REPORT NO. 2010-108
FEBRUARY 2010

OKALOOSA COUNTY DISTRICT SCHOOL BOARD

Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended
June 30, 2009

STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD MEMBERS AND SUPERINTENDENT

Okaloosa County District School Board members and the Superintendent who served during the 2008-09 fiscal year are listed below:

	District No.
Lucinda J. Frakes, Vice Chair to 11-17-08	1
Charles R. Kelley, Jr., Chair	2
Rodney L. Walker, Vice Chair from 11-18-08	3
Catherine S. Thigpen	4
Howard Hill	5

Dr. Alexis Tibbetts, Superintendent

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

The audit team leader was Kenneth C. Danley, CPA, and the audit was supervised by James W. Kiedinger, Jr., CPA. For the information technology portion of this audit, the audit team leader was Stephanie J. Hogg, CISA, and the supervisor was Nancy M. Reeder, CPA, CISA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Manager, by e-mail at gregcenters@aud.state.fl.us or by telephone at (850) 487-9039.

This report and other reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 487-9024; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

OKALOOSA COUNTY DISTRICT SCHOOL BOARD
TABLE OF CONTENTS

PAGE NO.

EXECUTIVE SUMMARY i

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS 1

MANAGEMENT'S DISCUSSION AND ANALYSIS 3

BASIC FINANCIAL STATEMENTS 9

- Statement of Net Assets 9
- Statement of Activities 10
- Balance Sheet – Governmental Funds 12
- Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets 14
- Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds 16
- Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities 18
- Statement of Fiduciary Assets and Liabilities – Fiduciary Funds 19
- Notes to Financial Statements 20

OTHER REQUIRED SUPPLEMENTARY INFORMATION

- Budgetary Comparison Schedule – General Fund 44
- Schedule of Funding Progress – Postemployment Healthcare Benefits Plan 45

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS 46

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* 47

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB *CIRCULAR A-133* 49

SCHEDULE OF FINDINGS AND QUESTIONED COSTS 51

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS 62

EXHIBIT A – MANAGEMENT'S RESPONSE 63

EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

We noted a certain matter involving the District's internal control over financial reporting and its operation that we consider to be a significant deficiency as summarized below. However, the significant deficiency is not considered to be a material weakness.

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

SIGNIFICANT DEFICIENCY

Finding No. 1: Improvements are needed in District procedures to ensure that financial statement account balances and note disclosures are properly reported.

ADDITIONAL MATTERS

Finding No. 2: District personnel did not review information technology (IT) application profiles to ensure that access privileges assigned to the profiles were appropriate or that the profiles assigned to the employees were appropriate. As a result, various employees were assigned profiles that allowed them inappropriate or unnecessary access privileges.

Finding No. 3: District personnel did not timely remove the IT access privileges of several former employees.

Finding No. 4: The District needs to strengthen controls over changes to IT application programs.

Finding No. 5: The District had not implemented a formal, ongoing, security awareness training program to ensure that its employees were aware of the importance of information handled and their responsibilities for maintaining its confidentiality, integrity, and availability.

Finding No. 6: The District needs to improve IT security controls related to user authentication, logging, and monitoring.

Finding No. 7: The District had not developed policies for communicating and reporting known or suspected fraud to the appropriate authorities.

Finding No. 8: Controls could be enhanced to ensure compliance with Section 119.071(5)(a), Florida Statutes, regarding notifying individuals of the need for and use of social security numbers.

Finding No. 9: Improvements could be made in controls over ordering, processing, and distributing high school diplomas.

Finding No. 10: Controls over the purchasing card program could be strengthened.

Finding No. 11: The District could improve controls over the reporting of instructional contact hours for adult general education to the Florida Department of Education.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Child Nutrition Cluster, Title I, and Hazard Mitigation programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that were applicable to the major Federal programs tested. However, we did note compliance and internal control findings as summarized below.

Federal Awards Finding No. 1: Several control deficiencies related to the commodity food program were noted by the Florida Department of Agriculture and Consumer Services.

Federal Awards Finding No. 2: Three schools sold beverages in competition with the food service program, contrary to Board policy.

Federal Awards Finding No. 3: The District did not timely submit the required annual report for maintenance and operation of an emergency power generator donated to the District.

Audit Objectives and Scope

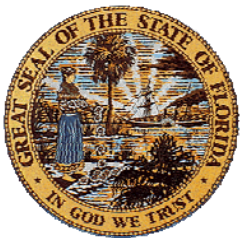
Our audit objectives were to determine whether the Okaloosa County District School Board and its officers with administrative and stewardship responsibilities for District operations had:

- **Presented the District's basic financial statements in accordance with generally accepted accounting principles;**
- **Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements or on a major Federal program;**
- **Established internal controls that promote and encourage: 1) compliance with applicable laws, rules, regulations, contracts, and grant agreements; 2) the economic and efficient operation of the District; 3) the reliability of records and reports; and 4) the safeguarding of District assets;**
- **Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements, and those applicable to the District's major Federal programs; and**
- **Taken corrective actions for findings included in our report No. 2007-051.**

The scope of this audit included an examination of the District's basic financial statements and the Schedule of Expenditures of Federal Awards as of and for the fiscal year ended June 30, 2009. We obtained an understanding of the District's environment, including its internal control and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements and Federal awards. We also examined various transactions to determine whether they were executed, both in manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

Audit Methodology

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



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

INDEPENDENT AUDITOR'S
REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Okaloosa County District School Board, as of and for the fiscal year ended June 30, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the school internal funds, which represent 48 percent of the assets and 84 percent of the liabilities of the aggregate remaining fund information. In addition, we did not audit the financial statements of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for the school internal funds and the aggregate discretely presented component units, are based 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 the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the 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 for the Okaloosa County District School Board as of June 30, 2009, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of the Okaloosa County District School Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The **MANAGEMENT'S DISCUSSION AND ANALYSIS** (pages 3 through 8) and the **OTHER REQUIRED SUPPLEMENTARY INFORMATION** (pages 44 and 45) are not required parts of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is presented for purposes of additional analysis as required by the United States Office of Management and Budget *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Respectfully submitted,

David W. Martin, CPA
January 29, 2010

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, 2009. The information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events, and conditions and should be considered in conjunction with the District's financial statements and notes to financial statements found on pages 9 through 43.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2008-09 fiscal year are as follows:

- Net assets decreased $5,418,985, or 2.43 percent.
- General revenues total $247,260,012, or 91.81 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total $22,042,663, or 8.19 percent of all revenues.
- Total long-term liabilities decreased $5,921,758, or 5.01 percent. Within long-term liabilities, the liability for compensated absences payable increased $53,242 or 0.20 percent; the liability for estimated insurance claims payable decreased $523,000, or 12.07 percent; the liability for debt decreased $5,535,000, or 6.35 percent; and the liability for postemployment healthcare benefits payable increased $83,000, or 44.62 percent in the second year after establishing this liability.
- The unreserved fund balance of the General Fund, representing the net current financial resources available for general appropriation by the Board, totals $46,639,236 at June 30, 2009, or 21.35 percent of total General Fund expenditures.
- General Fund expenditures exceeded revenues by $7,021,430.

OVERVIEW OF FINANCIAL STATEMENTS

The basic financial statements consist of three components:

- Government-wide financial statements.
- Fund financial statements.
- Notes to 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 activities of the District presented on the accrual basis of accounting. The statement of net assets provides information about the District'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 nonfinancial 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 the following categories:

- Governmental activities – This represents most of the District's services, including its educational programs: basic, vocational, adult, and exceptional education. Support functions such as transportation and administration are also included. Local property taxes and the State's 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 Schools 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, although also a legally separate entity, was formed to facilitate financing for the acquisition of facilities and equipment for the District. Due to the substantive economic relationship between the District and the 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 entitywide perspective contained in the government-wide statements. All of the District's funds may be classified within one of two broad categories as discussed below.

Governmental Funds: Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, 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 funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation of governmental funds to governmental activities.

The governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances provide detailed information about the District's most significant funds, not the District as a whole. The District's major funds are the General Fund, the Capital Projects – Local Capital Improvement Fund, and the Capital Projects – Other Fund. Data from the other governmental funds are combined into a single, aggregated presentation.

