

Okaloosa County District School Board

Financial Statements and
Supplementary Information

June 30, 2011

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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, 2011, 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 0.64 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, 2011, 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 our report dated March 28, 2012 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 47 and 48, 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 28, 2012

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, 2011. 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 2010-2011 fiscal year are as follows:

- The District's total net assets decreased by \$206,975 or 0.10%.
- General revenues totaled \$253,514,107 or 94.07% of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total \$15,974,170, or 5.93% of all revenues.
- Total long-term liabilities decreased by \$4,315,863, or 4.08%. Within long-term liabilities, the long-term liability for compensated absences decreased \$374,862, or 1.47%; the liability for estimated insurance claims decreased \$313,000, or 7.66%; and the liability for post employment healthcare benefits payable decreased by \$103,000, or 33.66% in the fourth year after establishing this liability.
- The unassigned fund balance of the General Fund represents the net current financial resources available for general appropriation by the Board and totals \$10,284,036 at June 30, 2011, or 5.11% of total General Fund expenditures. This is the first year the District reported fund balances under Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, which changes how fund balances are classified. In the 2009-10 fiscal year, the unreserved fund balance in the General Fund was \$9,044,308.
- General Fund expenditures exceeded revenues by \$5,119,108.

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 two 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, 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 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, 2011, as compared to June 30, 2010:

Net Assets, End of Year

	Governmental Activities		
	<u>6/30/2011</u>	<u>6/30/2010</u>	<u>Increase (Decrease)</u>
Current Assets	\$ 83,081,793	\$ 84,510,563	\$ (1,428,770)
Capital Assets	<u>226,803,974</u>	<u>230,695,723</u>	<u>(3,891,749)</u>
Total Assets	<u>309,885,767</u>	<u>315,206,286</u>	<u>(5,320,519)</u>
Long-term Liabilities	101,392,337	105,708,200	(4,315,863)
Other Liabilities	<u>3,672,529</u>	<u>4,470,214</u>	<u>(797,685)</u>
Total Liabilities	<u>105,064,866</u>	<u>110,178,414</u>	<u>(5,113,548)</u>
Invested in Capital Assets - Net of Debt	156,759,687	162,177,683	(5,417,996)
Restricted	24,425,248	23,859,867	565,381
Unrestricted	<u>23,635,966</u>	<u>18,990,322</u>	<u>4,645,644</u>
Total Net Assets	<u>\$ 204,820,901</u>	<u>\$ 205,027,872</u>	<u>\$ (206,971)</u>

The largest portion of the District's net assets (76.53%) 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 (11.93%) represents resources that are subject to external restrictions on how they may be used. The unrestricted net assets (11.54%) 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, 2011, as compared to June 30, 2010, are as follows:

Operating Results for the Year

	Governmental Activities		
	6/30/2011	6/30/2010	Increase (Decrease)
Program Revenues:			
Charges for Services	\$ 6,560,911	\$ 6,599,169	\$ (38,258)
Operating Grants and Contributions	5,892,667	5,469,124	423,543
Capital Grants and Contributions	3,520,592	2,605,259	915,333
General Revenues:			
Property Taxes Levied for Operational Purposes	91,003,035	102,560,464	(11,557,429)
Property Taxes Levied for Capital Projects	22,733,279	25,079,047	(2,345,768)
Grants and Contributions not Restricted to Specific Purposes	133,405,898	116,465,770	16,940,128
Unrestricted Investment Earnings	927,337	1,532,780	(605,443)
Miscellaneous	5,444,558	4,651,300	793,258
Total Revenues	<u>269,488,277</u>	<u>264,962,913</u>	<u>4,525,364</u>
Functions/Program Expenses:			
Instruction	156,291,559	153,531,739	2,759,820
Pupil Personnel Services	6,843,614	6,858,147	(14,533)
Instructional Media Services	1,281,222	1,936,423	(655,201)
Instruction and Curriculum Development Services	7,495,403	7,529,704	(34,301)
Instructional Staff Training	810,818	716,190	94,628
Instruction Related Technology	812,894	793,660	19,234
Board of Education	1,295,508	1,443,938	(148,430)
General Administration	1,394,193	1,247,697	146,496
School Administration	14,360,868	14,545,044	(184,176)
Facilities Acquisition and Construction	13,938,763	21,104,157	(7,165,394)
Fiscal Services	1,722,730	1,684,187	38,543
Food Services	9,969,687	8,912,655	1,057,032
Central Services	2,443,034	4,158,928	(1,715,894)
Pupil Transportation Services	11,548,701	11,265,627	283,074
Operation of Plant	15,488,073	16,018,791	(530,718)
Maintenance of Plant	7,634,639	7,661,059	(26,420)
Administrative Technology Services	2,771,348	2,743,759	27,589
Community Services	1,179,485	1,359,030	(179,545)
Interest on Long-term Debt	3,204,005	3,269,702	(65,697)
Unallocated Depreciation Expense	9,208,708	10,843,598	(1,634,890)
Total Functions/Program Expenses	<u>269,695,252</u>	<u>277,624,035</u>	<u>(7,928,783)</u>
Increase (Decrease) in Net Assets	<u>\$ (206,975)</u>	<u>\$ (12,661,122)</u>	<u>\$ 12,454,147</u>

Grants and contributions not restricted to specific programs represent 49.50% of total governmental revenues in the 2010-2011 fiscal year. Grants and contributions not restricted to specific programs increased by \$16,940,128, or 14.55%, primarily due to an increase in Other Special Revenues - ARRA Economic Stimulus funding received from the State.

Instructional expenses represent 57.95% of total governmental expenditures in the 2010-2011 fiscal year. Instructional expenditures increased 1.8% which represents a minimal increase over the 2009-2010 level. Maintaining relatively the same level of expenditures for the past three years has been accomplished through continued budget reduction and employing cost saving measures 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 2010-2011 fiscal year, the total fund balance was \$63,601,702, an increase of \$6,988,618 over the 2009-2010 fiscal year. Of the total fund balance, \$1,139,487 is nonspendable, \$10,284,036 is unassigned, \$41,314,779 has been assigned and \$10,863,400 has been restricted for state required carryover programs. Key factors affecting the operations of this fund were as follows:

- State revenues increased \$10,271,006, 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 \$6,019,996; approximately \$6 million, or 2.91% of the decrease related to decrease in instruction expenditures, but with a \$1.1 million, or 23%, increase related to pupil personnel expenditures. The majority of the General Fund reduction 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 - 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 approximately \$21 million during the 2010-2011 fiscal year.

