions not restricted to specific programs represent 43.96% of total governmental revenues in the 2009-2010 fiscal year. Grants and contributions not restricted to specific programs increased by \$8,009,338, or 7.38%, primarily due to an increase in Other Special Revenues - ARRA Economic Stimulus funding received from the State.

Instructional expenses represent 55.30% of total governmental expenses in the 2009-2010 fiscal year. Instructional expenses remained at approximately the same level as 2008-2009, although the District experienced an increase in the annual cost of personnel. This was accomplished through continued cost cutting measures implemented by the District.

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 2009-2010 fiscal year, the total fund balance was \$56,613,084, an increase of \$1,655,213 over the 2008-2009 fiscal year. Of the total fund balance, \$8,525,839 has been reserved and \$39,042,937 has been designated for specific purposes. Key factors affecting the operations of this fund were as follows:

- State revenues decreased \$10,685,758, in the fiscal year primarily due to the impact of the continuing decrease in the local property tax base on the funding received from the Florida Education Finance Program, declining enrollment, and a state mandated budget reduction. The Florida Education Finance Program formula utilizes student enrollment 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.
- Total expenditures decreased by \$11,334,854; approximately \$9.4 million, or 82% of the decrease related to decreased instruction expenditures, and \$2 million, or 18%, related to decreased pupil personnel expenditures. The majority of the General Fund shortfall was funded through the American Recovery and Reinvestment Act - Economic Stimulus Funds, which was a new revenue allocation provided by the Federal Government.

The Special Revenue - Other Federal Programs Fund accounts for the financial resources of certain Federal grant programs. Revenues and expenditures totaled \$13.3 million during the 2009-2010 fiscal year, a slight decrease from the previous fiscal year.

The Special Revenue - ARRA Economic Stimulus Fund was established during the 2008-2009 fiscal year to account for certain Federal grant program resources related to the American Recovery and Reinvestment Act. Revenues and expenditures totaled \$15.6 million during the 2009-2010 fiscal year.

The Capital Projects – Local Capital Improvement Tax Construction Tax Fund has a total fund balance of \$13,467,445, all of which must be used for the acquisition, construction, and maintenance of capital assets. Of the total fund balance, \$1,495,349 has been encumbered for specific projects. The fund balance decreased \$6,559,395, or 32.75%, in the 2009-2010 fiscal year. Key factors affecting the operations of this fund were as follows:

- Property taxes decreased by \$4,812,686 primarily due to a decrease in local property values.
- Total expenditures decreased by \$1,781,172 due mainly to decreased facilities acquisition and construction activity.

The Capital Projects – Other Fund has a total fund balance of \$6,984,434, all of which must be used for the acquisition and construction of capital assets. The fund balance decreased \$12,982,339, or 65.02%, in the 2009-2010 fiscal year as the District continued to use significant amounts of available resources necessary for the completion of a new elementary school and new middle school. In addition, the District amended the 2007 and 2006 Certificates of Participation to reconfigure Richbourg Middle School, renovate and expand Northwood Elementary and complete a chiller piping replacement at Choctawhatchee High School.

GENERAL FUND BUDGET HIGHLIGHTS

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

During the course of the 2009-2010 fiscal year, the District amended its General Fund budget several times, which resulted in a decrease in total budgeted revenues amounting to \$1,375,749, or .70%. At the same time, final budgeted appropriations were more than originally budgeted by \$627,709, or .28%. Final budgeted ending fund balance was \$33,615,289, or 5.58% less than the ending fund balance in the original budget.

Actual revenues are in line with the final budgeted amounts, while actual expenditures were \$207,083,231, or 9.27% less than final budgeted amounts. The actual ending fund balance exceeded the estimated fund balance contained in the final amended budget by \$22,997,795, a result of cost containment measures employed by the District to address decreases in funding.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets for its governmental activities as of June 30, 2010, amounts to \$230,695,723 (net of accumulated depreciation). The investment in capital assets includes land; improvements other than buildings; buildings and fixed equipment; furniture, fixtures and equipment; motor vehicles; construction in progress; and audio visual material and computer software.

Major capital asset events during the 2009-2010 fiscal year included the completion of a new elementary school and a new middle school.

Additional information on the District's capital assets can be found in Note 4 to the financial statements.

Debt Administration

At June 30, 2010 the District had total long-term debt outstanding of \$75,815,000. This amount was comprised of \$6,295,000 of bonds payable and \$69,520,000 of certificates of participation payable. During the 2009-2010 fiscal year, retirement of debt amounted to \$325,000.

Additional information on the District's long-term debt can be found in Notes 5 through 8 to the financial statements.

OTHER MATTERS OF SIGNIFICANCE

The School Board of Okaloosa County remains in a stable financial condition, but continues to face uncertain economic times. The District's current operations depend on State revenue sources, primarily Florida Education Finance Program (FEFP) moneys administered by the Florida Department of Education (Department) under the provisions of Section 1011.62, Florida Statutes. In accordance with this law, the District receives FEFP moneys based on the number of full-time equivalent (FTE) students and related data to the Department. The District has experienced a significant decline in FTE over the past several years. Based on the Florida Department of Education 2006-2007 second FFP calculation, the District's unweighted FTE (UFTE) decreased by 2,390.66 students from the 2006-2007 fiscal year to the 2009-2010 fiscal year. Additionally, it is estimated that for fiscal year 2010-2011, the district will experience a further decrease in UFTE of 233.31 students, but it is anticipated that this downward trend will begin to turn around in the last quarter of fiscal year 2010-2011.

Okaloosa County is facing unprecedented growth within the next few years. The Congressional 2005 Base Realignment and Closure Commission (BRAC) identified Okaloosa County's military installations to increase by approximately 4,500 military personnel; with their families the total population influx could be 11,000 by 2016. The majority of this growth will saturate Okaloosa County within a six month period in calendar year 2011. It is anticipated that the District could potentially enroll an additional 2,415 students between April 2011 and September 2011, related to the Army 7th Special Forces Group and 1,396 students between June 2010 and September 2016, related to the Air Force Joint Strike Fighter Initial Training Center.

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

In fiscal year 2010-2011, school districts are statutorily required to implement the Class Size Reduction constitutional amendment, which is projected to cost millions of additional dollars at a time when school districts have implemented continuing budget reduction measures to successfully balance budgets.

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,

2010

	Primary Governmental Activities	Component Units
Assets		
Cash and cash equivalents	\$ 78,616,802	\$ 632,951
Investments	2,705,314	30,894
Accounts receivable	276,202	31,373
Due from other agencies	2,250,361	18,784
Inventories	212,884	-
Prepaid items	-	102,596
Deposits	449,000	45,000
Capital assets, net	230,695,723	1,072,463
Total assets	\$ 315,206,286	\$ 1,934,061
Liabilities and Net assets		
Salaries and wages payable	\$ 1,849,411	\$ 101,580
Accounts payable and accrued expenses	993,836	2,349
Construction contracts payable	1,617,467	-
Deferred revenues	9,500	10,986
Long-term liabilities:		
Portion due within one year	10,798,494	13,090
Portion due after one year	94,909,706	16,878
Total liabilities	110,178,414	144,883
Net assets		
Invested in capital assets, net of related debt	162,177,683	-
Restricted for:		
State categorical programs	7,243,113	-
Capital projects	14,192,981	-
Debt service	1,469,272	-
Other projects	954,501	-
Unrestricted	18,990,322	1,789,178
Total net assets	205,027,872	1,789,178
Total liabilities and net assets	\$ 315,206,286	\$ 1,934,061

See accompanying notes to financial statements.