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

Fiduciary Funds: Fiduciary funds are used to report assets, 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 agency funds to account for resources held for student activities and groups and for resources held for employees in an 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, 2009, as compared to June 30, 2008:

	Governmental Activities		
	6-30-09	6-30-08	Increase (Decrease)
Current Assets	$ 105,457,076	$ 135,928,567	$ (30,471,491)
Capital Assets	231,383,628	213,645,508	17,738,120
Total Assets	336,840,704	349,574,075	(12,733,371)
Long-Term Liabilities	112,255,934	118,177,691	(5,921,757)
Other Liabilities	6,895,777	8,288,403	(1,392,626)
Total Liabilities	119,151,711	126,466,094	(7,314,383)
Net Assets:			
Invested in Capital Assets - Net of Related Debt	169,890,444	171,520,014	(1,629,570)
Restricted	30,350,772	37,353,869	(7,003,097)
Unrestricted	17,447,777	14,234,098	3,213,679
Total Net Assets	$ 217,688,993	$ 223,107,981	$ (5,418,988)

The largest portion of the District's net assets (78.04 percent) 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 (13.94 percent) represents resources that are subject to external restrictions on how they may be used. The unrestricted net assets (8.02 percent) may be used to meet the government'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, 2009, as compared to the fiscal year ended June 30, 2008, are as follows:

Operating Results for the Year

	Governmental Activities		
	6-30-09	6-30-08	Increase (Decrease)
Program Revenues:			
Charges for Services	$ 6,881,851	$ 7,550,879	$ (669,028)
Operating Grants and Contributions	10,920,463	10,956,866	(36,403)
Capital Grants and Contributions	4,240,350	9,068,032	(4,827,682)
General Revenues:			
Property Taxes, Levied for Operational Purposes	105,861,876	104,128,382	1,733,494
Property Taxes, Levied for Capital Projects	30,277,097	35,396,744	(5,119,647)
Grants and Contributions Not Restricted to Specific Programs	108,456,432	120,998,465	(12,542,033)
Unrestricted Investment Earnings	(287,141)	5,446,408	(5,733,549)
Miscellaneous	2,951,748	3,049,330	(97,582)
Total Revenues	269,302,676	296,595,106	(27,292,430)
Functions/Program Expenses:			
Instruction	153,385,638	163,432,893	(10,047,255)
Pupil Personnel Services	7,849,577	7,925,730	(76,153)
Instructional Media Services	2,295,546	3,258,252	(962,706)
Instruction and Curriculum Development Services	8,157,906	8,496,984	(339,078)
Instructional Staff Training Services	434,208	708,117	(273,909)
Instruction Related Technology	556,797	768,799	(212,002)
Board of Education	1,456,087	3,072,789	(1,616,702)
General Administration	864,901	704,444	160,457
School Administration	14,890,102	16,278,769	(1,388,667)
Facilities Acquisition and Construction	22,144,765	20,102,106	2,042,659
Fiscal Services	1,789,941	1,705,982	83,959
Food Services	10,092,030	10,475,126	(383,096)
Central Services	2,245,495	3,502,240	(1,256,745)
Pupil Transportation Services	11,219,556	12,213,462	(993,906)
Operation of Plant	15,050,607	14,597,366	453,241
Maintenance of Plant	6,534,388	7,090,289	(555,901)
Administrative Technology Services	2,895,759	2,879,642	16,117
Community Services	1,452,745	1,629,248	(176,503)
Interest on Long-Term Debt	3,481,808	2,984,845	496,963
Unallocated Depreciation Expense	7,923,805	6,763,126	1,160,679
Total Functions/Program Expenses	274,721,661	288,590,209	(13,868,548)
Increase (Decrease) in Net Assets	$ (5,418,985)	$ 8,004,897	$ (13,423,882)

Grants and contributions not restricted to specific programs represent 40.27 percent of total governmental revenues in the 2008-09 fiscal year. Grants and contributions not restricted to specific programs decreased by $12,542,033, or 10.37 percent, primarily due to a decrease in Florida Education Finance Program funding from the State. Other significant decreases in revenues include 1) capital grants and contributions, which decreased mainly due to the timing of when the District recognized Public Education Capital Outlay funding; 2) property taxes levied for capital outlay purposes, which decreased primarily due to a decrease in local property values coupled with a decrease in the property tax millage levied by the District for local capital improvements; and 3) unrestricted investment earnings which decreased due to declining interest rates and higher unrealized investment losses.

Instruction expenses represent 55.83 percent of total governmental expenses in the 2008-09 fiscal year. Instruction expenses decreased by $10,047,255; approximately $5.3 million, or 53 percent of the decrease related to decreased salary costs for instructional staff and hourly teachers, and $1.8 million, or 18 percent of the decrease related to professional and technical purchased services. The District reduced expenditures in these areas as part of its cost cutting measures to absorb decreases in funding.

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 2008-09 fiscal year, the total fund balance was $54,957,871, an increase of $4,447,562 over the 2007-08 fiscal year. Of the total fund balance, $8,318,635 has been reserved and $38,282,499 has been designated for specific purposes. Key factors affecting the operations of this fund were as follows:

- State revenues decreased $13,369,718 in the 2008-09 fiscal year due to the impact of the decrease in the local property tax base on 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 districts' funding ability based on the local property tax base.
- Total expenditures decreased by $15,079,353; approximately $9.7 million, or 64 percent of the decrease related to decreased instruction expenditures, and $1.3 million or 9 percent related to decreased school administration costs. The District reduced expenditures in these areas as part of its cost cutting measures to absorb decreases in funding.

The Capital Projects – Local Capital Improvement Fund had a total fund balance of $20,026,839, all of which must be used for the acquisition, construction, and maintenance of capital assets. Of the total fund balance, $1,914,973 has been encumbered for specific projects. The fund balance decreased $2,915,321, or 12.71 percent, in the 2008-09 fiscal year. Key factors affecting the operations of this fund were as follows:

- Property taxes decreased $5,119,647 primarily due to a decrease in local property values coupled with a decrease in the property tax millage levied by the District for local capital improvements.
- Total expenditures decreased $8,006,415 due mainly to decreased facilities acquisition and construction activity.

The Capital Projects – Other Fund had a total fund balance of $19,966,773, all of which must be used for the acquisition, construction, and maintenance of capital assets. Of the total fund balance, $1,935,647 has been encumbered for specific projects. The fund balance decreased $24,597,688, or 55.20 percent, in the 2008-09 fiscal year as the District continued to use significant amounts of available resources necessary for the completion of a new elementary school and a new middle school.

GENERAL FUND BUDGETARY 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 2008-09 fiscal year, the District amended its General Fund budget several times, which resulted in an increase in total budgeted revenues amounting to $8,717, or 0.004 percent. At the same time, final budgeted appropriations were more than originally budgeted by $3,333,484, or 1.42 percent. Final budgeted ending fund balance was $34,629,951, or 9.64 percent less than the ending fund balance in the original budget.

Actual revenues are in line with the final budgeted amounts while actual expenditures were $218,418,085, or 8.27 percent less than final budgeted amounts. The actual ending fund balance exceeded the estimated fund balance contained in the final amended budget by $20,327,921, 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, 2009, amounts to $231,383,628 (net of accumulated depreciation). This 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 materials and computer software.

Major capital asset events during the 2008-09 fiscal year included the continued construction and near completion of a new elementary school and a new middle school.

Additional information on the District's capital assets can be found in Notes 4 and 14 to the financial statements.

Long-Term Debt

At June 30, 2009, the District had total long-term debt outstanding of $81,600,000. This amount was comprised of $7,095,000 of bonds payable and $74,505,000 of certificates of participation payable. During the 2008-09 fiscal year, retirement of debt amounted to $5,535,000.

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 it reports to the Department. The District has experienced a significant decline in FTE over the past several years. Based on the Florida Department of Education 2006-07 final conference report, the District's unweighted FTE (UFTE) decreased by 1,520.05 students from the 2006-07 fiscal year to the 2008-09 fiscal year, and the District estimates that it will experience a further decrease of approximately 600 students based on survey counts in the 2009-10 school year.