The Capital Projects – Local Capital Improvement Tax Construction Tax Fund has a total fund balance of \$8,445,942, all of which must be used for the acquisition, construction, and maintenance of capital assets. Of the total fund balance, \$1,002,639 has been encumbered for specific projects. The fund balance decreased \$5,021,503, or 37.29%, in the 2010-2011 fiscal year. Key factors affecting the operations of this fund were as follows:

- Property taxes decreased by \$2,647,884 primarily due to a decrease in local property values.
- Total expenditures decreased by \$4,301,624 due mainly to decreased facilities acquisition and construction activity.

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 2010-2011 fiscal year, the District amended its General Fund budget several times, which resulted in a decrease in total budgeted revenues amounting to \$145,132, or 0.07%. At the same time, final budgeted appropriations were more than originally budgeted by \$589,373, or .26%. Final budgeted ending fund balance was \$5,893,263 less than the ending fund balance in the original budget.

Actual revenues are in line 1% greater than the final budgeted amounts, while actual expenditures were \$23,847,197, or 11% less than final budgeted amounts. The actual ending fund balance exceeded the estimated fund balance contained in the final amended budget by \$25,866,259, 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, 2011, amounts to \$226,803,974 (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.

As a result of the decline in property tax values, the state reducing PECO funding to zero and the shifting of 0.50 mills from capital outlay to General Fund, the District did not have available funds to complete major construction projects.

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

Debt Administration

At June 30, 2011 the District had total long-term debt outstanding of \$72,290,000. This amount was comprised of \$7,940,000 of bonds payable and \$64,350,000 of certificates of participation payable. During the 2010-2011 fiscal year, retirement of debt amounted to \$6,670,000.

Additional information on the District's long-term debt can be found in Notes 5 through 7 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 but anticipates a significant increase in FTE in fiscal years 2011-2012 and 2012-2013, due to an estimated increase of 800 students.

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. It is anticipated that the District could potentially enroll additional 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 2011-2012, 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 and have been required to use non-recurring sources of revenue 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,

2011

	Primary Governmental Activities	Component Units
Assets		
Cash and cash equivalents	\$ 77,140,218	\$ 656,974
Investments	2,456,725	44,163
Accounts receivable	334,553	28,760
Due from other agencies	1,785,526	52,146
Inventories	199,747	-
Cash with fiscal agent	716,024	-
Prepaid items	-	121,166
Deposits	449,000	45,000
Capital assets, net	226,803,974	1,042,220
Total assets	\$ 309,885,767	\$ 1,990,429
Liabilities and Net assets		
Salaries and wages payable	\$ 1,935,990	\$ 83,723
Accounts payable and accrued expenses	1,195,159	19,570
Construction contracts payable	531,880	-
Deferred revenues	9,500	8,970
Due to other agencies	-	5,359
Long-term liabilities:		
Portion due within one year	11,185,164	14,355
Portion due after one year	90,207,173	2,523
Total liabilities	105,064,866	134,500
Net assets		
Invested in capital assets, net of related debt	156,759,687	1,025,342
Restricted for:		
State categorical programs	10,863,400	-
Capital projects	12,807,617	-
Debt service	162,576	-
Other projects	591,655	108,412
Unrestricted	23,635,966	722,175
Total net assets	204,820,901	1,855,929
Total liabilities and net assets	\$ 309,885,767	\$ 1,990,429

See accompanying notes to financial statements.

Program Revenue			
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions
Primary government			
Governmental Activities			
Instruction	\$ 156,291,559	\$ 2,166,626	\$ -
Pupil personnel services	6,843,614	-	-
Instructional media services	1,281,222	-	-
Instruction and curriculum development	7,495,403	-	-
Instructional staff training	810,818	-	-
Instruction related technology	812,894	-	-
School board	1,295,508	-	-
General administration	1,394,193	-	-
School administration	14,360,868	-	-
Facilities acquisition and construction	13,938,763	-	-
Fiscal services	1,722,730	-	-
Food services	9,969,687	3,844,948	5,892,667
Central services	2,443,034	-	-
Pupil transportation services	11,548,701	549,337	-
Operation of plant	15,488,073	-	-
Maintenance of plant	7,634,639	-	-
Administrative technology services	2,771,348	-	-
Community services	1,179,485	-	-
Interest on long-term debt	3,204,005	-	-
Unallocated depreciation/amortization expense	9,208,708	-	-
Total governmental activities	\$ 269,695,252	\$ 6,560,911	\$ 5,892,667
Component Units			
Charter schools/foundations	\$ 8,182,447	\$ 312,037	\$ 801,173

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	
\$ -	\$ (154,124,933)	\$ -	
-	(6,843,614)	-	
-	(1,281,222)	-	
-	(7,495,403)	-	
-	(810,818)	-	
-	(812,894)	-	
-	(1,295,508)	-	
-	(1,394,193)	-	
-	(14,360,868)	-	
2,356,872	(11,581,891)	-	
-	(1,722,730)	-	
-	(232,072)	-	
-	(2,443,034)	-	
-	(10,999,364)	-	
-	(15,488,073)	-	
-	(7,634,639)	-	
-	(2,771,348)	-	
-	(1,179,485)	-	
1,163,720	(2,040,285)	-	
-	(9,208,708)	-	
<u>\$ 3,520,592</u>	<u>(253,721,082)</u>	<u>-</u>	
<u>\$ 100,363</u>	<u>-</u>	<u>(6,968,874)</u>	

91,003,035	-
22,733,279	-
133,405,898	6,989,134
927,337	2,605
5,444,558	43,886
<u>253,514,107</u>	<u>7,035,625</u>
(206,975)	66,751
205,027,876	1,789,178
<u>\$ 204,820,901</u>	<u>\$ 1,855,929</u>

See accompanying notes to financial statements.