		Program Revenue	
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions
Primary government			
Governmental Activities			
Instruction	\$ 153,531,739	\$ 2,203,726	\$ -
Pupil personnel services	6,858,147	-	-
Instructional media services	1,936,423	-	-
Instruction and curriculum development	7,529,704	-	-
Instructional staff training	716,190	-	-
Instruction related technology	793,660	-	-
School board	1,443,938	-	-
General administration	1,247,697	-	-
School administration	14,545,044	-	-
Facilities acquisition and construction	21,454,157	-	-
Fiscal services	1,684,187	-	-
Food services	8,912,655	3,881,201	5,469,124
Central services	4,158,928	-	-
Pupil transportation services	11,265,627	514,242	-
Operation of plant	16,018,791	-	-
Maintenance of plant	7,661,059	-	-
Administrative technology services	2,743,759	-	-
Community services	1,359,030	-	-
Interest on long-term debt	2,919,702	-	-
Unallocated depreciation/amortization expense	10,843,598	-	-
Total governmental activities	\$ 277,624,035	\$ 6,599,169	\$ 5,469,124
Component Units			
Charter schools/foundations	\$ 7,505,397	\$ 382,979	\$ 706,679

General revenues:

Taxes:

Property taxes, levied for general purposes

Property taxes, levied for capital projects

Grants and contributions not restricted to specific programs

Investment earnings

Miscellaneous

Total general revenues, special items, and transfers

Change in net assets

Net assets - beginning

Net assets - ending

See accompanying notes to financial statements.

Okaloosa County District School Board

Statement of Activities

		Net (Expense) Revenue and Changes in Net Assets	
		Primary Government	
Capital Grants and Contributions	Governmental Activities	Component Units	
\$ -	\$ (151,328,013)	\$ -	-
-	(6,858,147)	-	-
-	(1,936,423)	-	-
-	(7,529,704)	-	-
-	(716,190)	-	-
-	(793,660)	-	-
-	(1,443,938)	-	-
-	(1,247,697)	-	-
-	(14,545,044)	-	-
1,449,762	(20,004,395)	-	-
-	(1,684,187)	-	-
-	437,670	-	-
-	(4,158,928)	-	-
-	(10,751,385)	-	-
-	(16,018,791)	-	-
-	(7,661,059)	-	-
-	(2,743,759)	-	-
-	(1,359,030)	-	-
1,155,497	(1,764,205)	-	-
-	(10,843,598)	-	-
<u>\$ 2,605,259</u>	<u>(262,950,483)</u>	-	-
<u>\$ 61,224</u>	-	(6,354,515)	

102,560,464	-
25,079,047	-
116,465,770	6,199,654
1,532,780	4,093
4,651,300	38,422
<u>250,289,361</u>	<u>6,242,169</u>
(12,661,122)	(112,346)
217,688,994	1,901,524
<u>\$ 205,027,872</u>	<u>\$ 1,789,178</u>

See accompanying notes to financial statements.

Okaloosa County District School Board
Balance Sheet
Governmental Funds

June 30,

2010

	General Fund	Special Revenue - Other Federal Programs	ARRA Economic Stimulus Funds	Capital Projects - Local Capital Improvement Tax Fund	Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
Assets							
Cash and cash equivalents	\$ 55,384,407	\$ -	\$ -	\$ 14,348,471	\$ 6,361,537	\$ 2,522,387	\$ 78,616,802
Investments	1,104,301	-	-	38,248	1,366,689	196,076	2,705,314
Accounts receivable, net	275,162	-	-	960	-	80	276,202
Deposits receivable	449,000	-	-	-	-	-	449,000
Due from other funds	806,247	-	-	-	-	-	806,247
Due from other agencies	1,202,398	593,599	213,288	10,495	-	230,581	2,250,361
Inventory	76,856	-	-	-	-	136,028	212,884
Total assets	\$ 59,298,371	\$ 593,599	\$ 213,288	\$ 14,398,174	\$ 7,728,226	\$ 3,085,152	\$ 85,316,810
Liabilities and fund balances							
Liabilities:							
Salaries, benefits and payroll taxes payable	\$ 1,849,411	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,849,411
Accounts payable	826,376	25,627	10,055	24,601	-	107,177	993,836
Construction contracts payable	-	-	-	906,128	708,750	2,589	1,617,467
Due to other funds	-	567,972	203,233	-	35,042	-	806,247
Deferred revenue	9,500	-	-	-	-	-	9,500
Total liabilities	2,685,287	593,599	213,288	930,729	743,792	109,766	5,276,461
Fund balances:							
Reserved for:							
State required carryover programs	7,243,113	-	-	-	-	-	7,243,113
Encumbrances	1,205,870	-	-	1,495,349	100	43,235	2,744,554
Inventories	76,856	-	-	-	-	136,028	212,884
Debt service funds	-	-	-	-	-	1,469,271	1,469,271
Unreserved:							
Designated for local carryover projects	22,686,484	-	-	11,944,710	6,984,334	601,859	42,217,387
Designated for schools/departments	6,392,518	-	-	-	-	-	6,392,518
Designated for self-insurance	4,087,000	-	-	-	-	-	4,087,000
Designated for FTE adjustments	2,797,611	-	-	-	-	-	2,797,611
Designated for terminal pay	512,324	-	-	-	-	-	512,324
Designated for contingency	2,567,000	-	-	-	-	-	2,567,000
Undesignated, reported in:							
General fund	9,044,308	-	-	-	-	-	9,044,308
Special revenue funds	-	-	-	-	-	724,061	724,061
Capital projects funds	-	-	-	27,386	-	932	28,318
Total fund balances	56,613,084	-	-	13,467,445	6,984,434	2,975,386	80,040,349
Total liabilities and fund balances	\$ 59,298,371	\$ 593,599	\$ 213,288	\$ 14,398,174	\$ 7,728,226	\$ 3,085,152	\$ 85,316,810

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>	2010
Total fund balances, governmental funds	\$ 80,040,349
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.	230,695,723
Long term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(105,708,200)
Net assets of governmental activities in the statement of net assets	\$ 205,027,872

See accompanying notes to financial statements.

Year ended June 30,

	General Fund	Special Revenue - Other Federal Programs
Revenues		
Intergovernmental		
Federal direct	\$ 4,764,946	\$ 692,742
Federal through state	467,792	12,575,069
State sources	82,274,649	-
Local sources	108,893,287	9,292
Total revenues	196,400,674	13,277,103
Expenditures		
Current:		
Instruction	135,993,479	9,086,978
Pupil personnel services	4,925,917	730,823
Instructional media service	1,663,197	15,670
Instructional and curriculum developmer	3,843,094	2,496,382
Instructional staff training	272,120	239,071
Instruction related technology	625,803	-
Board of education	1,445,868	-
General administration	396,451	373,991
School administration	14,299,268	15,028
Facilities acquisition and construction	197,680	-
Fiscal services	1,613,719	-
Food services	122,365	-
Central services	2,739,464	-
Pupil transportation services	10,950,909	70,212
Operation of plant	15,961,914	-
Maintenance of plant	7,635,790	-
Administrative technology service	2,754,090	-
Community services	1,364,401	-
Fixed capital outlay		
Facilities acquisition and construction	29,728	-
Other capital outlay	247,974	248,948
Debt Service:		
Retirement of principal	-	-
Interest and fiscal charges	-	-
Dues, fees, and issuance costs	-	-
Miscellaneous	-	-
Total expenditures	207,083,231	13,277,103
Excess (deficiency) of revenues over expenditures	(10,682,557)	-
Other financing sources (uses)		
Refunding bonds issued	-	-
Loss recoveries	291,454	-
Transfers in	12,046,316	-
Transfers out	-	-
Total other financing sources and (uses)	12,337,770	-
Net change in fund balances	1,655,213	-
Fund balances, July 1, 2009	54,957,871	-
Fund balances, June 30, 2010	\$ 56,613,084	\$ -

See accompanying notes to financial statements.