REQUESTS FOR INFORMATION

The District's annual financial 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 the report or requests for additional 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, 2009

	Primary Government Governmental Activities	Component Units
ASSETS		
Cash and Cash Equivalents	$ 100,097,185.99	$ 748,385.00
Investments	2,635,382.77	30,029.00
Accounts Receivable	146,913.74	23,177.00
Deposits Receivable		45,000.00
Prepaid Items		103,547.00
Due from Other Agencies	2,095,557.98	27,945.00
Inventories	482,034.85	
Capital Assets:		
Nondepreciable Capital Assets	75,739,574.24	487,339.00
Depreciable Capital Assets, Net	155,644,053.76	628,806.00
TOTAL ASSETS	$ 336,840,703.33	$ 2,094,228.00
LIABILITIES		
Salaries and Benefits Payable	$ 1,819,203.36	$ 112,558.00
Accounts Payable	1,561,555.25	25,239.00
Construction Contracts Payable	3,514,904.48	
Due to Other Agencies	113.93	
Deferred Revenue		13,002.00
Long-Term Liabilities:		
Portion Due Within One Year	10,240,753.00	11,937.00
Portion Due After One Year	102,015,180.68	29,968.00
Total Liabilities	119,151,710.70	192,704.00
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	169,890,444.38	1,074,240.00
Restricted for:		
State Categorical Programs	7,661,754.55	
Debt Service	1,089,488.61	
Capital Projects	21,599,528.44	77,174.00
Other Purposes		122,865.00
Unrestricted	17,447,776.65	627,245.00
Total Net Assets	217,688,992.63	1,901,524.00
TOTAL LIABILITIES AND NET ASSETS	$ 336,840,703.33	$ 2,094,228.00

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

OKALOOSA COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2009

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary Government				
Governmental Activities:				
Instruction	$ 153,385,638.22	$ 2,136,597.28	$	$
Pupil Personnel Services	7,849,576.61			
Instructional Media Services	2,295,546.13			
Instruction and Curriculum Development Services	8,157,905.87			
Instructional Staff Training Services	434,207.61			
Instruction Related Technology	556,797.25			
Board of Education	1,456,087.16			
General Administration	864,901.34			
School Administration	14,890,102.22			
Facilities Acquisition and Construction	22,144,765.01			3,093,813.67
Fiscal Services	1,789,941.49			
Food Services	10,092,029.61	4,218,915.02	5,017,503.67	
Central Services	2,245,495.10			
Pupil Transportation Services	11,219,556.32		5,902,959.00	
Operation of Plant	15,050,607.10			
Maintenance of Plant	6,534,387.77			
Administrative Technology Services	2,895,758.90			
Community Services	1,452,744.82	526,338.22		
Interest on Long-Term Debt	3,481,808.00			1,146,535.93
Unallocated Depreciation Expense	7,923,804.64			
Total Primary Government	$ 274,721,661.17	$ 6,881,850.52	$ 10,920,462.67	$ 4,240,349.60
Component Units				
Foundation/Charter Schools	$ 7,541,386.00	$ 497,163.00	$ 564,509.00	$ 438,418.00

General Revenues:
Taxes:
Property Taxes, Levied for Operational Purposes
Property Taxes, Levied for Capital Projects
Grants and Contributions Not Restricted to Specific Programs
Unrestricted Investment Earnings
Miscellaneous

Total General Revenues

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

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

Net (Expense) Revenue and Changes in Net Assets	
Primary Government	Component
Governmental Activities	Units
$ (151,249,040.94)	$
(7,849,576.61)	
(2,295,546.13)	
(8,157,905.87)	
(434,207.61)	
(556,797.25)	
(1,456,087.16)	
(864,901.34)	
(14,890,102.22)	
(19,050,951.34)	
(1,789,941.49)	
(855,610.92)	
(2,245,495.10)	
(5,316,597.32)	
(15,050,607.10)	
(6,534,387.77)	
(2,895,758.90)	
(926,406.60)	
(2,335,272.07)	
(7,923,804.64)	
(252,678,998.38)	
	(6,041,296.00)
105,861,876.25	
30,277,097.42	
108,456,432.03	5,826,411.00
(287,141.14)	15,471.00
2,951,748.32	95,929.00
247,260,012.88	5,937,811.00
(5,418,985.50)	(103,485.00)
223,107,978.13	2,005,009.00
$ 217,688,992.63	$ 1,901,524.00

OKALOOSA COUNTY
DISTRICT SCHOOL BOARD
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2009

	General Fund	Capital Projects - Local Capital Improvement Fund
ASSETS		
Cash and Cash Equivalents	$ 54,919,220.50	$ 22,335,602.61
Investments	736,687.70	337,275.66
Accounts Receivable	142,429.80	
Due from Other Funds	281,143.65	
Due from Other Agencies	1,557,124.77	74,036.92
Inventories	67,504.13	
TOTAL ASSETS	$ 57,704,110.55	$ 22,746,915.19
LIABILITIES AND FUND BALANCES		
Liabilities:		
Salaries and Benefits Payable	$ 1,819,203.36	$
Accounts Payable	927,035.78	444,375.20
Construction Contracts Payable		2,275,700.51
Due to Other Funds		
Due to Other Agencies		
Total Liabilities	2,746,239.14	2,720,075.71
Fund Balances:		
Reserved for State Categorical Programs	7,188,485.93	
Reserved for Encumbrances	1,062,645.38	1,914,972.52
Reserved for Inventories	67,504.13	
Reserved for Debt Service		
Unreserved:		
Designated for Local Carryover Projects	19,561,487.04	18,111,866.96
Designated for Schools/Departments	7,055,288.41	
Designated for Self-Insurance	4,332,000.00	
Designated for Full-Time Equivalent Funding Adjustments	3,366,723.43	
Designated for Contingencies	2,567,000.00	
Designated for Terminal Pay	1,400,000.00	
Undesignated, Reported in:		
General Fund	8,356,737.09	
Debt Service Funds		
Special Revenue Funds		
Capital Projects Funds		
Total Fund Balances	54,957,871.41	20,026,839.48
TOTAL LIABILITIES AND FUND BALANCES	$ 57,704,110.55	$ 22,746,915.19

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

Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
$ 19,832,926.19	$ 3,009,436.69	$ 100,097,185.99
1,350,340.52	211,078.89	2,635,382.77
	4,483.94	146,913.74
		281,143.65
	464,396.29	2,095,557.98
	414,530.72	482,034.85
$ 21,183,266.71	$ 4,103,926.53	$ 105,738,218.98

$	$	$ 1,819,203.36
	190,144.27	1,561,555.25
1,216,493.30	22,710.67	3,514,904.48
	281,143.65	281,143.65
	113.93	113.93
1,216,493.30	494,112.52	7,176,920.67
		7,188,485.93
1,935,647.22	358,105.99	5,271,371.11
	414,530.72	482,034.85
	1,089,488.61	1,089,488.61
14,450,924.94	1,356,437.39	53,480,716.33
		7,055,288.41
		4,332,000.00
		3,366,723.43
		2,567,000.00
		1,400,000.00
		8,356,737.09
	339,539.05	339,539.05
	44,211.80	44,211.80
3,580,201.25	7,500.45	3,587,701.70
19,966,773.41	3,609,814.01	98,561,298.31
$ 21,183,266.71	$ 4,103,926.53	$ 105,738,218.98

OKALOOSA COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2009

Total Fund Balances - Governmental Funds		$ 98,561,298.31
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		231,383,628.00
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consist of:		
Estimated Insurance Claims Payable	$ 3,809,000.00	
Bonds Payable	7,095,000.00	
Certificates of Participation Payable	74,505,000.00	
Compensated Absences Payable	26,577,933.68	
Postemployment Healthcare Benefits Payable	269,000.00	(112,255,933.68)
Total Net Assets - Governmental Activities		$ 217,688,992.63

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

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OKALOOSA COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2009