Okaloosa County District School Board

Balance Sheet - Governmental Funds

June 30,

2011

	General Fund	ARRA Economic Stimulus Fund	Capital Projects - Local Capital Improvement Tax Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 63,031,929	\$ -	\$ 8,851,920	\$ 5,256,369	\$ 77,140,218
Investments	1,011,928	-	35,049	1,409,748	2,456,725
Accounts receivable, net	149,721	-	-	184,832	334,553
Deposits	449,000	-	-	-	449,000
Due from other funds	369,846	-	-	-	369,846
Due from other agencies	1,273,164	87,732	22,303	402,327	1,785,526
Inventory	127,559	-	-	72,188	199,747
Cash with fiscal agent	-	-	-	716,024	716,024
Total assets	\$ 66,413,147	\$ 87,732	\$ 8,909,272	\$ 8,041,488	\$ 83,451,639
Liabilities and fund balances					
Liabilities:					
Salaries, benefits and payroll taxes payable	\$ 1,935,990	\$ -	\$ -	\$ -	\$ 1,935,990
Accounts payable	865,955	26,076	128,236	174,892	1,195,159
Construction contracts payable	-	-	335,094	196,786	531,880
Due to other funds	-	61,656	-	308,190	369,846
Deferred revenue	9,500	-	-	-	9,500
Total liabilities	2,811,445	87,732	463,330	679,868	4,042,375
Fund balances:					
Nonspendable:					
Inventories	127,559	-	-	72,188	199,747
Fund B investments	1,011,928	-	35,049	1,254,721	2,301,698
Restricted for:					
State required carryover programs	10,863,400	-	-	-	10,863,400
Debt service funds	-	-	-	160,481	160,481
Capital projects	-	-	8,410,893	5,354,763	13,765,656
School food service	-	-	-	519,467	519,467
Assigned for:					
Noncategorical project carryover	26,397,792	-	-	-	26,397,792
School/department carryover	6,228,335	-	-	-	6,228,335
Insurance claims	3,774,000	-	-	-	3,774,000
Self-insurance	4,402,328	-	-	-	4,402,328
Retirement	512,324	-	-	-	512,324
Unassigned	10,284,036	-	-	-	10,284,036
Total fund balances	63,601,702	-	8,445,942	7,361,620	79,409,264
Total liabilities and fund balances	\$ 66,413,147	\$ 87,732	\$ 8,909,272	\$ 8,041,488	\$ 83,451,639

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>	2011
Total fund balances, governmental funds	\$ 79,409,264
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.	226,803,974
Long term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(101,392,337)
Net assets of governmental activities in the statement of net assets	\$ 204,820,901

See accompanying notes to financial statements.

Okaloosa County District School Board

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds

Year ended June 30,

2011

	General Fund	ARRA Economic Stimulus Fund	Capital Projects - Local Capital Improvement Tax Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Intergovernmental:					
Federal direct	\$ 5,350,316	\$ -	\$ -	\$ 805,251	\$ 6,155,567
Federal through state	529,717	20,820,442	-	19,152,967	40,503,126
State sources	92,545,655	-	-	3,611,310	96,156,965
Local sources	97,518,439	-	22,802,062	4,190,920	124,511,421
Total revenues	195,944,127	20,820,442	22,802,062	27,760,448	267,327,079
Expenditures					
Current:					
Instruction	129,634,043	17,881,848	-	9,404,951	156,920,842
Pupil personnel services	6,053,814	116,166	-	688,275	6,858,255
Instructional media services	1,215,754	46,673	-	21,744	1,284,171
Instructional and curriculum development	3,763,458	1,057,009	-	2,691,723	7,512,190
Instructional staff training	368,600	109,159	-	333,796	811,555
Instruction related technology	716,092	86,480	-	11,377	813,949
Board of education	1,296,485	-	-	-	1,296,485
General administration	367,791	575,691	-	451,544	1,395,026
School administration	14,267,599	93,707	-	35,772	14,397,078
Facilities acquisition and construction	215,865	-	7,292,473	5,759,098	13,267,436
Fiscal services	1,667,854	59,078	-	-	1,726,932
Food services	71,680	-	-	9,905,235	9,976,915
Central services	2,711,814	48,222	-	1,317	2,761,353
Pupil transportation services	11,355,576	-	-	50,430	11,406,006
Operation of plant	15,501,176	-	-	-	15,501,176
Maintenance of plant	7,595,993	-	-	-	7,595,993
Administrative technology services	2,776,541	-	-	-	2,776,541
Community services	1,181,674	-	-	-	1,181,674
Fixed capital outlay:					
Facilities acquisition and construction	25,600	-	1,350,423	2,847,034	4,223,057
Other capital outlay	275,826	746,409	174,092	558,705	1,755,032
Debt Service:					
Retirement of principal	-	-	-	6,670,000	6,670,000
Interest and fiscal charges	-	-	-	3,077,981	3,077,981
Dues, fees, and issuance costs	-	-	-	126,024	126,024
Total expenditures	201,063,235	20,820,442	8,816,988	42,635,006	273,335,671
Excess (deficiency) of revenues over expenditures	(5,119,108)	-	13,985,074	(14,874,558)	(6,008,592)
Other financing sources (uses)					
Long term bonds issued	-	-	-	170,000	170,000
Premium on sale of bonds	-	-	-	15,724	15,724
Discount on sale of bonds	-	-	-	(30,150)	(30,150)
Proceeds from sale of capital assets	-	-	-	164,015	164,015
Refunding bonds issued	-	-	-	2,975,000	2,975,000
Loss recoveries	335,650	-	-	1,747,265	2,082,915
Transfers in	11,772,076	-	-	9,404,974	21,177,050
Transfers out	-	-	(19,006,577)	(2,170,473)	(21,177,050)
Total other financing sources and (uses)	12,107,726	-	(19,006,577)	12,276,355	5,377,504
Net change in fund balances	6,988,618	-	(5,021,503)	(2,598,203)	(631,088)
Fund balances, July 1, 2010	56,613,084	-	13,467,445	9,959,823	80,040,352
Fund balances, June 30, 2011	\$ 63,601,702	\$ -	\$ 8,445,942	\$ 7,361,620	\$ 79,409,264

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>2011</u>
Net change in fund balances - total governmental funds:	\$ (631,088)
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	(3,832,697)
The net effect of miscellaneous transactions involving capital assets (i.e., donations and disposals) is to decrease capital assets.	(59,052)
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	3,525,000
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	374,862
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). This is the amount which other post employment benefits decreased.	103,000
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 decreased.	313,000
<u>Change in net assets of governmental activities</u>	<u>\$ (206,975)</u>

See accompanying notes to financial statements.

Okaloosa County District School Board
Statement of Fiduciary Assets and Liabilities

<i>June 30,</i>	2011
	Agency Funds
Assets	
Cash and cash equivalents	\$ 4,002,285
Other receivables	284,577
Total assets	\$ 4,286,862
Liabilities	
Accounts payable	\$ 131,198
Internal accounts payable	4,155,664
Total liabilities	\$ 4,286,862

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, 2011, 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, 2011, 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, 2011, 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 – 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.

Additionally, the District reports the following fund type:

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

Basis of Accounting

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

The government-wide financial statements are prepared using the accrual basis of accounting, as are the fiduciary fund financial 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

Deposits and Investments

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

Investments consist of amounts placed in State Board of Administration Debt Service accounts for investment of debt service moneys; amounts placed with the State Board of Administration for participation in the Local Government Surplus Funds Trust Fund and Fund B Surplus Funds Trust Fund (Fund B) investment pools created by Section 218.405 and 218.417, Florida Statutes; and those made locally. These investment pools operate under investment guidelines established by Section 215.47, Florida Statutes.