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

2010

ARRA Economic Stimulus Funds	Capital Projects - Local Capital Improvement Tax Fund	Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 5,457,688
15,581,845	-	115,733	5,329,440	34,069,879
-	-	777,833	1,950,812	85,003,294
-	25,449,946	689,811	3,902,394	138,944,730
15,581,845	25,449,946	1,583,377	11,182,646	263,475,591
9,516,245	-	-	-	154,596,702
1,234,185	-	-	-	6,890,925
267,454	-	-	-	1,946,321
1,230,664	-	-	-	7,570,140
206,740	-	-	-	717,931
169,565	-	-	-	795,368
-	-	-	-	1,445,868
478,880	-	-	-	1,249,322
306,676	-	-	-	14,620,972
-	11,456,674	7,324,842	-	18,979,196
78,884	-	-	-	1,692,603
1,208	-	-	8,811,499	8,935,072
1,152,158	-	-	-	3,891,622
-	-	-	-	11,021,121
85,010	-	-	-	16,046,924
-	-	-	-	7,635,790
-	-	-	-	2,754,090
-	-	-	-	1,364,401
-	838,159	5,359,961	1,819,408	8,047,256
854,176	823,779	802,315	54,478	3,031,670
-	-	-	6,110,000	6,110,000
-	-	-	3,267,343	3,267,343
-	-	-	30,310	30,310
-	-	-	3,227	3,227
15,581,845	13,118,612	13,487,118	20,096,265	282,644,174
-	12,331,334	(11,903,741)	(8,913,619)	(19,168,583)
-	-	-	356,178	356,178
-	-	-	-	291,454
-	-	-	7,923,011	19,969,327
-	(18,890,729)	(1,078,598)	-	(19,969,327)
-	(18,890,729)	(1,078,598)	8,279,189	647,632
-	(6,559,395)	(12,982,339)	(634,430)	(18,520,951)
-	20,026,840	19,966,773	3,609,816	98,561,300
\$ -	\$ 13,467,445	\$ 6,984,434	\$ 2,975,386	\$ 80,040,349

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

<u>Year ended June 30,</u>	<u>2010</u>
Net change in fund balances - total governmental funds:	\$ (18,520,951)
Amounts reported for Governmental Activities in the Statement of Activities are different because:	
Capital outlays are reported in governmental funds as an expenditure. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeds capital outlay in the current	(1,897,835)
The net effect of miscellaneous transactions involving capital assets (i.e., donations and disposals) is to increase capital assets.	1,209,930
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	5,785,000
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	1,077,734
In the Statement of Activities, other post employment benefit (OPEB) obligations are reported as a liability per governmental accounting standards which requires that the cost of OPEB be recognized sooner (as promised benefits are being earned) rather than later (when promised benefits are actually paid).	(37,000)
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.	(278,000)
<u>Change in net assets of governmental activities</u>	<u>\$ (12,661,122)</u>

See accompanying notes to financial statements.

Okaloosa County District School Board

Statement of Fiduciary Assets and Liabilities

<i>June 30,</i>	2010
	Agency Funds
Assets	
Cash and cash equivalents	\$ 3,947,568
Other receivables	289,587
Total assets	\$ 4,237,155
Liabilities	
Due to other funds	\$ 132,262
Internal accounts payable	4,104,893
Total liabilities	\$ 4,237,155

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 5. 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 includes 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, 2010, 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, 2010, 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, 2010, 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 expense associated with instruction and the District’s transportation and maintenance departments are allocated to the instruction, transportation, and maintenance of plant functions, while the remaining depreciation expense not readily associated with a particular function is reported as unallocated on the accompanying statement of activities.

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.
- Special Revenue – Other Federal Programs Fund – to account for certain Federal grant programs resources.
- Special Revenue – ARRA Economic Stimulus Fund – to account for certain Federal grant program resources related to the American Recovery and Reinvestment Act (ARRA).
- 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

Deposits and Investments

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

Investments consist of amounts placed in State Board of Administration Debt Service accounts for investment of debt service moneys; 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The District's investments in the Local Government Surplus Funds Trust Fund ("Florida PRIME"), which the State Board of Administration indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, as of June 30, 2010, 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.

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 0.6735315 at June 30, 2010. 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 Florida PRIME, 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 Florida PRIME.

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.

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

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 2009 tax levy on September 14, 2009. 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.

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.

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.

NOTE 2 - BUDGETARY COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

- 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, 2010, are shown below:

Investment	Maturities		Fair Value
State Board of Administration:			
Fund B Surplus Funds Trust Fund (2)	8.05 Year Avg	\$	2,536,560
Debt Service Accounts	6 Months		168,754
Total investments, primary government		\$	2,705,314
Florida PRIME (1)(2)			
	46 Day Avg	\$	20,305,074

Notes:

- 1) Included as cash and cash equivalents in the accompanying financial statements.
- 2) Pursuant to the trust agreements, the trustee for the District's Certificates of Participation, Series 2003, 2006, and 2007 holds all or part of these investments in trust accounts as follows: Florida PRIME \$5,325,862 and Fund B \$1,974,512.

Interest Rate Risk

- Section 218.415(17), Florida Statutes, limits investment maturities to provide sufficient liquidity to pay obligations as they come due. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses from increasing interest rates.

NOTE 3 – INVESTMENTS (CONTINUED)

- The maturity of the State Board of Administration Florida PRIME 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, 2010.

Credit Risk

- Section 218.415(17), Florida Statutes, limits investments to the State Board of Administration Florida PRIME, 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, 2010, the District's investment in Florida PRIME is rated AAAM by Standard & Poor's. The Fund B Surplus Funds Trust Fund is unrated.
- As of June 30, 2010, the District's investment in the Dreyfus Treasury Prime Cash Management Fund was rated AAAM by Standard & Poor's.

Custodial Credit Risk

- Section 218.415(18), Florida Statutes, requires the District to earmark all investments and 1) if registered with the issuer or its agents, the investment must be immediately placed for safekeeping in a location that protects the governing body's interest in the security; 2) if in book entry form, the investment must be held for the credit of the governing body by a depository chartered by the Federal Government, the State, or any other state or territory of the United States which has a branch or principal place of business in the State, or by a national association organized and existing under the laws of the United States which is authorized to accept and execute trust and which is doing business in the State, and must be kept by the depository in an account separate and apart from the assets of the financial institution; or 3) if physically issued to the holder

Okaloosa County District School Board

Notes to Financial Statements

NOTE 3 – INVESTMENTS (CONTINUED)

Custodial Credit Risk (continued)

but not registered with the issuer or its agents, or 3) if physically issued to the holder but not registered with the issuer or its agents, must be immediately placed for safekeeping in a secured vault. The District's investment policy does not address custodial credit risk.