	General Fund	Capital Projects - Local Capital Improvement Fund
Revenues		
Intergovernmental:		
Federal Direct	$ 6,870,880.21	$
Federal Through State and Local	566,655.26	
State	92,960,407.44	
Local:		
Property Taxes	105,861,876.25	30,277,097.42
Charges for Services - Food Service		
Miscellaneous	5,136,835.34	(14,463.69)
Total Revenues	211,396,654.50	30,262,633.73
Expenditures		
Current - Education:		
Instruction	145,343,883.16	
Pupil Personnel Services	6,947,386.75	
Instructional Media Services	2,293,904.50	
Instruction and Curriculum Development Services	4,508,788.44	
Instructional Staff Training Services	284,714.40	
Instruction Related Technology	556,546.88	
Board of Education	1,457,338.69	
General Administration	426,223.32	
School Administration	14,830,954.25	
Facilities Acquisition and Construction	283,849.78	11,419,920.37
Fiscal Services	1,788,701.05	
Food Services	97,152.37	
Central Services	2,766,976.78	
Pupil Transportation Services	10,742,231.49	
Operation of Plant	15,046,582.62	
Maintenance of Plant	6,477,803.08	
Administrative Technology Services	2,894,307.63	
Community Services	1,451,966.73	
Fixed Capital Outlay:		
Facilities Acquisition and Construction	2,227.25	2,285,735.11
Other Capital Outlay	216,545.82	1,194,128.77
Debt Service:		
Principal		
Interest and Fiscal Charges		
Total Expenditures	218,418,084.99	14,899,784.25
Excess (Deficiency) of Revenues Over Expenditures	(7,021,430.49)	15,362,849.48
Other Financing Sources (Uses)		
Transfers In	11,153,736.93	
Proceeds from Sale of Capital Assets	470,464.14	
Insurance Loss Recoveries	494,791.10	
Transfers Out	(650,000.00)	(18,278,170.54)
Total Other Financing Sources (Uses)	11,468,992.17	(18,278,170.54)
Net Change in Fund Balances	4,447,561.68	(2,915,321.06)
Fund Balances, Beginning	50,510,309.73	22,942,160.54
Fund Balances, Ending	$ 54,957,871.41	$ 20,026,839.48

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

Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
$	$ 413,130.62	$ 7,284,010.83
	17,978,674.37	18,545,329.63
785,976.00	3,554,474.31	97,300,857.75
		136,138,973.67
	4,218,915.02	4,218,915.02
(34,616.80)	566,362.58	5,654,117.43
751,359.20	26,731,556.90	269,142,204.33
	8,301,550.88	153,645,434.04
	897,454.80	7,844,841.55
	48.69	2,293,953.19
	3,654,693.48	8,163,481.92
	149,299.14	434,013.54
		556,546.88
		1,457,338.69
	438,441.85	864,665.17
	48,555.81	14,879,510.06
2,505,304.91	7,509,854.48	21,718,929.54
		1,788,701.05
	9,993,588.44	10,090,740.81
		2,766,976.78
	64,579.40	10,806,810.89
		15,046,582.62
		6,477,803.08
		2,894,307.63
		1,451,966.73
20,114,446.43	203,620.60	22,606,029.39
1,970,268.79	530,638.76	3,911,582.14
	5,535,000.00	5,535,000.00
	3,481,808.00	3,481,808.00
24,590,020.13	40,809,134.33	298,717,023.70
(23,838,660.93)	(14,077,577.43)	(29,574,819.37)
26,948.74	8,560,409.61	19,741,095.28
		470,464.14
		494,791.10
(785,976.00)	(26,948.74)	(19,741,095.28)
(759,027.26)	8,533,460.87	965,255.24
(24,597,688.19)	(5,544,116.56)	(28,609,564.13)
44,564,461.60	9,153,930.57	127,170,862.44
$ 19,966,773.41	$ 3,609,814.01	$ 98,561,298.31

OKALOOSA COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2009

Net Change in Fund Balances - Governmental Funds		$(28,609,564.13)
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. The following details the amount of capital outlays in excess of depreciation expense:		
Capital Outlay - Facilities Acquisition and Construction - Capitalized	$ 22,606,029.39	
Capital Outlay - Other Capital Outlay - Capitalized	3,911,582.14	
Depreciation Expense	(8,837,811.93)	17,679,799.60
Donated capital assets and capital assets purchased with school internal funds increase net assets in the statement of activities, but do not provide current financial resources and, therefore, are not reported in the governmental funds statements.		93,864.11
Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. The following details long-term debt repayments in the current fiscal year:		
Bonds Payable	725,000.00	
Certificates of Participation Payable	4,810,000.00	5,535,000.00
Revenue from the transfer of capital assets related to a lease-back agreement provides current financial resources to governmental funds, but reduces long-term receivables in the statement of net assets.		(469,300.00)
The undepreciated cost of capital assets disposed during the current fiscal year is reported in the statement of activities. In the governmental funds, the cost of these assets was recognized as an expenditure in the year purchased. Thus, the change in net assets differs from the change in fund balance by the undepreciated cost of the disposed assets.		(35,542.84)
In the statement of activities, the cost of compensated absences is measured by the amounts earned during the fiscal year, while in the governmental funds expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences earned in excess of the amounts used and paid in the current fiscal year.		(53,242.24)
Postemployment healthcare benefits costs are recorded in the statement of activities under the full accrual basis of accounting, but are not recorded in the governmental funds until paid. This is the net increase in the postemployment healthcare benefits liability in the current fiscal year.		(83,000.00)
Self-insurance claims are recorded in the statement of activities under the full accrual basis of accounting, which includes recognizing the change in the claims liability. However, the governmental funds measure self-insurance claims based on the amount of financial resources used. This is the net decrease in the self-insurance liability for the current fiscal year.		523,000.00
Change in Net Assets - Governmental Activities		$ (5,418,985.50)

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

OKALOOSA COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - FIDUCIARY FUNDS
June 30, 2009

	Agency Funds
ASSETS	
Cash and Cash Equivalents	$ 3,277,878.67
Investments	801,628.00
Accounts Receivable	255,867.84
TOTAL ASSETS	$ 4,335,374.51
LIABILITIES	
Salaries and Benefits Payable	$ 255,867.84
Internal Accounts Payable	4,079,506.67
TOTAL LIABILITIES	$ 4,335,374.51

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

OKALOOSA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

➢ **Reporting Entity**

The District School Board has direct responsibility for operation, control, and supervision of 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 that should be reported within the District's basic financial statements are identified and described in the Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600. The application of these criteria provides for identification of any entities for which the District School Board is financially accountable and other organizations for which the nature and significance of their relationship 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 Unit. The Okaloosa School Board Leasing Corporation, (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 columns in the government-wide financial statements include the financial data of the District's other component units.

  The Okaloosa Public Schools Foundation, Inc. (Foundation), is a separate not-for-profit corporation organized and operated as a direct-support organization to receive, hold, invest, and administer property and to make expenditures to and for the benefit of the District. Because of the nature of its relationship with the District, the Foundation is considered to be a component unit.

  The Okaloosa Academy, Inc. (Academy), is a not-for-profit corporation organized pursuant to Chapter 617, Florida Statutes, the Florida Not For Profit Cooperation Act, and Section 1002.33, Florida Statutes. The Academy is a charter school and operates under a charter approved by its sponsor, the Okaloosa County District School Board. The Academy is considered to be a component unit of the District since it is fiscally dependent on the District for its support.

  The Liza Jackson Preparatory School, Inc. (Preparatory School), is a not-for-profit corporation organized pursuant to Chapter 617, Florida Statutes, the Florida Not For Profit Cooperation Act, and Section 1002.33, Florida Statutes. The Preparatory School is a charter school and operates under a charter approved by its sponsor, the Okaloosa County District School Board. The Preparatory School is considered to be a component unit of the District since it is fiscally dependent on the District for its support.

OKALOOSA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

The financial data reported on the accompanying statements was derived from the Foundation's and charter schools' audited financial statements for the fiscal year ended June 30, 2009. The audit reports are filed in the District's administrative offices.

- **Basis of Presentation**

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

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

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

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

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 fund financial statements differs from the focus of government-wide financial statements, a reconciliation is presented with each of the governmental fund financial statements.

The District reports the following major governmental funds:

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

OKALOOSA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

Additionally, the District reports the following fiduciary fund type:

- Agency Funds – to account for resources of the District's pretax flexible benefits plan and for the school internal funds, which are used to administer moneys collected at 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 is the fiduciary funds financial statement. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized in the year for which they are levied. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are prepared using the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers revenues to be available if they are collected within 30 days of the end of the current 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, postemployment healthcare benefits, 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.

The Okaloosa Public Schools Foundation, Inc., 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.

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

➢ **Deposits and Investments**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term, highly liquid investments with original maturities of three months or less. Investments classified as cash equivalents include money market mutual funds and amounts placed with the State Board of Administration (SBA) Local Government Surplus Funds Trust Fund Investment Pool (LGIP), which, effective July 1, 2009, is known as Florida PRIME.