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, 2011, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. These investments are reported at fair value, which is amortized cost.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The District's investments in the Fund B Surplus Funds Trust Fund are accounted for as a fluctuating net asset value pool, with a fair value factor of 0.78965331 at June 30, 2011. 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. The costs of inventories are recorded as expenditures when used rather than when purchased.

Capital Assets

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

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 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. Florida Department 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 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 restricted 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 2010 tax levy on September 13, 2010. 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 an enforceable lien on property as of January 1, and are delinquent on April 1, of the year following the year of assessment. State law provides for enforcement of collection of personal property taxes by seizure of the property to satisfy unpaid taxes and for enforcement of collection of real property taxes by the sale of interest-bearing tax certificates to satisfy unpaid taxes. The procedures result in the collection of essentially all taxes prior to June 30 of the year following the year of assessment.

Property tax revenues are recognized in the government wide financial statements when the Board adopts the tax levy. Property tax revenues are recognized in the governmental 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.

NOTE 2 – BUDGETARY COMPLIANCE AND ACCOUNTABILITY

The Board follows procedures established by State statutes and Florida Department 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 Florida Department of Education rules.
- Appropriations are controlled at the object level (e.g., salaries, purchased services, and capital outlay) within each activity (e.g., instruction, pupil personnel services, and school administration) and may be amended by resolution at any Board meeting prior to the due date for the annual financial report.
- Budgets are prepared using the same modified accrual basis as is used to account for actual transactions.
- Budgetary information is integrated into the accounting system, and, to facilitate budget control, budget balances are encumbered when purchase orders are issued. Appropriations lapse at fiscal year-end, and encumbrances outstanding are honored from the subsequent year's appropriations as described in a subsequent note on reserve for encumbrances.

Okaloosa County District School Board

Notes to Financial Statements

NOTE 3 – INVESTMENTS

Investments at June 30, 2011, are shown below:

Investment	Maturities	Fair Value
State Board of Administration:		
Florida PRIME (1)(2)	31 day average	\$ 716,024
Fund B Surplus Funds Trust Fund (Fund B) (2)	7.16 Year Avg	2,301,698
Debt Service Accounts	6 Months	155,027
Total investments, primary government		\$ 3,172,749

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 \$716,024 and Fund B \$1,532,332. The Florida PRIME funds are reported at full value as "Restricted Cash with Fiscal Agent" and the Fund B portion is reported here as an investment at fair market value of \$1,210,012.

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.
- Florida PRIME had a weighted average days to maturity (WAM) of 31 days at June 30, 2011. 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. Fund B had a weighted average life (WAL) of 7.16 years. A portfolio's WAL is the dollar weighted average length of time until securities held reach maturity. WAL, which also measures the sensitivity of the portfolio to interest rate changes, is based on legal final maturity dates for Fund B as of June 30, 2011. However, because Fund B consists of restructured or defaulted securities, there is considerable uncertainty regarding the WAL.

NOTE 3 – INVESTMENTS (CONTINUED)

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, 2011, the District's investment in Florida PRIME is rated AAAm by Standard & Poor's. Fund B is unrated.
- As of June 30, 2011, the District's investment in the Dreyfus Treasury Prime Cash Management Fund – Institutional Shares is rated AAAm by Standard & Poor's and has a WAM of 53 days. The investment totaled \$20,013,356 at June 30, 2011 and is recorded in Cash and cash equivalents in the financial statements.

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 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.

Okaloosa County District School Board

Notes to Financial Statements

NOTE 4 – CHANGES IN CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2011 are shown below:

	Balance 7/1/2010	Additions	Deletions	Transfers	Balance 6/30/2011
Governmental Activities					
<i>Capital assets not being depreciated:</i>					
Land	\$ 11,755,291	\$ -	\$ (3,470)	\$ -	\$ 11,751,821
Construction in progress	155,517	4,342,635	-	(4,498,152)	-
Total capital assets not being depreciated	11,910,808	4,342,635	(3,470)	(4,498,152)	11,751,821
<i>Capital assets being depreciated:</i>					
Improvements other than buildings	14,119,686	-	(95,450)	131,790	14,156,026
Buildings and fixed equipment	288,994,898	-	(96,845)	4,366,362	293,264,415
Furniture, fixtures and equipment	23,643,417	1,478,720	(467,368)	-	24,654,769
Motor vehicles	15,193,300	41,292	(527,365)	-	14,707,227
Audio-visual materials and computer software	3,580,923	59,862	(433,552)	-	3,207,233
Total capital assets being depreciated	345,532,224	1,579,874	(1,620,580)	4,498,152	349,989,670
<i>Less accumulated depreciation for:</i>					
Improvements other than buildings	10,238,826	891,329	(95,450)	-	11,034,705
Buildings and fixed equipment	86,055,465	6,207,906	(96,845)	-	92,166,526
Furniture, fixtures and equipment	15,655,582	1,801,892	(467,368)	-	16,990,106
Motor vehicles	11,654,906	744,259	(527,365)	-	11,871,800
Audio-visual materials and computer software	3,142,530	165,402	(433,552)	-	2,874,380
Total accumulated depreciation	126,747,309	9,810,788	(1,620,580)	-	134,937,517
Total capital assets being depreciated, net	218,784,915	(8,230,914)	-	4,498,152	215,052,153
Governmental activities - capital assets, net	\$ 230,695,723	\$ (3,888,279)	\$ (3,470)	\$ -	\$ 226,803,974

Depreciation expense was charged to functions as follows:

Function	Amount
Instruction	\$ 390,520
Pupil transportation services	164,947
Maintenance of plant	50,083
Unallocated	9,205,238
	\$ 9,810,788

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
- 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

NOTE 5 – CERTIFICATES OF PARTICIPATION PAYABLE (CONTINUED)

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
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	1,280,000	225,100	1,505,100
2017-2019	4,155,000	354,470	4,509,470
Subtotal	10,095,000	1,929,975	12,024,975

Certificates of Participation - 2006

Fiscal Year Ending June 30,	Principal	Interest	Total
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	2,155,000	558,625	2,713,625
2017-2021	12,085,000	1,482,213	13,567,213
Subtotal	22,140,000	4,994,903	27,134,903

Certificates of Participation - 2007

Fiscal Year Ending June 30,	Principal	Interest	Total
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	2,785,000	904,015	3,689,015
2017-2021	15,690,000	2,745,975	18,435,975
2022	3,535,000	150,238	3,685,238
Subtotal	32,115,000	8,446,488	40,561,488
Total	\$ 64,350,000	\$ 15,371,366	\$ 79,721,366

Okaloosa County District School Board

Notes to Financial Statements

NOTE 6 – BONDS PAYABLE

Bonds payable at June 30, 2011, are as follows:

Bond Type	Interest Rates (Percent)	Annual Maturity To	Amount Outstanding
State School Bonds:			
Series 2005-R	5.000	2016	\$ 3,360,000
Series 2005-B, Refunding	5.000	2018	520,000
Series 2008-A	3.250 - 5.000	2028	825,000
Series 2009-A, Refunding	2.000 - 5.000	2019	260,000
Series 2010-A	3.000 - 5.000	2030	165,000
District Revenue Bonds:			
Series 2011	5.875 - 6.100	2040	2,810,000
Total bonds payable			\$ 7,940,000

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

The District Refund Revenue Bond, Series 2011 has been issued as a replacement for moneys previously distributed pursuant to Section 550.135, Florida Statutes, and Chapters 63-587 and 78-569, Laws of Florida. The proceeds of the sale of the Bonds totaling \$630,000 will be used to finance or refinance the cost of constructing, install, furnish, and equip certain educational capital improvements, to refund all of the outstanding Refunding Revenue Bonds, Series 1994, and to pay the costs of issuance of the Bonds, including the cost of municipal bond insurance. 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, 2011 are as follows:

Year Ending June 30,	Total	Principal	Interest
State School Bonds:			
2012	\$ 987,775	\$ 735,000	\$ 252,775
2013	991,825	775,000	216,825
2014	988,500	810,000	178,500
2015	988,675	850,000	138,675
2016	991,175	895,000	96,175
2017-2021	681,325	485,000	196,325
2022-2026	478,325	375,000	103,325
2027-2030	220,600	205,000	15,600
Total State School Bonds	6,328,200	5,130,000	1,198,200
District Revenue Bonds:			
2012	188,745	55,000	133,745
2013	187,645	55,000	132,645
2014	186,545	55,000	131,545
2015	190,445	60,000	130,445
2016	189,095	60,000	129,095
2017-2021	936,625	320,000	616,625
2022-2026	938,438	395,000	543,438
2027-2031	937,750	500,000	437,750
2032-2036	932,600	650,000	282,600
2037-2040	753,500	660,000	93,500
Total District Revenue Bonds	5,441,388	2,810,000	2,631,388
Total	\$ 11,769,588	\$ 7,940,000	\$ 3,829,588

Okaloosa County District School Board

Notes to Financial Statements

NOTE 7 – CHANGES IN LONG-TERM LIABILITIES

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

Description	Balance 7/1/2010	Additions	Deductions	Balance 6/30/2011	Due in One Year
Bonds payable	\$ 6,295,000	\$ 3,145,000	\$ (1,500,000)	\$ 7,940,000	\$ 790,000
Certificates of participation payable	69,520,000	-	(5,170,000)	64,350,000	5,360,000
Estimated insurance claims payable	4,087,000	2,315,994	(2,628,994)	3,774,000	2,501,000
Compensated absences payable	25,500,200	2,839,819	(3,214,682)	25,125,337	2,534,164
Other post employment benefits payable	306,000	-	(103,000)	203,000	-
Total	\$ 105,708,200	\$ 8,300,813	\$ (12,616,676)	\$ 101,392,337	\$ 11,185,164

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

NOTE 8 – 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	\$ 369,846	\$ -
Special Revenue - ARRA Fund	-	61,656
Nonmajor governmental funds	-	308,190
Total	\$ 369,846	\$ 369,846

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 8 – 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)	\$ 11,772,076	\$ -
Capital improvement tax (2)	-	19,006,577
Nonmajor governmental funds (1)(3)(4)	9,404,974	2,170,473
TOTAL	\$ 21,177,050	\$ 21,177,050

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 Nonmajor Governmental Funds to General Fund primarily to fund Charter School capital outlay.
- (3) Transfers made from Nonmajor Governmental Debt Service Funds to Nonmajor Governmental Capital Funds to fund the current debt service payment on Certificates of Participation.
- (4) Transfers made from Nonmajor Governmental Debt Service Fund to Nonmajor Governmental Funds to close the 1994 Refunding Bond and replace with the 2011 Refunding and Revenue Bond.

NOTE 9 – FUND BALANCE REPORTING

The District implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Types Definitions*, for the fiscal year ending June 30, 2011. The objective of the statement is to improve the usefulness and understanding of fund balance information for users of the financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources. The District reports its governmental fund balances in the following categories:

- **Nonspendable** - The net current financial resources that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. Generally, not in spendable form means that an item is not expected to be converted to cash. Examples of items that are not in spendable form include inventory, prepaid amounts, long-term amounts of loans and notes receivable, and property acquired for resale. The District classifies its amounts reported as inventories and investment in the Fund B Surplus Funds Trust Fund as nonspendable.

NOTE 9 – FUND BALANCE REPORTING (CONTINUED)

- **Restricted** - The portion of fund balance on which constraints have been placed by creditors, grantors, contributors, laws or regulations of other governments, constitutional provisions, or enabling legislation. Restricted fund balance places the most binding level of constraint on the use of fund balance. The District classifies most of its fund balances other than General Fund as restricted, as well as unspent State categorical and earmarked educational funding reported in the General Fund, that are legally or otherwise restricted.
- **Committed** - The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the highest level of decision-making authority (i.e., the district school board). These amounts cannot be used for any other purpose unless the district school board removes or changes the specified use by taking the same action it employed to previously commit the amounts.
- **Assigned** - The portion of fund balance that is intended to be used for specific purposes, but is neither restricted nor committed. Assigned amounts include those that have been set aside for a specific purpose by an authorized government body or official, but the constraint imposed does not satisfy the criteria to be classified as restricted or committed. This category includes any remaining positive amounts, for governmental funds other than the General Fund, not classified as nonspendable, restricted, or committed. The District also classifies amounts as assigned that are constrained to be used for specific purposes based on actions of the Superintendent and Director of Finance and not included in other categories.
- **Unassigned** - The portion of fund balance that is the residual classification for the General Fund. This balance represents amounts that have not been assigned to other funds and that have not been restricted, committed, or assigned for specific purposes.

The District has “Contingency” reserve of \$2,567,000 established informally through the budget process that is included in the “Unassigned” amount above. The contingency reserve is to help sustain the financial stability of the District during times of emergency spending for items such as disaster recovery and revenue shortfalls that could potentially occur after the current year’s budget adoption.

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 assigned or committed at fiscal year-end to report an amount likely to be expended from the 2011-2012 fiscal year budget as a result of purchase orders outstanding at June 30, 2011.