NOTE 4 – CHANGES IN CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2010 are shown below:

	Balance 7/1/2009	Additions and Reclassifications	Deletions	Balance 6/30/2010
Governmental Activities				
<i>Capital assets not being depreciated:</i>				
Land	\$ 11,387,119	\$ 368,272	\$ 100	\$ 11,755,291
Construction in progress	64,352,455	155,517	64,352,455	155,517
Total capital assets not being depreciated	75,739,574	523,789	64,352,555	11,910,808
<i>Capital assets being depreciated:</i>				
Improvements other than buildings	13,334,603	785,083	-	14,119,686
Buildings and fixed equipment	218,401,775	70,605,450	12,327	288,994,898
Furniture, fixtures and equipment	22,214,754	3,156,651	1,727,988	23,643,417
Motor vehicles	15,411,120	-	217,820	15,193,300
Audio-visual materials and computer software	3,770,828	222,397	412,302	3,580,923
Total capital assets being depreciated	273,133,080	74,769,581	2,370,437	345,532,224
<i>Less accumulated depreciation for:</i>				
Improvements other than buildings	9,374,007	864,819	-	10,238,826
Buildings and fixed equipment	78,253,579	7,814,213	12,327	86,055,465
Furniture, fixtures and equipment	15,503,894	1,879,676	1,727,988	15,655,582
Motor vehicles	11,013,616	859,110	217,820	11,654,906
Audio-visual materials and computer software	3,343,930	210,902	412,302	3,142,530
Total accumulated depreciation	117,489,026	11,628,720	2,370,437	126,747,309
Total capital assets being depreciated, net	155,644,054	63,140,861	-	218,784,915
Governmental activities - capital assets, net	\$ 231,383,628	\$ 63,664,650	\$ 64,352,555	\$ 230,695,723

NOTE 4 – CHANGES IN CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions as follows:

Function	Amount
Instruction	\$ 445,150
Pupil transportation services	291,374
Maintenance of plant	48,698
Unallocated	10,843,498
	<u>\$ 11,628,720</u>

NOTE 5 - 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 Certificates, commenced on November 1, 2003, and ends on the earlier of the date on which the 2003 Certificates have been paid in full or provision for their payment has been made, or July 1, 2029. The properties covered by the ground leases are, together with the improvements constructed thereon from the financing proceeds, leased back to the District. If the District fails to renew the leases and to provide for the rent payments through to term, the District may be required to surrender the sites included under the ground leases for the benefit of the securers of the Certificates for a period of time specified by the arrangements, which may be up through the last day of the ground lease terms.

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

Series 2003 (Refunding Series 1992)

- Baker School – ESE Suites
- Choctawhatchee High School – Additions
- Choctawhatchee High School – CHOICE renovations, addition and equipment
- Crestview High School – Additions
- Crestview High School – CHOICE renovations, addition, equipment and classroom construction/renovation
- Fort Walton Beach High School – Additions
- Lewis Middle School – New band room and ESE Suites
- Niceville High School – Additions
- Niceville High School – CHOICE renovations, addition and equipment

NOTE 5 - CERTIFICATES OF PARTICIPATION PAYABLE (CONTINUED)

- 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 Purchases – New School Sites

On April 12, 2010, the 2007 Certificates of Participation ground lease agreement was amended to add the following property to the ground lease:

- Northwood Elementary – School Renovation and Expansion
- Richbourg Middle School – Reconfiguration
- Choctawhatchee High School – Chiller Piping Replacement

The lease payments are payable by the District, semiannually, on January 1 and July 1 at an interest rate ranging from 3.30% to 4.25% for Certificates of Participation 2003, interest rates ranging from 3.50% to 4.00% for Certificates of Participation 2006, and interest rates ranging from 4.00% to 4.25% for Certificates of Participation 2007.

Okaloosa County District School Board

Notes to Financial Statements

NOTE 5 - CERTIFICATES OF PARTICIPATION PAYABLE (CONTINUED)

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
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	1,185,000	318,100	1,503,100
2015	1,230,000	273,070	1,503,070
2016-2019	5,435,000	579,570	6,014,570
Subtotal	11,165,000	2,364,240	13,529,240

Certificates of Participation - 2006

Fiscal Year Ending June 30,	Principal	Interest	Total
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	2,005,000	706,205	2,711,205
2015	2,080,000	634,025	2,714,025
2016-2020	11,630,000	1,936,438	13,566,438
2021	2,610,000	104,400	2,714,400
Subtotal	23,950,000	5,897,983	29,847,983

Certificates of Participation - 2007

Fiscal Year Ending June 30,	Principal	Interest	Total
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	2,575,000	1,114,015	3,689,015
2015	2,675,000	1,011,015	3,686,015
2016-2020	15,080,000	3,357,163	18,437,163
2021-2022	6,930,000	443,065	7,373,065
Subtotal	34,405,000	9,846,303	44,251,303
Total	\$ 69,520,000	\$ 18,108,526	\$ 87,628,526

Okaloosa County District School Board

Notes to Financial Statements

NOTE 6 - BONDS PAYABLE

Bonds payable at June 30, 2010, are as follows:

Bond Type	Interest Rates (Percent)	Annual Maturity To	Amount Outstanding
State School Bonds:			
Series 2005-A	5.000	2016	\$ 3,905,000
Series 2005-B, Refunding	5.000	2018	615,000
Series 2008-A	3.250 - 5.000	2028	855,000
Series 2009-A, Refunding	2.000 - 5.000	2019	290,000
District Revenue Bonds:			
Series 1994	5.875 - 6.100	2015	630,000
Total bonds payable			\$ 6,295,000

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.

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.

Okaloosa County District School Board

Notes to Financial Statements

NOTE 6 - BONDS PAYABLE (CONTINUED)

Amounts payable for the planned extended repayment of bonds payable at June 30, 2010 are as follows:

Year Ending June 30,	Total	Principal	Interest
State School Bonds:			
2011	\$ 979,475	\$ 700,000	\$ 279,475
2012	975,525	730,000	245,525
2013	979,775	770,000	209,775
2014	977,000	805,000	172,000
2015	977,125	845,000	132,125
2016-2020	1,509,625	1,275,000	234,625
2021-2025	404,025	300,000	104,025
2026-2028	263,225	240,000	23,225
Total State School Bonds	7,065,775	5,665,000	1,400,775
District Revenue Bonds:			
2011	148,200	110,000	38,200
2012	151,600	120,000	31,600
2013	149,400	125,000	24,400
2014	151,775	135,000	16,775
2015	148,539	140,000	8,539
Total District Revenue Bonds	749,514	630,000	119,514
Total	\$ 7,815,289	\$ 6,295,000	\$ 1,520,289

NOTE 7 - BOND ISSUANCE AND REFUNDING

During fiscal year 2010, the State Board of Education ("SBE") issued SBE Capital Outlay Bonds 2009 Series A to refund certain callable portions of the SBE Capital Outlay Bonds 1999 Series A. The District's portion of the 2009 bonds issued was a principal amount of \$325,000. Actual net proceeds received of \$356,178 were used to refund the \$350,000 outstanding balance of the District's 1999 A Bonds.

Okaloosa County District School Board

Notes to Financial Statements

NOTE 8 - CHANGES IN LONG-TERM LIABILITIES

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

Description	Balance 7/1/2009	Additions	Deductions	Balance 6/30/2010	Due in One Year
Bonds payable	\$ 7,095,000	\$ 325,000	\$ (1,125,000)	\$ 6,295,000	\$ 810,000
Certificates of participation payable	74,505,000	-	(4,985,000)	69,520,000	5,170,000
Estimated insurance claims payable	3,809,000	3,160,277	(2,882,277)	4,087,000	2,298,000
Compensated absences payable	26,577,934	2,382,467	(3,460,201)	25,500,200	2,520,494
Other post employment benefits payable	269,000	37,000	-	306,000	-
Total	\$ 112,255,934	\$ 5,904,744	\$ (12,452,478)	\$ 105,708,200	\$ 10,798,494

For the governmental activities, estimated insurance claims, compensated absences and post-employment healthcare benefits are generally liquidated with resources of the General Fund.