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

OKALOOSA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

Investments consist of amounts placed in SBA Debt Service accounts for investment of debt service moneys, amounts placed with SBA for participation in LGIP and the Fund B Surplus Funds Trust Fund (Fund B) investment pools created by Sections 218.405 and 218.417, Florida Statutes, and those made locally. The investment pools operate under investment guidelines established by Section 215.47, Florida Statutes.

The District's investments in LGIP, which SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, as of June 30, 2009, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. These investments are reported at fair value, which is amortized cost.

The District's investments in Fund B are accounted for as a fluctuating net asset value pool, with a fair value factor of 0.51370946 at June 30, 2009. Fund B is not subject to participant withdrawal requests. Distributions from Fund B, as determined by SBA, are effected by transferring eligible cash or securities to LGIP, consistent with the pro rata allocation of pool shareholders of record at the creation date of Fund B. One hundred percent of such distributions from Fund B are available as liquid balance within LGIP.

Investments made locally consist of money market mutual funds and nonnegotiable certificates of deposit and are reported at fair value and cost, respectively. 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, are stated at cost on a first-in, first-out basis. Surplus commodities are stated at their fair value as determined at the time of donation to the District's food service program by the Florida Department of Agriculture and Consumer Services, Bureau of Food Distribution. Although the costs of inventories are recorded as expenditures when used rather than purchased, a fund balance reserve is established at fiscal year-end to indicate that inventories do not constitute available expendable resources even though inventories are a component of current assets.

- **Capital Assets**

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

OKALOOSA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

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

Description	Estimated Lives
Improvements Other than Buildings	8 - 40 years
Buildings and Fixed Equipment	10 - 50 years
Furniture, Fixtures, and Equipment	3 - 15 years
Motor Vehicles	5 - 10 years
Audio Visual Materials and Computer Software	3 - 5 years

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

- **Long-Term Liabilities**

Long-term obligations that will be financed from resources to be received in the future by governmental funds are reported as liabilities in the government-wide statement of net assets. In the governmental fund financial statements, bonds and other long-term obligations are not recognized as liabilities until due.

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

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

- **State Revenue Sources**

Revenues from State sources for current operations are primarily from the Florida Education Finance Program administered by the Florida Department of Education (Department) under the provisions of Section 1011.62, Florida Statutes. In accordance with this law, the District determines and reports the number of full-time equivalent (FTE) students and related data to the Department. The Department performs certain edit checks on the reported number of FTE and related data, and calculates the allocation of funds to the District. The District is permitted to amend its original reporting for a period of nine months following the date of the original reporting. Such amendments may impact funding allocations for subsequent years. The Department may also adjust subsequent fiscal period allocations based upon an audit of the District's compliance in determining and reporting FTE and related data. Normally, such adjustments are treated as reductions or additions of revenue in the year when the adjustments are made.

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

OKALOOSA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

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

- **District Property Taxes**

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

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

The School Board adopted the 2008 tax levy on September 8, 2008. Tax bills are mailed in October and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to 4 percent for early payment.

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

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

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

- **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.

2. BUDGETARY COMPLIANCE AND ACCOUNTABILITY

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

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

OKALOOSA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

- 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.

3. INVESTMENTS

As of June 30, 2009, the District has the following investments and maturities:

Investments	Maturities	Fair Value
State Board of Administration (SBA):		
Local Government Surplus Funds Trust		
Fund Investment Pool (LGIP) (1) (2)	46 Days	$ 84,201,953.31
Fund B Surplus Funds Trust Fund (Fund B) (2)	6.87 Year Average	2,450,805.11
Debt Service Accounts	6 Months	184,577.66
Dreyfus Treasury Prime Cash Management -		
Institutional Shares (1) (2)	54 Day Average	567,647.24
Certificates of Deposits	Various, through February 2010	801,628.00
Total Investments		$ 88,206,611.32

Notes:

(1) Investment reported as cash equivalent.

(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: LGIP $17,488,857.16; Fund B $1,292,657.67; and Dreyfus $567,647.24.

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's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses from increasing interest rates.
- LGIP had a weighted average days to maturity (WAM) of 46 days at June 30, 2009. 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 6.87 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, 2009. However, because Fund B consists of restructured or defaulted securities, there is considerable uncertainty regarding the WAL.

OKALOOSA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

Credit Risk

- Section 218.415(17), Florida Statutes, limits investments to SBA LGIP, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Section 163.01, Florida Statutes; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits in qualified public depositories, as defined in Section 280.02, Florida Statutes; and direct obligations of the United States Treasury. The District's investment policy does not further limit its investment choices.
- The District's investments in the SBA 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 SBA for managing credit risk for this account.
- As of June 30, 2009, the District's investment in LGIP is rated AAAm by Standard & Poor's. Fund B is unrated.
- The District's investment in the Dreyfus Treasury Prime Cash Management – Institutional Shares is rated AAAm by Standard & Poor's.
- The District's investments in certificates of deposit are in qualified public depositories.

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 this State, or by a national association organized and existing under the laws of the United States which is authorized to accept and execute trusts and which is doing business in this State, and must be kept by the depository in an account separate and apart from the assets of the financial institution; or 3) if physically issued to the holder but not registered with the issuer or its agents, 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 (CONTINUED)
JUNE 30, 2009

4. CHANGES IN CAPITAL ASSETS

Changes in capital assets are presented in the table below.

	Balance 7-1-08	Additions	Deletions	Balance 6-30-09
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	$ 11,411,825.45	$ 10,836.24	$ 35,542.84	$ 11,387,118.85
Construction in Progress	42,068,735.86	22,700,289.77	416,570.24	64,352,455.39
Total Capital Assets Not Being Depreciated	53,480,561.31	22,711,126.01	452,113.08	75,739,574.24
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	13,483,232.05	29,650.55	178,279.37	13,334,603.23
Buildings and Fixed Equipment	219,088,275.22	416,570.24	1,103,070.84	218,401,774.62
Furniture, Fixtures, and Equipment	19,501,388.36	3,437,125.76	723,759.99	22,214,754.13
Motor Vehicles	15,602,374.30	205,740.00	396,994.32	15,411,119.98
Audio Visual Materials and Computer Software	3,736,162.36	227,833.32	193,167.88	3,770,827.80
Total Capital Assets Being Depreciated	271,411,432.29	4,316,919.87	2,595,272.40	273,133,079.76
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	8,715,093.79	837,192.92	178,279.37	9,374,007.34
Buildings and Fixed Equipment	74,073,991.41	5,282,657.91	1,103,070.84	78,253,578.48
Furniture, Fixtures, and Equipment	14,745,075.27	1,482,579.10	723,759.99	15,503,894.38
Motor Vehicles	10,409,178.00	1,001,431.72	396,994.32	11,013,615.40
Audio Visual Materials and Computer Software	3,303,148.00	233,950.28	193,167.88	3,343,930.40
Total Accumulated Depreciation	111,246,486.47	8,837,811.93	2,595,272.40	117,489,026.00
Total Capital Assets Being Depreciated, Net	160,164,945.82	(4,520,892.06)		155,644,053.76
Governmental Activities Capital Assets, Net	$ 213,645,507.13	$ 18,190,233.95	$ 452,113.08	$ 231,383,628.00

Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Instruction	$ 453,970.51
Pupil Transportation Services	406,638.16
Maintenance of Plant	53,398.62
Unallocated	7,923,804.64
Total Depreciation Expense - Governmental Activities	$ 8,837,811.93

OKALOOSA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

5. CERTIFICATES OF PARTICIPATION

The District entered into a financing arrangement on November 1, 2003, which arrangement was characterized as a master lease-purchase agreement, with the Okaloosa School Board Leasing Corporation (Leasing Corporation) whereby the District secured financing of various educational facilities and the refunding of outstanding Certificates of Participation, Series 1992. The financing was accomplished through the issuance of $17,040,000 in Certificates of Participation, Series 2003, to be repaid from the proceeds of rents paid by the District.

On December 1, 2006, the District entered into a lease schedule under and pursuant to the master lease-purchase agreement, whereby the District secured financing for the acquisition of land and the construction of an elementary school. The financing was accomplished through the issuance of $29,005,000 in Certificates of Participation, Series 2006, to be repaid from the proceeds of rents paid by the District.