Okaloosa County District School Board

Notes to Financial Statements

NOTE 10 – RESERVE FOR ENCUMBRANCES (CONTINUED)

Under GASB Statement No. 54, the reporting of encumbrances has changed significantly from the prior year. The statement concluded that encumbrances are not a specific purpose and therefore should not be reported as a separate line on the balance sheet as before. Encumbering funds that are already restricted, committed, or assigned based on the source and strength of the constraints placed on them does not further limit the use of the amounts reported in these classifications. The following is a schedule of encumbrances at June 30, 2011:

Major Funds		Nonmajor	Total
General Fund	Capital Improvement Section 1011.71(2)F.S.	Governmental Funds	Governmental Funds
\$ 1,037,458	\$ 1,002,639	\$ 257,612	\$ 2,297,710

NOTE 11 – SCHEDULE OF STATE REVENUE SOURCES

The following is a schedule of the District's State revenue for the 2010-2011 fiscal year:

Sources	Amount
Florida education finance program	\$ 49,274,194
Categorical educational programs:	
Class size reduction	30,338,776
Transportation	5,447,008
Instructional materials	2,316,584
School recognition funds	1,660,370
Discretionary lottery funds	105,041
Other	629,120
Gross receipts tax (Public Education Capital Outlay)	1,540,295
Workforce development	2,132,912
DJJ Supplemental	399,317
Motor vehicles license tax (General Fund, Capital Outlay and Debt Service)	1,102,044
Charter school capital outlay	687,503
Racing commission funds	190,750
Food service supplement	104,994
Mobile home license tax	63,743
Miscellaneous	164,314
Total	\$ 96,156,965

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 2010 tax roll for the 2010-2011 fiscal year:

	Millages	Taxes Levied
<u>General Fund</u>		
Nonvoted School Tax:		
Required local effort	5.286	\$ 83,361,754
Basic discretionary local effort	0.748	11,653,271
<u>Capital Projects Funds</u>		
Nonvoted Tax:		
Local capital improvements	1.500	23,373,093
Total	7.534	\$ 118,388,118

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 2010 - 2011 fiscal year. Required employer contributions made to the program for the fiscal year ended June 30, 2011, totaled \$1,106,320.

Funding Policy

The contribution rates for Plan members are established, and may be amended, by the State of Florida. During the 2010-2011 fiscal year, contribution rates were as follows:

Class or Plan	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	-	10.77
Florida Retirement System, Elected County Officers	-	18.64
Teachers Retirement System, Plan E	6.25	11.35
Deferred Retirement Option Program - Applicable to Members From		
All of the Above Classes or Plans	-	12.25
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes:

(A) Employer rates include 1.11% for the post-employment health insurance supplement. Also, employer rates, other than for DROP participants, include 0.03% 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, 2011, June 30, 2010, and June 30, 2009, totaled \$15,138,272, \$13,863,570, and \$14,283,595, 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 2010-2011 fiscal year, 535 retirees received postemployment health care benefits through December 31, 2010. As of January 1, 2011, the District no longer offers a Medicare Advantage plan to its Medicare eligible retirees. The plan currently allows access to the group insurance plans. There are currently 113 retirees who have chosen to continue medical coverage under the active employee plans. Due to the low Medicare retiree cost to the group plans as compared to the premium cost, this plan change has no material impact to the District's GASB 45 liability. The District provided required contributions of \$1,133,000 toward the annual OPEB cost, comprised of premium payments made on behalf of retirees net of retiree contributions totaling \$1,030,000, which represents 0.77% of covered payroll.

NOTE 14 – POSTEMPLOYMENT HEALTHCARE BENEFITS (CONTINUED)***Funded Status and Funding Progress***

As of July 1, 2010, the most recent valuation date, the actuarial accrued liability for benefits was \$16,237,000 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$16,237,000. The covered payroll (annual payroll of active participating employees) was \$133,360,146 for the 2010-2011 fiscal year, and the ratio of unfunded actuarial accrued liability to the covered payroll was 12.18%.

Annual OPEB Cost and Net OPEB Obligation

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

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

<i>Year ended June 30,</i>	<i>2011</i>
Normal Cost (service cost for one year)	\$ 403,000
Amortization of Unfunded Actuarial Accrued Liability (UAAL)	580,000
Interest on Normal Cost and Amortization	44,000
Annual Required Contribution (ARC)	1,027,000
Interest on Net OPEB Obligation	14,000
Adjustment to Annual Required Contribution	(11,000)
Annual OPEB Cost (Expense)	1,030,000
Contributions made	(1,133,000)
Increase (decrease) in Net OPEB Obligation	(103,000)
Net OPEB Obligation, beginning of year	306,000
Net OPEB Obligation, end of year	\$ 203,000

NOTE 14 – POSTEMPLOYMENT HEALTHCARE BENEFITS (CONTINUED)

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, 2011 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
6/30/2009	\$ 1,190,000	\$ 1,107,000	93.03%	\$ 269,000
6/30/2010	1,006,000	969,000	96.32%	306,000
6/30/2011	1,030,000	1,133,000	110.00%	203,000

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, 2010, 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, 2011 and to estimate the District's 2010-2011 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 9.5% initially for the 2010-2011 fiscal year, reduced by 0.5% 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, 2011, is 26 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
Chiller Replacement:			
Bluewater Elementary School	\$ 125,000	\$ 121,170	\$ 3,830
Edge Elementary School	340,739	325,559	15,180
Elliott Point Elementary	589,697	418,508	171,189
Longwood Elementary School	3,069,050	2,067,679	1,001,371
Choctawhatchee High School - Admin Renovation	973,740	896,893	76,847
Classroom additions:			
Edge Elementary School	2,617,186	2,583,430	33,756
Mary Esther Elementary School	2,859,992	2,848,605	11,387
Crestview High School - Band Repair	100,000	64,978	35,022
Destin Elementary School:			
Cafeteria Renovation	2,009,500	1,999,697	9,803
Canopies	218,194	206,889	11,305
Window Replacement	250,000	25,943	224,057
Ft. Walton Beach High School - parking lot, drainage	1,188,273	1,184,551	3,722
HVAC:			
Bluewater Elementary School	118,000	113,829	4,171
Choctawhatchee High School	3,349,108	2,697,657	651,451
Crestview/Baker	913,329	571,259	342,070
Niceville High School/Mary Esther Elementary School	977,794	375,073	602,721
Lewis Middle School - Class/Restroom Configuration	296,558	193,992	102,566
New School Construction			
Riverside Elementary School	21,384,092	21,332,770	51,322
Shoal River Middle School	27,345,741	27,306,937	38,804
Okaloosa Lane Paving and Improvements	444,498	362,296	82,202
Niceville High School			
Fieldhouse Renovation	1,598,888	1,588,828	10,060
Roof Drainage	35,000	33,987	1,013
Restroom Renovation:			
Edwins/Mary Esther Elementary Schools	400,000	91,044	308,956
Richbourg Middle School - Classroom Renovations	9,496,612	8,393,129	1,103,483
Roof Replacement:			
Choctawhatchee High School	956,382	750,939	205,443
Lewis Middle School	566,455	539,381	27,074
Silver Sands	478,667	366,759	111,908
Southside Elementary School - Renovation/Reroofing	1,514,469	1,512,368	2,101
Total	\$ 84,216,964	\$ 78,974,150	\$ 5,242,814