NOTE 9 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

Funds	Interfund Receivables	Payables
Major funds:		
General	\$ 806,247	\$ -
Special Revenue - Other Fund	-	567,972
Special Revenue - ARRA Fund	-	203,233
Other Capital Projects	-	35,042
TOTAL	\$ 806,247	\$ 806,247

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 9 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (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)	\$ 12,046,316	\$ -
Capital projects:		
Capital improvement tax (1) (3)	-	18,890,729
Other capital projects (2) (4)	-	1,078,598
Nonmajor governmental funds (3) (4)	7,923,011	-
TOTAL	\$ 19,969,327	\$ 19,969,327

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 Other Capital Projects to the General Fund were made to fund Charter School capital outlay.
- (3) Transfers made from the Capital Improvement Tax Fund to Nonmajor Governmental Funds were made to fund the current debt service payment.
- (4) Transfers made from Debt Service Fund to Other Capital Projects to close the Bank of New York 2006 and 2007 Certificates of Participation Cost of Issuance Accounts.

NOTE 10 - 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 2010-2011 fiscal year budget as a result of purchase orders outstanding at June 30, 2010.

Okaloosa County District School Board

Notes to Financial Statements

NOTE 11 - SCHEDULE OF STATE REVENUE SOURCES

The following is a schedule of the District's State revenue for the 2009-2010 fiscal year:

Sources	Amount
Florida education finance program	\$ 39,880,499
Categorical educational programs:	
Class size reduction	29,426,687
Transportation	5,419,532
Instructional materials	2,380,664
School recognition funds	1,692,610
Discretionary lottery funds	78,474
Other	409,706
Gross receipts tax (Public Education Capital Outlay)	537,515
Workforce development	2,191,912
DJJ Supplemental	470,323
Motor vehicles license tax (general fund, capital outlay and debt service)	1,099,161
Charter school capital outlay	777,833
Racing commission funds	137,362
Food service supplement	74,225
State forest funds	190,750
Mobile home license tax	55,828
Miscellaneous	180,213
Total	\$ 85,003,294

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

Notes to Financial Statements

NOTE 12 - PROPERTY TAXES

The following is a summary of millages and taxes levied on the 2009 tax roll for the 2009-2010 fiscal year:

	Millages	Taxes Levied
<u>General Fund</u>		
Nonvoted School Tax:		
Required local effort	5.391	\$ 92,989,677
Basic discretionary local effort	0.748	12,900,746
<u>Capital Projects Funds</u>		
Nonvoted Tax:		
Local capital improvements	1.500	25,875,166
Total	7.639	\$ 131,765,589

NOTE 13 - 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. FRS is a single retirement system administered by the Department of Management Services, Division of Retirement, and consists of two cost-sharing, multiple-employer retirement plans and other nonintegrated programs. These include the Plan, a Deferred Retirement Option Program (DROP), and a defined contribution plan, referred to as the Public Employee Optional Retirement Program (PEORP).

Benefits in the defined benefit plan vest at six years of service. All vested 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.

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

NOTE 13 - STATE RETIREMENT PROGRAM (CONTINUED)***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. Employees in PEORP vest after one year of service. There were 315 District participants in the PEORP during the 2009 - 2010 fiscal year. Required employer contributions made to the program for the fiscal year ended June 30, 2010, totaled \$1,081,583.

Funding Policy

The contribution rates for Plan members are established, and may be amended, by the State of Florida. During the 2009-2010 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% for the post-employment health insurance supplement and 0.05% for administrative costs of the Public Employee Optional Retirement Program.

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

The District's liability for participation in the Plan is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the District. The District's contributions to the Plan (including employee contributions) for the fiscal years ended June 30, 2010, June 30, 2009, and June 30, 2008, totaled \$13,863,570, \$14,283,595, and \$15,339,980, respectively, which were equal to the required contributions for each fiscal year.

NOTE 13 - STATE RETIREMENT PROGRAM (CONTINUED)

Pension Reporting

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

NOTE 14 - POSTEMPLOYMENT HEALTHCARE BENEFITS

Plan Description

The Postemployment Healthcare Benefits Plan (Plan) is a single employer defined benefit plan administered by the District. 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. The District does not offer any explicit subsidies for retiree coverage. Retirees are required to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible. The rates paid by the retirees eligible for Medicare are reduced by the Medicare premium. The Plan does not issue a stand-alone report, and it is not included in the report of a Public Employee Retirement System or another entity.

Funding Policy

Contribution requirements of the District and plan members are established and may be amended through action from the Board. The District has not advance-funded or established a funding methodology for the annual Other Postemployment Benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2009-2010 fiscal year, 535 retirees received postemployment health care benefits. The District provided required contributions of \$969,000 toward the annual OPEB cost, comprised of premium payments made on behalf of retirees net of retiree contributions totaling \$1,006,000, which represents 0.87% of covered payroll.

NOTE 14 – POSTEMPLOYMENT HEALTHCARE BENEFITS (CONTINUED)***Annual OPEB Cost and Net OPEB Obligation***

The District's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with government accounting standards. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

<i>Year ended June 30,</i>	2010
Normal Cost (service cost for one year)	\$ 386,000
Amortization of Unfunded Actuarial Accrued Liability (UAAL)	575,000
Interest on Normal Cost and Amortization	43,000
Annual Required Contribution (ARC)	1,004,000
Interest on Net OPEB Obligation	12,000
Adjustment to Annual Required Contribution	(10,000)
Annual OPEB Cost (Expense)	1,006,000
Contributions made	(969,000)
Increase (decrease) in Net OPEB Obligation	37,000
Net OPEB Obligation, beginning of year	269,000
Net OPEB Obligation, end of year	\$ 306,000

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, 2010 and the previous two fiscal years were 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
6/30/2009	1,190,000	1,107,000	93.00%	269,000
6/30/2010	1,006,000	969,000	96.00%	306,000

NOTE 14 - POSTEMPLOYMENT HEALTHCARE BENEFITS (CONTINUED)

Funded Status and Funding Progress

As of July 1, 2009, the most recent valuation date, the actuarial accrued liability for benefits was \$16,100,000, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$16,100,000. The covered payroll (annual payroll of active participating employees) was \$114,997,142 for the 2009-2010 fiscal year, and the ratio of unfunded actuarial accrued liability to the covered payroll was 14%.

Actuarial Method and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value or reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and termination, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The required schedule of funding progress immediately following the notes to financial statements presents multiyear trend information about whether the actuarial value of the Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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 OPEB actuarial valuation as of July 1, 2009, used the Projected Unit Credit actuarial method with amortization on a level percentage basis, to estimate the unfunded and funded actuarial liability as of June 30, 2010 and to estimate the District's 2009-2010 fiscal year ARC. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4.5% discount rate. The actuarial assumptions also included a payroll growth rate of 4% per year, and an annual healthcare cost trend rate of 10% initially for the 2009-2010 fiscal year, reduced by 1% per year, to an ultimate rate of 5% 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, 2010, is 27 years.