On May 1, 2007, the District entered into a lease schedule under and pursuant to the master lease-purchase agreement, whereby the District secured financing for the acquisition of land and construction of a middle school. The financing was accomplished through the issuance of $40,490,000 in Certificates of Participation, Series 2007, to be repaid from the proceeds of rents paid by the District.

As a condition of the financing arrangement, the District has given a ground lease on District property to the Leasing Corporation. The ground lease term related to the Certificates of Participation, Series 2003, ends on the earlier of the date on which the Series 2003 Certificates have been paid in full or provision for their payment has been made, or July 1, 2029. The ground lease term related to the Certificates of Participation, Series 2006, and the Certificates of Participation, Series 2007, ends on the earlier of the date on which the Series 2006 Certificates, the Series 2007 Certificates, and any series of certificates refunding such certificates have been paid in full or provision for their payment has been made, or 10 years from the final maturity date of the Series 2006 Certificates, Series 2007 Certificates, and any series of certificates refunding such certificates. 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 lease and to provide for the rent payments through to term, the District may be required to surrender the sites included under the ground lease for the benefit of the securers of the certificates for a period of time specified by the arrangement which may be up through the last day of the ground lease.

The District properties included in the ground lease noted above are as follows:

<u>Certificates of Participation, Series 2003 (including properties associated with Certificates of Participation, Series 1992)</u>

- Baker School - Additions, ESE Suites
- Bluewater Bay Elementary School - School and Classroom Addition
- Bob Sikes Elementary School - Classroom Addition
- Choctawhatchee High School - Additions

OKALOOSA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

- CHOICE Institute at Choctawhatchee High School - Renovations/Addition/Equipment - Technical High School Institute
- Crestview High School - Additions
- CHOICE Institute at Crestview High School - Renovations/Addition/Equipment - Technical High School Institute and CHOICE Classroom Construction/Renovation
- Fort Walton Beach High School - Additions
- Lewis Middle School - Band Room Renovation/Construction, ESE Suites
- Niceville High School - Additions
- CHOICE Institute at Niceville High School - Renovations/Addition/Equipment - Technical High School Institute
- CHOICE Institute at Okaloosa Applied Technology Center - Renovations/Addition/Equipment - Technical High School Institute
- Richbourg Middle School - ESE Suites (renovation of existing space)
- Silver Sands School - ESE Classrooms
- Walker Elementary School - School and Classroom Addition

Certificates of Participation, Series 2006

- Riverside Elementary School - Portion of Land, Building, and Site Work

Certificates of Participation, Series 2007

- Shoal River Middle School - Portion of Land, Building, and Site Work
- Land Purchases - New School Sites

The lease payments are payable by the District, semiannually, on July 1 and January 1 at interest rates ranging from 3.00 percent to 4.25 percent for the Certificates of Participation, Series 2003; interest rates ranging from 3.25 percent to 4.00 percent for the Certificates of Participation, Series 2006; and ranging from interest rates from 4.00 percent to 4.25 percent for Certificates of Participation, Series 2007. The following is a schedule by years of future minimum lease payments under the lease agreements together with the present value of minimum lease payments as of June 30:

OKALOOSA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

Fiscal Year Ending June 30	Total	Principal	Interest
Certificates of Participation, Series 2003:			
2010	$ 1,500,315.00	$ 1,035,000.00	$ 465,315.00
2011	1,504,265.00	1,070,000.00	434,265.00
2012	1,503,955.00	1,105,000.00	398,955.00
2013	1,500,280.00	1,140,000.00	360,280.00
2014	1,503,100.00	1,185,000.00	318,100.00
2015-2019	7,517,640.00	6,665,000.00	852,640.00
Subtotal Minimum Lease Payments	15,029,555.00	12,200,000.00	2,829,555.00
Certificates of Participation, Series 2006:			
2010	2,709,955.00	1,750,000.00	959,955.00
2011	2,713,080.00	1,810,000.00	903,080.00
2012	2,714,730.00	1,875,000.00	839,730.00
2013	2,714,105.00	1,940,000.00	774,105.00
2014	2,711,205.00	2,005,000.00	706,205.00
2015-2019	13,565,662.50	11,200,000.00	2,365,662.50
2020-2021	5,429,200.00	5,120,000.00	309,200.00
Subtotal Minimum Lease Payments	32,557,937.50	25,700,000.00	6,857,937.50
Certificates of Participation, Series 2007:			
2010	3,687,815.00	2,200,000.00	1,487,815.00
2011	3,689,815.00	2,290,000.00	1,399,815.00
2012	3,688,215.00	2,380,000.00	1,308,215.00
2013	3,688,015.00	2,475,000.00	1,213,015.00
2014	3,689,015.00	2,575,000.00	1,114,015.00
2015-2019	18,435,875.00	14,495,000.00	3,940,875.00
2020-2022	11,060,367.50	10,190,000.00	870,367.50
Subtotal Minimum Lease Payments	47,939,117.50	36,605,000.00	11,334,117.50
Total Minimum Lease Payments	$ 95,526,610.00	$ 74,505,000.00	$ 21,021,610.00

OKALOOSA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

6. BONDS PAYABLE

Bonds payable at June 30, 2009, are as follows:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 1999A	$ 350,000	4.375 - 4.750	2019
Series 2005A	4,415,000	5.0	2016
Series 2005B, Refunding	710,000	5.0	2018
Series 2008A	885,000	3.25 - 5.00	2028
District Revenue Bonds:			
Series 1994	735,000	5.875 - 6.100	2015
Total Bonds Payable	$ 7,095,000		

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

- **State School Bonds**

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

- **District Revenue Bonds**

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

OKALOOSA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

Annual requirements to amortize all bonded debt outstanding as of June 30, 2009, are as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2010	$ 978,725.00	$ 665,000.00	$ 313,725.00
2011	981,187.50	700,000.00	281,187.50
2012	976,787.50	730,000.00	246,787.50
2013	980,887.50	770,000.00	210,887.50
2014	982,893.75	810,000.00	172,893.75
2015-2019	2,440,662.50	2,100,000.00	340,662.50
2020-2024	392,325.00	275,000.00	117,325.00
2025-2028	348,300.00	310,000.00	38,300.00
Total State School Bonds	8,081,768.75	6,360,000.00	1,721,768.75
District Revenue Bonds:			
2010	149,368.76	105,000.00	44,368.76
2011	148,200.00	110,000.00	38,200.00
2012	151,600.00	120,000.00	31,600.00
2013	149,400.00	125,000.00	24,400.00
2014	151,775.00	135,000.00	16,775.00
2015	148,538.74	140,000.00	8,538.74
Total District Revenue Bonds	898,882.50	735,000.00	163,882.50
Total	$ 8,980,651.25	$ 7,095,000.00	$ 1,885,651.25

7. CHANGES IN LONG-TERM LIABILITIES

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

Description	Balance 7-1-08	Additions	Deductions	Balance 6-30-09	Due in One Year
GOVERNMENTAL ACTIVITIES					
Estimated Insurance Claims Payable	$ 4,332,000.00	$ 2,160,051.67	$ 2,683,051.67	$ 3,809,000.00	$ 2,180,000.00
Bonds Payable	7,820,000.00		725,000.00	7,095,000.00	770,000.00
Certificates of Participation Payable	79,315,000.00		4,810,000.00	74,505,000.00	4,985,000.00
Compensated Absences Payable	26,524,691.44	2,789,573.94	2,736,331.70	26,577,933.68	2,305,753.00
Postemployment Healthcare Benefits Payable	186,000.00	1,190,000.00	1,107,000.00	269,000.00	
Total Governmental Activities	$ 118,177,691.44	$ 6,139,625.61	$ 12,061,383.37	$ 112,255,933.68	$ 10,240,753.00

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

OKALOOSA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

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:		
General	$ 281,143.65	$
Nonmajor Governmental		281,143.65
Total	$ 281,143.65	$ 281,143.65

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

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	$ 11,153,736.93	$ 650,000.00
Capital Projects:		
Local Capital Improvement		18,278,170.54
Other	26,948.74	785,976.00
Nonmajor Governmental	8,560,409.61	26,948.74
Total	$ 19,741,095.28	$ 19,741,095.28

Transfers from the General Fund to the nonmajor governmental funds were made to facilitate food service operations. Transfers from the Capital Projects - Local Capital Improvement Fund to the General Fund were made for maintenance and repairs of school facilities and for the lease of computers for instructional purposes. Transfers from the Capital Projects - Local Capital Improvement Fund to the nonmajor governmental funds were made to fund the current debt service payments on certificates of participation. Transfers from the nonmajor governmental funds to the Capital Projects - Other Fund were made to close the cost of issuance accounts with the trustee of the Certificates of Participation, Series 2006 and 2007.