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, 2011 was \$5,988,766. The following is a schedule by year of future lease payments required under the operating lease:

Fiscal Year Ending June 30,	Amount
2012	\$ 6,293,715
2013	6,375,435
2014	3,182,504
	\$ 15,851,654

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, 2011, an actuarially determined liability discounted to a present value of \$3,774,000 (\$70,000 for the property program, undiscounted, and \$3,704,000 for the casualty program, discounted using a 4% rate of return), 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, 2011, \$3,774,000 of the District's fund balance was considered assigned 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
2009 - 2010	\$ 3,809,000	\$ 3,160,277	\$ (2,882,277)	\$ 4,087,000
2010 - 2011	4,087,000	2,315,994	(2,628,994)	3,774,000

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.

Required Supplementary Information
(Other Than MD&A)

Okaloosa County District School Board
Budgetary Comparison Schedule
General Fund

Year ended June 30,

2011

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final	Amounts	
Revenues				
Intergovernmental:				
Federal direct	\$ 5,480,928	\$ 5,172,994	\$ 5,350,316	\$ 177,322
Federal through state	419,400	529,717	529,717	-
State sources	93,817,741	92,545,655	92,545,655	-
Local sources	94,352,128	95,676,699	97,518,439	1,841,740
Total revenues	194,070,197	193,925,065	195,944,127	2,019,062
Expenditures				
Instruction	142,562,969	137,757,013	129,634,043	8,122,970
Pupil personnel services	6,069,676	6,306,525	6,053,814	252,711
Instructional media services	1,338,690	1,299,012	1,215,754	83,258
Instructional and curriculum development	5,122,196	5,115,297	3,763,458	1,351,839
Instructional staff training	356,114	419,859	368,600	51,259
Instruction related technology	657,528	731,012	716,092	14,920
Board of education	2,986,917	3,623,503	1,296,485	2,327,018
General administration	439,443	485,022	367,791	117,231
School administration	14,261,339	15,100,770	14,267,599	833,171
Facilities acquisition and construction	301,359	318,626	215,865	102,761
Fiscal services	1,940,751	1,833,348	1,667,854	165,494
Food services	128	71,680	71,680	-
Central services	6,076,567	5,701,173	2,711,814	2,989,359
Pupil transportation services	10,794,461	11,786,282	11,355,576	430,706
Operation of plant	18,435,837	20,233,325	15,501,176	4,732,149
Maintenance of plant	7,950,980	9,107,112	7,595,993	1,511,119
Administrative technology services	2,921,139	2,836,744	2,776,541	60,203
Community services	1,803,539	1,882,703	1,181,674	701,029
Fixed capital outlay:				
Facilities acquisition and construction	25,600	25,600	25,600	-
Other capital outlay	275,826	275,826	275,826	-
Total expenditures	224,321,059	224,910,432	201,063,235	23,847,197
Excess (deficiency) of revenues over expenditures	(30,250,862)	(30,985,367)	(5,119,108)	25,866,259
Other financing sources (uses)				
Loss recoveries	79,845	335,650	335,650	-
Transfers in	11,505,346	11,772,076	11,772,076	-
Total other financing sources and (uses)	11,585,191	12,107,726	12,107,726	-
Net change in fund balances	(18,665,671)	(18,877,641)	6,988,618	25,866,259
Fund balances - beginning	56,613,084	56,613,084	56,613,084	-
Fund balances - ending	\$ 37,947,413	\$ 37,735,443	\$ 63,601,702	\$ 25,866,259

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

Year ended June 30,

2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental:				
Federal through state	\$ 14,162,192	\$ 22,691,984	\$ 20,820,442	\$ (1,871,542)
Total revenues	14,162,192	22,691,984	20,820,442	(1,871,542)
Expenditures				
Instruction	12,504,411	18,349,937	17,881,848	468,089
Pupil personnel services	132,162	116,167	116,166	1
Instructional media services	-	46,673	46,673	-
Instructional and curriculum development	716,057	1,539,878	1,057,009	482,869
Instructional staff training	54,478	279,335	109,159	170,176
Instruction related technology	-	592,453	86,480	505,973
General administration	508,245	617,823	575,691	42,132
School administration	5,483	93,707	93,707	-
Fiscal services	70,701	59,078	59,078	-
Pupil transportation	5,000	2,802	-	2,802
Central services	-	133,222	48,222	85,000
Operation of plant	3,220	-	-	-
Administrative technology services	-	114,500	-	114,500
Fixed capital outlay:				
Other capital outlay	162,435	746,409	746,409	-
Total expenditures	14,162,192	22,691,984	20,820,442	1,871,542
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
7/1/08	\$ -	\$ 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%
7/1/10	-	16,237,000	16,237,000	0.00%	133,360,146	12.18%

Supplementary Information

Okaloosa County District School Board
Schedule of Expenditures of Federal Awards
For The Year Ended June 30, 2011

Federal Grantor/Pass-Through Grantor/Program Title	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 (Note 2)	10.555	None	\$ 507,878	\$ -
Florida Department of Education:				
Child Nutrition Cluster:				
School Breakfast Program	10.553	321	927,196	-
National School Lunch Program	10.555	300	4,149,463	-
Summer Food Service Program	10.559	323	201,071	-
Total Child Nutrition Cluster			5,785,608	-
Florida Department of Financial Services:				
Schools and Roads - Grants to States	10.665	None	5,128	-
Total United States Department of Agriculture			5,790,736	-
United States Department of Education				
Direct:				
Impact Aid (Note 3)	84.041	N/A	4,290,235	114,867
Federal Pell Grant Program	84.063	N/A	728,647	-
Total Direct			5,018,882	114,867
Indirect:				
Education Jobs Fund Cluster:				
Florida Department of Education:				
ARRA - Education Jobs Fund	84.410	541	5,822,833	-
Total Education Jobs Fund Cluster			5,822,833	-
Education for Homeless Children and Youth Cluster				
Florida Department of Education:				
Education for Homeless Children and Youth	84.196	127	45,445	-
ARRA - Education for Homeless Children and Youth, Recovery Act	84.387	127	40,550	-
Total Education for Homeless Children and Youth Cluster			85,995	-
Education Technology State Grants Cluster:				
Florida Department of Education:				
Education Technology State Grants	84.318	122	152,788	-
ARRA - Education Technology State Grants, Recovery Act	84.386	121	7,346	-
Total Education Technology State Grants Cluster			160,134	-
State Fiscal Stabilization Fund Cluster				
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	591	9,096,807	-
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	592	196,768	-
State Fiscal Stabilization Fund Cluster			9,293,575	-

(continued)

See accompanying notes to the schedule of expenditures of federal awards.