Okaloosa County District School Board

Notes to Financial Statements

NOTE 15 - 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
Canopies:			
Bob Sikes Elementary School	\$ 47,289	\$ 31,768	\$ 15,521
Destin Elementary School	175,000	87,101	87,899
Bluewater Elementary School	162,289	128,708	33,581
Walker Elementary School	259,578	246,855	12,723
Chiller Replacement			
Bluewater Elementary School	125,000	115,442	9,558
Longwood Elementary School	3,069,050	750,549	2,318,501
Choctawhatchee High School - Admin Renovation	786,740	535,817	250,923
Classroom additions:			
Edge Elementary School	2,602,844	2,274,438	328,406
Mary Esther Elementary School	2,071,524	1,930,848	140,676
Crestview High School			
Band Repair	100,000	54,321	45,679
Fieldhouse, HVAC, Wellness Center	4,752,767	4,067,269	685,498
Destin Elementary School - Cafeteria Renovation	2,149,500	1,833,948	315,552
Ft. Walton Beach High School - parking lot, drainage	1,184,387	1,132,465	51,922
HVAC:			
Bluewater Elementary School	100,000	92,898	7,102
Choctawhatchee High School	3,536,187	1,891,059	1,645,128
New School Construction			
New Elementary School	21,352,207	21,304,774	47,433
New Middle School	29,548,068	25,181,812	4,366,256
Redstone Extension	2,458,507	1,836,388	622,119
Okaloosa Lane Paving and Improvements	496,807	155,517	341,290
Niceville High School			
Fieldhouse Renovation	1,827,774	1,471,126	356,648
Roof Drainage	35,000	33,987	1,013
Richbourg Middle School - Classroom Renovations	9,496,260	7,308,477	2,187,783
Roof Replacement - Bluewater South Transportation	1,164,352	706,500	457,852
Southside Elementary School - Renovation/Reroofing	1,649,469	1,405,846	243,623
Total	\$ 89,150,599	\$ 74,577,913	\$ 14,572,686

Notes to Financial Statements

NOTE 16 - OPERATING LEASE COMMITMENTS

The District leases its computer hardware assets. The lease expires on December 31, 2013. Total expense under this operating lease for the fiscal year ended June 30, 2010 was \$6,170,778. The following is a schedule by year of future lease payments required under the operating lease:

Fiscal Year Ending June 30,	Amount
2011	\$ 6,318,121
2012	6,293,715
2013	6,375,435
2014	3,182,504
	\$ 22,169,775

NOTE 17 - 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, 2010, an actuarially determined liability discounted to a present value of \$4,087,000, 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, 2010, \$4,087,000 of the District's fund balance was reserved to fund future claims.

Okaloosa County District School Board

Notes to Financial Statements

NOTE 17 - RISK MANAGEMENT PROGRAMS (CONTINUED)

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
2008 - 2009	\$ 4,332,000	2,160,052	(2,683,052)	\$ 3,809,000
2009 - 2010	3,809,000	3,160,277	(2,882,277)	4,087,000

NOTE 18 - LITIGATION

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

NOTE 19 - SUBSEQUENT EVENT

Subsequent to June 30, 2010, the District approved the issuance of revenue bonds not to exceed \$3,250,000.

Required Supplementary Information
(Other Than MD&A)

Okaloosa County District School Board
Budgetary Comparison Schedule
General Fund

Year ended June 30,

2010

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final	Amounts	
Revenues				
Intergovernmental:				
Federal direct	\$ 5,034,779	\$ 4,631,248	\$ 4,764,946	\$ 133,698
Federal through state	522,640	467,792	467,792	-
State sources	85,569,760	82,270,837	82,274,649	3,812
Local sources	104,803,025	107,184,578	108,893,287	1,708,709
Total revenues	195,930,204	194,554,455	196,400,674	1,846,219
Expenditures				
Instruction	141,164,395	143,436,202	135,993,479	7,442,723
Pupil personnel services	5,856,915	5,222,519	4,925,917	296,602
Instructional media services	1,748,051	1,754,837	1,663,197	91,640
Instructional and curriculum development	5,500,296	5,062,835	3,843,094	1,219,741
Instructional staff training	374,799	350,386	272,120	78,266
Instruction related technology	672,617	679,353	625,803	53,550
Board of education	3,270,454	3,163,844	1,445,868	1,717,976
General administration	458,739	481,888	396,451	85,437
School administration	14,972,173	14,864,224	14,299,268	564,956
Facilities acquisition and construction	311,932	356,448	197,680	158,768
Fiscal services	1,895,735	1,805,495	1,613,719	191,776
Food services	47,163	122,365	122,365	-
Central services	7,391,552	6,165,954	2,739,464	3,426,490
Pupil transportation services	10,641,540	11,456,165	10,950,909	505,256
Operation of plant	20,178,348	19,883,261	15,961,914	3,921,347
Maintenance of plant	8,398,531	8,657,108	7,635,790	1,021,318
Administrative technology services	2,862,312	2,882,469	2,754,090	128,379
Community services	1,861,546	1,889,454	1,364,401	525,053
Fixed capital outlay:				
Facilities acquisition and construction	-	-	29,728	(29,728)
Other capital outlay	-	-	247,974	(247,974)
Total expenditures	227,607,098	228,234,807	207,083,231	21,151,576
Excess (deficiency) of revenues over expenditures	(31,676,894)	(33,680,352)	(10,682,557)	22,997,795
Other financing sources (uses)				
Loss recoveries	-	291,454	291,454	-
Transfers in	12,320,238	12,046,316	12,046,316	-
Total other financing sources and (uses)	12,320,238	12,337,770	12,337,770	-
Net change in fund balances	(19,356,656)	(21,342,582)	1,655,213	22,997,795
Fund balances - beginning	54,957,871	54,957,871	54,957,871	-
Fund balances - ending	\$ 35,601,215	\$ 33,615,289	\$ 56,613,084	\$ 22,997,795

Okaloosa County District School Board
Budgetary Comparison Schedule
Special Revenue Funds - Other Federal Programs

Year ended June 30,

2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental:				
Federal direct	\$ -	\$ -	\$ 692,742	\$ 692,742
Federal through state	16,766,455	16,766,455	12,575,069	(4,191,386)
Local sources	16,769	16,769	9,292	(7,477)
Total revenues	16,783,224	16,783,224	13,277,103	(3,506,121)
Expenditures				
Instruction	10,672,894	10,672,894	9,086,978	1,585,916
Pupil personnel services	855,312	855,312	730,823	124,489
Instructional media services	3,050	3,050	15,670	(12,620)
Instructional and curriculum development	3,773,741	3,773,741	2,496,382	1,277,359
Instructional staff training	266,106	266,106	239,071	27,035
General administration	606,705	606,705	373,991	232,714
School administration	-	-	15,028	(15,028)
Pupil transportation services	605,416	605,416	70,212	535,204
Fixed capital outlay:				
Other capital outlay	-	-	248,948	(248,948)
Total expenditures	16,783,224	16,783,224	13,277,103	3,506,121
Excess (deficiency) of revenues over expenditures	-	-	-	-
Other financing sources (uses)				
Loss recoveries	-	-	-	-
Transfers in	-	-	-	-
Total other financing sources and (uses)	-	-	-	-
Net change in fund balances	-	-	-	-
Fund balances - beginning	-	-	-	-
Fund balances - ending	\$ -	\$ -	\$ -	\$ -

Okaloosa County District School Board
Budgetary Comparison Schedule
Special Revenue Funds - ARRA Economic Stimulus Funds