9. RESERVE FOR ENCUMBRANCES

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

OKALOOSA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

The Florida Department of Education requires that fund balances be reserved at fiscal year-end to report an amount likely to be expended from the 2009-10 fiscal year budget as a result of purchase orders outstanding at June 30, 2009.

10. SCHEDULE OF STATE REVENUE SOURCES

The following is a schedule of the District's State revenue for the 2008-09 fiscal year:

Source	Amount
Florida Education Finance Program	$ 49,160,065.00
Categorical Educational Programs:	
Class Size Reduction	28,412,259.00
Transportation	5,902,959.00
Instructional Materials	2,835,798.00
School Recognition	2,066,446.00
Other	1,219,601.31
Workforce Development Program	2,392,489.00
Gross Receipts Tax (Public Education Capital Outlay)	2,160,337.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	1,103,286.60
Charter School Capital Outlay	785,976.00
Discretionary Lottery Funds	703,573.00
Food Service Supplement	114,971.00
State Forest Funds	72,191.30
Mobile Home License Tax	55,860.30
Miscellaneous	315,045.24
Total	$ 97,300,857.75

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

OKALOOSA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

11. PROPERTY TAXES

The following is a summary of millages and taxes levied on the 2008 tax roll for the 2008-09 fiscal year:

	Millages	Taxes Levied
GENERAL FUND		
Nonvoted School Tax:		
Required Local Effort	5.272	$ 97,440,914.09
Basic Discretionary Local Effort	0.498	9,202,896.70
Supplemental Discretionary Local Effort	0.166	3,069,081.28
CAPITAL PROJECTS FUNDS		
Nonvoted Tax:		
Local Capital Improvements	1.688	31,199,428.26
Total	7.624	$140,912,320.33

12. FLORIDA RETIREMENT SYSTEM

All regular employees of the District are covered by the State-administered Florida Retirement System (FRS). Provisions relating to FRS 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 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 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 a defined benefit pension plan (Plan), a Deferred Retirement Option Program (DROP), and a defined contribution plan, referred to as the Public Employee Optional Retirement Program (PEORP).

Employees in the 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 4 years of credit for military service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, 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 an FRS employer. An employee may participate in DROP for a period not to exceed 60 months after electing to participate, except that certain instructional personnel may participate for up to 96 months. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest.

OKALOOSA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in PEORP in lieu of the Plan. District employees participating in DROP are not eligible to participate in PEORP. Employer contributions are defined by law; however, the ultimate benefit depends in part on the performance of investment funds. PEORP is funded by employer contributions that are based on salary and membership class (Regular, Elected County Officers, 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 332 District participants during the 2008-09 fiscal year. Required contributions made to PEORP totaled $1,072,349.

FRS Retirement Contribution Rates

The Florida Legislature establishes, and may amend, contribution rates for each membership class of FRS. During the 2008-09 fiscal year, contribution rates were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	9.85
Florida Retirement System, Elected County Officers	0.00	16.53
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	10.91
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.11 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.05 percent for administrative costs of PEORP.
(B) Contribution rates are dependent upon retirement class in which reemployed.

The District's liability for participation 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 for the fiscal years ended June 30, 2007, June 30, 2008, and June 30, 2009, totaled $14,687,818, $15,339,980, and $14,283,595, respectively, which were equal to the required contributions for each fiscal year.

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

13. 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, are eligible to participate in the District's health and hospitalization plan for medical and prescription drug coverage. The District subsidizes

OKALOOSA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

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 2008-09 fiscal year, 586 retirees received OPEB. The District provided required contributions of $1,107,000 toward the annual OPEB cost, comprised of premium payments made on behalf of retirees, net of retiree contributions totaling $1,190,000, which represents 1.2 percent of covered payroll.

Annual OPEB Cost and Net OPEB Obligation. The District's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with parameters of Governmental Accounting Standards Board 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 for OPEB:

OKALOOSA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

Description	Amount
Normal Cost (service cost for one year)	$ 467,000
Amortization of Unfunded Actuarial Accrued Liability	684,950
Interest on Normal Cost and Amortization	36,050
Annual Required Contribution	1,188,000
Interest on Net OPEB Obligation	9,000
Adjustment to Annual Required Contribution	(7,000)
Annual OPEB Cost	1,190,000
Contribution Toward the OPEB Cost	(1,107,000)
Increase in Net OPEB Obligation	83,000
Net OPEB Obligation, Beginning of Year	186,000
Net OPEB Obligation, End of Year	$ 269,000

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2009 and the preceding year, were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2007-08	$ 1,152,000	83.9%	$186,000
2008-09	1,190,000	93.0%	269,000

Funded Status and Funding Progress. As of July 1, 2008, the most recent valuation date, the actuarial accrued liability for benefits was $17,409,000, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability of $17,409,000 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was $98,725,435.59 for the 2008-09 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 17.63 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and termination, mortality, and 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 plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

OKALOOSA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

Actuarial Methods and Assumptions. 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, 2008, used the projected unit credit method to estimate the unfunded actuarial liability as of June 30, 2008, and to estimate the District's 2008-09 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 5 percent rate of return on invested assets. The actuarial assumptions also included a payroll growth rate of 4 percent per year, and an annual healthcare cost trend rate of 10 percent initially for the 2007-08 fiscal year, reduced by 1 percent per year, to an ultimate rate of 5 percent after five years. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2009, is 28 years.

OKALOOSA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

14. 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
Bluewater/Walker Elementary Schools:			
Flooring and Windows	$ 145,000.00	$ 104,499.31	$ 40,500.69
Canopies:			
Destin Middle School	42,887.87	31,795.27	11,092.60
Meigs Middle School	172,715.48	165,270.83	7,444.65
Classroom Additions:			
Bob Sikes Elementary School	2,861,377.09	2,847,745.68	13,631.41
Edge Elementary School	2,406,040.33	2,114,234.78	291,805.55
Florosa Elementary School	4,458,903.61	4,106,356.09	352,547.52
Mary Esther Elementary School	1,773,636.73	1,630,398.33	143,238.40
Plew Elementary School	1,425,763.25	1,306,545.96	119,217.29
Shalimar Elementary School	2,158,055.18	2,131,006.20	27,048.98
Wright Elementary School	1,803,341.82	1,618,237.26	185,104.56
Crestview High School:			
New Locker Hall and Dining Expansion	2,195,745.33	2,195,745.33	
Fieldhouse, HVAC, Wellness Center	4,751,937.16	4,039,594.85	712,342.31
Destin Elementary School:			
New HVAC, Restrooms, and Canopy	3,771,052.85	3,553,165.26	217,887.59
Cafeteria	1,981,661.00	1,032,366.50	949,294.50
Elliott Point Elementary School:			
Chiller Renovation	2,150,376.04	1,891,768.80	258,607.24
Fort Walton Beach High School:			
Roof and HVAC Replacements	569,149.56	510,191.39	58,958.17
Parking Lot	1,250,000.00	615,557.06	634,442.94
HVAC:			
Baker School	236,900.63	235,408.29	1,492.34
Cherokee Elementary School	2,479,220.09	1,953,522.21	525,697.88
Choctawhatchee High School	1,391,094.00	457,344.67	933,749.33
New School Construction:			
Riverside Elementary School	23,792,286.00	19,828,734.78	3,963,551.22
Shoal River Middle School	29,079,461.00	22,375,246.11	6,704,214.89
Redstone Extension	2,458,507.00	1,698,408.59	760,098.41
Niceville High School:			
Sewer Upgrade	1,042,505.00	1,023,983.04	18,521.96
Concession Stand	656,280.01	520,766.62	135,513.39
Replace HVAC in Gym	408,324.00	340,953.28	67,370.72
Fieldhouse	1,900,000.00	989,323.50	910,676.50
Northwood Elementary School:			
Restroom Renovations	178,000.00	177,648.18	351.82
Pryor Middle School:			
Canopy, Bus Ramp, and Parking Lot	1,930,181.04	1,736,772.12	193,408.92
Richbourg Middle School:			
Classroom Renovations	7,151,281.00	1,613,598.73	5,537,682.27
Roof Replacement:			
Bruner Middle School	307,601.92	236,895.63	70,706.29
Common Campus	2,212,635.44	2,042,577.77	170,057.67
Oak Hill Elementary School	455,024.24	330,378.35	124,645.89
Bluewater/South Transportation	1,164,352.00	302,952.37	861,399.63
Ruckel Middle School:			
Renovation of Locker Hall and Restrooms	1,062,055.86	1,030,212.55	31,843.31
Southside Elementary School:			
Reconfiguration/Renovation	1,679,469.00	557,237.99	1,122,231.01
Total	$ 113,502,821.53	$ 87,346,443.68	$ 26,156,377.85