Okaloosa County District School Board
Schedule of Expenditures of Federal Awards (Continued)
For The Year Ended June 30, 2011

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)				
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027	263	5,790,989	-
Special Education - Preschool Grants	84.173	267	184,354	-
ARRA - Special Education - Grants to States, Recovery Act	84.391	263	3,007,077	-
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	267	69,830	-
Total Special Education Cluster			9,052,250	-
Title I, Part A Cluster:				
Florida Department of Education:				
		212, 222, 223, 226,		
Title I Grants to Local Educational Agencies	84.010	228	5,280,316	-
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	212, 226, 223	1,810,940	-
Total Title I Grants to Local Educational Agencies Cluster			7,091,256	
Florida Department of Education:				
ARRA - State Fiscal Stabilization Fund (SFSF) -				
Race-to-the-Top, Recovery Act	84.395	RL1	768,292	-
Career and Technical Education -Basic Grants to States	84.048	161	444,623	-
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	24,742	-
English Language Acquisition Grants	84.365	102	73,004	-
Improving Teacher Quality State Grants	84.367	224	1,116,854	-
Total Indirect			33,933,558	-
Total United States Department of Education			38,952,440	114,867
United States Department of Homeland Security				
Indirect:				
Florida Department of Community Affairs				
Disaster Grants -Public Assistance (Presidentially Declared Disasters) (Note 4)	97.036	None	149,993	-
Florida Department of Education:				
Homeland Security Grant Program	97.067	532	66,000	-
Total United States Department of Homeland Security			215,993	-
United States Department of Defense				
Direct:				
Public Law 110-417	12.	N/A	766,434	-
Public Law 106-398	12.	N/A	14,872	-
Air Force Defense Research Sciences Program	12.800	N/A	77,589	-
Air Force Junior Reserve Officers Training Corps	12.	N/A	162,930	-
Army Junior Reserve Officers Training Corps	12.	N/A	114,860	-
Total United States Department of Defense			1,136,685	-
Total Expenditures of Federal Awards			\$ 46,095,854	\$ 114,867

See accompanying notes to the schedule of expenditures of federal awards.

Okaloosa County District School Board
Notes to Schedule of Expenditures of Federal Awards
For The Year Ended June 30, 2011

- Notes: (1) Basis of Presentation. The Schedule of Expenditures of Federal Awards represents amounts expended from Federal Programs during the 2010-2011 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 – National School Lunch Program - Represents the amount of donated food received during the fiscal year. Commodities are valued at fair value as determined at time of donation.
- (3) Impact Aid - Expenditures include \$2,761,260 for grant number/program year S041B-2011-1256, \$637,820 for grant number/program year S041B-2008-1256, and \$891,155 for grant number/program year S041B-2008-1256.
- (4) Disaster Grants - Public Assistance (Presidentially Declared Disasters). The amount disclosed as expenditures represents hurricane loss recoveries for the 2010-11 fiscal year as follows: \$149,660 for large projects which generally represent expenditures already incurred; and \$333 for allowable administrative costs.

**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 (the District) as of and for the fiscal year ended June 30, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 28, 2012. 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

Management of the Okaloosa County District School Board is responsible for establishing and maintaining effective 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 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 compliance 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 28, 2012

REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON 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 (the District) with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on the District's major federal programs for the fiscal year ended June 30, 2011. 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the fiscal year ended June 30, 2011.

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 the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

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

Carri Riggs & Ingram, L.L.C.

Miramar Beach, Florida
March 28, 2012

Okaloosa County District School Board
Schedule of Findings and Questioned Costs
For The Year Ended June 30, 2011

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, 2011:

- The auditor's report expresses an unqualified opinion on the basic financial statements of the Okaloosa County District School Board.
- No significant deficiencies relating to the audit of the basic financial statements are reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
- No instances of noncompliance material to the basic financial statements of the Okaloosa County District School Board which would be required to be reported in accordance with *Government Auditing Standards* were disclosed during the audit.
- No significant deficiencies relating to the audit of the major federal award programs are reported in the Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on 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 on all major federal programs.
- There were no audit finding relative to the major federal award programs for Okaloosa County District School Board.
- The programs tested as major programs included: Education Jobs Fund (CFDA 84.410), 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), Child Nutrition Cluster (CFDA 10.553, 10.555, 10.559), and Impact Aid (CFDA 84.041).
- The threshold for distinguishing between Types A and B programs was \$1,382,876.
- The Okaloosa County District School Board was determined not to be a low risk auditee, as defined in *OMB Circular A-133*.

Okaloosa County District School Board
Schedule of Findings and Questioned Costs (Continued)
For The Year Ended June 30, 2011

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

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

The results of our audit of the District did not disclose any findings or questioned costs required to be reported under the provision of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Okaloosa County District School Board
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2011

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
2010-1	Child Nutrition Cluster (CFDA 10.553, 10.555, and 10.559)	The District determined two foster children were not eligible for free lunches in error; therefore making the determination for eligibility incorrect.	Management has revised the free and reduced application
2010-2	Child Nutrition Cluster (CFDA 10.553, 10.555, and 10.559)	Verification information submitted to the state for the number of students approved for reduced lunch costs did not match support.	The District has established procedures to maintain support for submissions to the State.
2010-3	Title I - Grants to Local Education Agencies (CFDA 84.010, 84.389)	During compliance testing, multiple semi-annual certifications were not obtained for positions with the Department of Juvenile Justice (DJJ).	Management has resolved the finding.

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, 2011, and have issued our report thereon dated March 28, 2012.

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 Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*, Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Federal Program and on Internal Control over Compliance in Accordance with *OMB Circular A-133*, and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated March xx, 2012, 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 all of the 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 contract 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(1)(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 representation made by management and the review of financial information provided by same.

Section 10.804(1)(f)8., Rules of the Auditor General, requires the auditor to state whether or not the district school board complied with transparency requirements. Section 2, Specific Appropriation 115A of Chapter 2010-152, Laws of Florida, provides that district school boards include a link on their web sites to the Transparency Florida Web Site. In connection with our audit, we determined that the District met the requirement.

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.

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

Miramar Beach, Florida
March 28, 2012