Year ended June 30,

2010

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal through state	\$ 18,082,660	\$ 18,082,660	\$ 15,581,845	\$ (2,500,815)
Total revenues	18,082,660	18,082,660	15,581,845	(2,500,815)
Expenditures				
Instruction	13,447,271	13,447,271	9,516,245	3,931,026
Pupil personnel services	496,220	496,220	1,234,185	(737,965)
Instructional media services	298,138	298,138	267,454	30,684
Instructional and curriculum development	1,052,681	1,052,681	1,230,664	(177,983)
Instructional staff training	133,204	133,204	206,740	(73,536)
Instruction related technology	-	-	169,565	(169,565)
General administration	959,127	959,127	478,880	480,247
School administration	250,385	250,385	306,676	(56,291)
Fiscal services	-	-	78,884	(78,884)
Food services	23,637	23,637	1,208	22,429
Central services	1,218,329	1,218,329	1,152,158	66,171
Operation of plant	203,668	203,668	85,010	118,658
Fixed capital outlay:				
Other capital outlay	-	-	854,176	(854,176)
Total expenditures	18,082,660	18,082,660	15,581,845	2,500,815
Excess (deficiency) of revenues over expenditures	-	-	-	-
Other financing sources (uses)				
Loss recoveries	-	-	-	-
Transfers in	-	-	-	-
Total other financing sources and (uses)	-	-	-	-
Net change in fund balances	-	-	-	-
Fund balances - beginning	-	-	-	-
Fund balances - ending	\$ -	\$ -	\$ -	\$ -

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	0.00%	\$ 102,423,962	16.67%
7/1/08	-	17,409,000	17,409,000	0.00%	98,725,436	17.63%
7/1/09	-	16,100,000	16,100,000	0.00%	114,997,142	14.00%

Single Audit Section

Okaloosa County District School Board
Schedule of Expenditures of Federal Awards
For The Year Ended June 30, 2010

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass- Through Grantor Number	Amount of Expenditures (Note 1)	Amount Provided to Subrecipients
United States Department of Agriculture				
Indirect:				
Florida Department of Agriculture and Consumer Services:				
National School Lunch Program (2)(A)	10.555	None	\$ 652,825	\$ -
Florida Department of Education:				
Child Nutrition Cluster:				
School Breakfast Program	10.553	321	863,524	-
National School Lunch Program	10.555	300	3,747,076	-
Summer Food Service Program	10.559	323	38,048	-
Total Child Nutrition Cluster			5,301,473	-
Florida Department of Education:				
ARRA - Child Nutrition Discretionary Grants Limited Availability	10.579	371,592	46,113	-
Fresh Fruit and Vegetable Program	10.582	330	27,967	-
Florida Department of Financial Services:				
Schools and Roads - Grants to States	10.665	None	8,271	-
Total United States Department of Agriculture			5,383,824	-
United States Department of Education				
Direct:				
Impact Aid (3)	84.041	N/A	3,652,157	91,365
Federal Pell Grant Program	84.063	N/A	694,107	-
Total Direct			4,346,264	91,365
Indirect:				
Education for Homeless Children and Youth Cluster				
Florida Department of Education:				
Education for Homeless Children and Youth	84.196	127	71,400	-
ARRA - Education for Homeless Children and Youth, Recovery Act	84.387	127	11,373	-
Total Education for Homeless Children and Youth Cluster			82,773	-
ARRA - State Fiscal Stabilization Fund Cluster				
ARRA - State Fiscal Stabilization Fund (SFSF) - Education				
State Grants, Recovery Act	84.394	591	9,344,476	-
ARRA - State Fiscal Stabilization Fund (SFSF) - Government				
Services, Recovery Act	84.397	592	896,041	-
Total ARRA - State Fiscal Stabilization Fund Cluster			10,240,517	-
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027	263	5,485,884	-
Special Education - Preschool Grants	84.173	267	165,294	-
ARRA - Special Education - Grants to States, Recovery Act	84.391	263	3,343,170	-
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	267	130,116	-
Total Special Education Cluster			9,124,464	-

(continued)

Okaloosa County District School Board
Schedule of Expenditures of Federal Awards (Continued)
For The Year Ended June 30, 2010

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass- Through Grantor Number	Amount of Expenditures (Note 1)	Amount Provided to Subrecipients
United States Department of Education (continued)				
Indirect (continued):				
Florida Department of Education (continued):				
	84.010	212, 222, 223, 226,		
Title I Grants to Local Educational Agencies		228	5,438,826	-
		212, 226,		
ARRA - Title I Grants to Local Educational Agencies	84.389	223	1,716,868	-
Total Title I Grants to Local Educational Agencies Cluster			7,155,694	
Career and Technical Education -Basic Grants to States	84.048	161	279,660	-
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	77,029	-
Education Technology State Grants:				
Education Technology State Grants	84.318	121	41,526	-
ARRA -Education Technology State Grants	84.386	121	93,688	-
Total Education Technology State Grants Cluster			135,214	
English Language Acquisition Grants	84.365	102	95,065	-
Improving Teacher Quality State Grants	84.367	224	824,169	-
Total Indirect			28,014,585	
Total United States Department of Education			32,360,849	91,365
United States Department of Homeland Security:				
Indirect:				
Florida Department of Community Affairs				
Disaster Grants -Public Assistance (Note 4)				
(Presidentially Declared Disasters)	97.036	None	115,733	-
Total United States Department of Transportation			115,733	-
United States Department of Defense				
Direct:				
Public Law 110-417	12.000	N/A	836,778	-
Air Force Junior Reserve Officers Training Corps	12.000	N/A	145,717	-
Army Junior Reserve Officers Training Corps	12.000	N/A	128,928	-
Total United States Department of Defense			1,111,423	-
Total Expenditures of Federal Awards			\$ 38,971,829	\$ 91,365

Okaloosa County District School Board
Schedule of Findings and Questioned Costs
For The Year Ended June 30, 2010

Notes:

- 1) Basis of Presentation - The Schedule of Expenditures of Federal Awards represents amounts expended from Federal Programs during the 2009-2010 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) National School Lunch Program - Represents the amount of donated food received during the fiscal year. Commodities are valued at fair market value as determined at the time of donation.
- 3) Impact Aid – Expenditures include \$3,652,157 for grant number/program year S041B-2010-1256.
- 4) Public Assistance Grants - The amount reported as expenditures represents hurricane related loss recoveries for the 2009-2010 fiscal year as follows:
 - \$113,464 for large projects which generally represents Hurricane Dennis related loss recoveries for the 2009-2010 fiscal year and
 - \$2,269 for allowable administrative costs.

Okaloosa County District School Board Schedule of Findings and Questioned Costs For The Year Ended June 30, 2010

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, 2010:

- 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.
- Three (3) 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 three (3) audit findings relative to the major federal award programs for Okaloosa County District School Board.
- The programs tested as major programs included: Child Nutrition Cluster (CFDA 10.553, 10.555, 10.559), State Fiscal Stabilization Fund Cluster (CFDA 84.394, 84.397), Special Education Cluster (CFDA 84.027, 84.173, 84.391, 84.392), Title I Cluster (CFDA 84.010, 84.389), and Public Law 110-417.
- The threshold for distinguishing between Types A and B programs was \$1,169,155.
- The Okaloosa County District School Board was determined not 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, 2010

Findings and Questioned Costs – Major Federal Award Programs Audit

Finding 2010-1

Federal Agency:	United States Department of Agriculture
State Agency:	Florida Department of Education
Program:	Child Nutrition Cluster
CFDA #:	10.553, 10.555, and 10.559
Award #:	321, 300, and 323
Award Year:	July 1, 2009 – June 30, 2010
Type of Finding:	Compliance and Internal Control

Criteria:

OMB Circular A-133, United State Department of Agriculture CFDA 10.553, 10.555, and 10.559
Eligibility criteria state:

A child's eligibility for free or reduced price meals under a Child Nutrition Cluster program may be established by the submission of an annual application or statement which furnishes such information as family income and family size. Local educational agencies (LEAs), institutions, and sponsors determine eligibility by comparing the data reported by the child's household to published income eligibility guidelines. In addition to publishing income eligibility information in the Federal Register, FNS makes it available on the FNS web site (<http://www.fns.usda.gov/cnd/>) under "Income Eligibility Guidelines."

Condition:

During testing, the District determined two foster children were not eligible for free lunches in error; therefore making the determination for eligibility incorrect.

Cause:

The eligibility application for free and reduced meals contained two areas for foster children to input their income. The District uses an automated system to read and input the applications which erroneously doubled a foster child's income.

Effect:

The income for both applicants noted during testing (specifically foster children) was erroneously duplicated therefore making the eligibility classification for these two students incorrect from "free" to "reduced". The two students paid a reduced rate for meals during the entire school year. Their meals per accurate eligibility calculations should have been free.

Recommendation:

We recommend that the District ensure that current eligibility policies and procedures are in place that allows employees to perform additional system checks on automated eligibility determinations.

Okaloosa County District School Board
Schedule of Findings and Questioned Costs (Continued)
For The Year Ended June 30, 2010

Finding 2010-2

Federal Agency:	United States Department of Agriculture
State Agency:	Florida Department of Education
Program:	Child Nutrition Cluster
CFDA #:	10.553, 10.555, and 10.559
Award #:	321, 300, and 323
Award Year:	July 1, 2009 – June 30, 2010
Type of Finding:	Compliance and Internal Control

Criteria:

OMB Circular A-133, United State Department of Agriculture CFDA 10.553, 10.555, and 10.559 Special tests and Provisions criteria state:

By November 15th of each school year, the local education agency (LEA) (or State in certain cases) must verify the current free and reduced price eligibility of households selected from a sample of applications that it has approved for free and reduced price meals, unless the LEA is otherwise exempt from the verification requirement. The verification sample size is based on the total number of approved applications on file on October 1st.

Condition:

During testing, the number of students approved for reduced meals as reported to the State of Florida did not match support. The District reported 2,196 students as approved for reduced but supporting documentation indicated 2,005 students approved as reduced. This leaves a difference of 191 students from what was reported as compared to support.

Cause:

Verification information submitted to the Florida Department of Education was not reviewed by management prior to submission to the State. The keystroke error went undetected.

Effect:

The number of students receiving reduced-price meals reported to the Florida Department of Education on the verification application is inaccurate. The verification sample is not impacted here since the number of applications is correct, but the total number of students classified as reduced is inaccurate. The Florida Department of Education may rely on this data for their reporting and funding purposes.

Recommendation:

We recommend that the District establish procedures to review verification data prior to submission to the Florida Department of Education.

Okaloosa County District School Board
Schedule of Findings and Questioned Costs (Continued)
For The Year Ended June 30, 2010

Finding 2010-3

Federal Agency:	United States Department of Education
State Agency:	Florida Department of Education
Program:	Title I – Grants to Local Education Agencies
CFDA #:	84.010, 84.389
Award #:	212, 222, 112, 226, 228
Award Year:	July 1, 2009 – June 30, 2010
Type of Finding:	Compliance and Internal Control

Criteria:

OMB Circular A-87 criteria state:

If a school operating a schoolwide program does not consolidate Federal funds with State and local funds in a consolidated schoolwide pool, an employee who works, in whole or in part, on a Federal program or cost objective must document time and effort as follows: An employee who works solely on a single cost objective (i.e., a single Federal program whose funds have not been consolidated or Federal programs whose funds have been consolidated but not with State and local funds) must furnish a semi-annual certification that he/she has been engaged solely in activities in the related program for the period covered by certification. The certifications must be signed by the employee or a supervisory official having first-hand knowledge of the work performed by the employee in accordance with OMB Circular A-87, Attachment B, paragraph 8.h.(3).

Condition:

During compliance testing, multiple semi-annual certifications were not obtained for positions with the Okaloosa County Juvenile Justice Schools under the Department of Juvenile Justice (DJJ).

Cause:

At the end of the school year, additional funding for Title I - Neglected & Delinquent became available. The District transferred salary expenses for numerous positions at the Department of Juvenile Justice from the general fund salary expenditure account to the Title I salary expenditure account.

Effect:

Although salary expenditures at DJJ were deemed allowable costs and within approved budgets, semi-annual certifications per OMB Circular A-87 were not obtained as required.

Okaloosa County District School Board
Schedule of Findings and Questioned Costs (Continued)
For The Year Ended June 30, 2010

Recommendation:

We recommend that the District establish procedures to review personnel certification reports when year-end adjustments are required to transfer expenditures originally recorded in the general fund and later transferred as Title I expenditures. Personnel or management at the Department of Juvenile Justice were not given an opportunity to certify that the work they performed was an allowable activity in accordance with Title I guidelines.

Okaloosa County District School Board
Summary Schedule of Prior Audit Findings
For The Year Ended June 30, 2010

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

Audit Report and Schedule Paragraph No.	Program/Area	Brief Description	Status
2009-1	Child Nutrition Cluster Numbers 10.553, 10.555 and 10.559	The District was not using first in, first out (FIFO) inventory management properly for donated foods. In addition, the District had inadequate storage spaces and pest control for dry storage of food.	Management has corrected the deficiency.
2009-2	National School Lunch program Number 10.555	Vending machines were available to students during times inconsistent with board policies and regulations.	Management corrected the deficiency to the extent possible and plans to replace timers with battery backups to ensure cutoff times are accurate.
2009-3	Hazard Mitigation Grant Number 97.039	Required report not given on the upkeep of the school generator.	No further reports required for current year.

Okaloosa County District School Board
Corrective Action Plan
For the Year Ended June 30, 2010

Finding No. 2010-1: Child Nutrition Cluster (CFDA No. 10.553, 10.555, and 10.559)

The District has revised the eligibility application for foster children. The revision to the application requires only one income field instead of two income fields, thereby eliminating the potential of income duplication. In addition, the Food Service District Staff will implement an additional procedure which will compare income fields contained on the application to income fields reflected on an edit report, generated from the system. The implementation of the additional validation will help to ensure that eligibility determinations are accurate.

Finding No. 2010-2: Child Nutrition Cluster (CFDA No. 10.553, 10.555, and 10.559)

The District will establish procedures to review verification data prior to submission to the Florida Department of Education.

Finding No. 2010-3: Title I - Grants to Local Education Agencies (CFDA No. 84.010 and 84.389)

The District will implement a procedure that notifies federal program managers that a change in position funding has occurred which requires a semi-annual certification. The notification parameters will be based on position funding changes which are retroactive and occur after the semi-annual certifications for the respective federal program has been completed.

**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, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 30, 2011. 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 District's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Car, Riggs & Ingram, L.L.C.

Miramar Beach, Florida
March 30, 2011

**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, 2010. 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, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2010-1, 2010-2, and 2010-3.

Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

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

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2010-3 to be a significant deficiency.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses and, accordingly, we express no opinion on the responses.

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.

Miramar Beach, Florida
March 30, 2011

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, 2010, and have issued our report thereon dated March 30, 2011.

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 30, 2011, 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 corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report.

Section 10.804(1)(f)3., Rules of the Auditor General, requires our audit to 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 provisions of contracts or grant agreements, or abuse that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but 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 have an inconsequential effect on the financial statements, considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, and (2) deficiencies in internal control that are not significant deficiencies. 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.

Miramar Beach, Florida

March 30, 2011