OKALOOSA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

15. OPERATING LEASE COMMITMENT

The District leases its computer hardware assets. The lease expires on December 31, 2013. Total expense under this operating lease for the 2008-09 fiscal year was $6,295,793.21. The following is a schedule by years of future minimum lease payments required under the operating lease:

Fiscal Year Ending June 30	Amount
2010	$ 6,458,022.36
2011	6,553,564.92
2012	6,651,719.22
2013	6,750,036.84
2014	3,374,907.54
Total Minimum Payments Required	$ 29,788,250.88

16. 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 of these risks is provided for in a variety of 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 for any one occurrence; however, the District has purchased commercial general liability insurance for certain special events. The District is, to some extent, also self-insured for property losses, workers' compensation, automobile liability, crime, and errors and omissions. To limit its exposure to property losses, the District has purchased excess property and boiler and machinery insurance with varying sublimits, deductibles, and policy maximums through the Florida School Boards Insurance Trust (Trust). The Trust is a self-insurance fund for Florida school boards established under the authority set forth in Section 1001.42, Florida Statutes. Likewise, the District limits its exposure for workers' compensation, automotive liability, crime, and errors and omissions by purchasing commercial insurance which covers losses exceeding specified limits up to certain policy maximums. Health, dental, and life insurance coverage, as well as long-term disability insurance for District employees is also provided through commercially purchased insurance.

Effective May 1, 2009, for the 2009-10 policy year, the Trust reduced the property insurance coverage per occurrence for member school boards from $200,000,000 to $150,000,000 for all named perils, except named windstorms, the coverage for which remains at $150,000,000.

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

OKALOOSA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

An actuarially determined liability in the amount of $3,809,000 ($37,000 for the property program, undiscounted, and $3,772,000 for the casualty program, discounted using a 4 percent rate of return) is reported on the District's statement of net assets as estimated insurance claims payable at June 30, 2009. The District reports all of its risk management activities in the General Fund and has designated $4,332,000 of the fund balance in the General Fund to fund future insurance claims.

The following schedule presents changes in the estimated insurance claims payable 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
2007-08	$ 4,292,000.00	$ 2,775,523.56	$ (2,735,523.56)	$ 4,332,000.00
2008-09	4,332,000.00	2,160,051.67	(2,683,051.67)	3,809,000.00

17. 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.

OTHER REQUIRED SUPPLEMENTARY INFORMATION

OKALOOSA COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE -
GENERAL FUND
For the Fiscal Year Ended June 30, 2009

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	$ 5,004,929.00	$ 6,596,676.74	$ 6,870,880.21	$ 274,203.47
Federal Through State and Local	250,000.00	250,152.00	566,655.26	316,503.26
State	96,833,545.84	92,960,407.44	92,960,407.44	
Local:				
Property Taxes	104,385,623.00	105,010,304.77	105,861,876.25	851,571.48
Miscellaneous	4,138,543.76	5,803,817.68	5,136,835.34	(666,982.34)
Total Revenues	210,612,641.60	210,621,358.63	211,396,654.50	775,295.87
Expenditures				
Current - Education:				
Instruction	151,937,627.41	151,541,563.84	145,343,883.16	6,197,680.68
Pupil Personnel Services	6,971,623.12	7,394,557.03	6,947,386.75	447,170.28
Instructional Media Services	2,324,702.45	2,353,361.65	2,293,904.50	59,457.15
Instruction and Curriculum Development Services	6,230,619.65	5,872,352.29	4,508,788.44	1,363,563.85
Instructional Staff Training Services	436,378.65	407,291.21	284,714.40	122,576.81
Instruction Related Technology	589,932.79	650,848.32	556,546.88	94,301.44
Board of Education	1,858,841.63	2,898,135.19	1,457,338.69	1,440,796.50
General Administration	439,133.52	512,743.82	426,223.32	86,520.50
School Administration	15,319,996.67	15,501,349.64	14,830,954.25	670,395.39
Facilities Acquisition and Construction	354,816.29	374,413.47	283,849.78	90,563.69
Fiscal Services	1,917,188.65	1,945,427.96	1,788,701.05	156,726.91
Food Services		97,175.54	97,152.37	23.17
Central Services	4,987,965.18	5,783,995.49	2,766,976.78	3,017,018.71
Pupil Transportation Services	11,036,195.66	11,076,172.53	10,742,231.49	333,941.04
Operation of Plant	16,974,894.54	18,147,416.81	15,046,582.62	3,100,834.19
Maintenance of Plant	7,949,731.69	8,128,928.03	6,477,803.08	1,651,124.95
Administrative Technology Services	3,186,484.86	3,055,327.18	2,894,307.63	161,019.55
Community Services	1,938,767.30	1,962,513.16	1,451,966.73	510,546.43
Fixed Capital Outlay:				
Facilities Acquisition and Construction	27,277.18	28,216.07	2,227.25	25,988.82
Other Capital Outlay	286,136.16	370,008.42	216,545.82	153,462.60
Total Expenditures	234,768,313.40	238,101,797.65	218,418,084.99	19,683,712.66
Deficiency of Revenues Under Expenditures	(24,155,671.80)	(27,480,439.02)	(7,021,430.49)	20,459,008.53
Other Financing Sources (Uses)				
Transfers In	11,839,592.00	11,153,736.93	11,153,736.93	
Proceeds from Sale of Capital Assets		470,464.14	470,464.14	
Insurance Loss Recoveries		494,791.10	494,791.10	
Transfers Out		(650,000.00)	(650,000.00)	
Total Other Financing Sources (Uses)	11,839,592.00	11,468,992.17	11,468,992.17	
Net Change in Fund Balances	(12,316,079.80)	(16,011,446.85)	4,447,561.68	20,459,008.53
Fund Balances, Beginning	50,641,397.73	50,641,397.73	50,510,309.73	(131,088.00)
Fund Balances, Ending	$ 38,325,317.93	$ 34,629,950.88	$ 54,957,871.41	$ 20,327,920.53

OKALOOSA COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF FUNDING PROGRESS -
POSTEMPLOYMENT HEALTHCARE BENEFITS PLAN
For the Fiscal Year Ended June 30, 2009

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll [(B-A)/C]
July 1, 2007	$ 0.00	$17,078,000.00	$17,078,000.00	0.00%	$102,423,962.00	16.67%
July 1, 2008	0.00	17,409,000.00	17,409,000.00	0.00%	98,725,435.59	17.63%

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

OKALOOSA COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2009

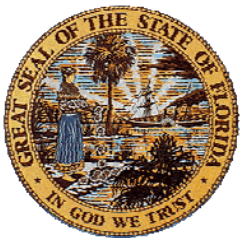
Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)	Amount Provided to Subrecipients
United States Department of Agriculture:				
Indirect:				
Child Nutrition Cluster:				
Florida Department of Education:				
School Breakfast Program	10.553	321	$ 796,332.98	$
National School Lunch Program	10.555	300, 350	3,302,181.69	
Summer Food Service Program for Children	10.559	323	89,220.00	
Florida Department of Agriculture and Consumer Services:				
National School Lunch Program	10.555 (2)(A)	None	713,371.00	
Total Child Nutrition Cluster			4,901,105.67	
Florida Department of Financial Services:				
Secure Payments for States and Counties Containing Federal Lands	10.665	None	152.00	
Total United States Department of Agriculture			4,901,257.67	
United States Department of Education:				
Direct:				
Impact Aid	84.041 (3)	N/A	5,567,136.21	132,511.00
Federal Pell Grant Program	84.063	N/A	413,910.62	
Total Direct			5,981,046.83	132,511.00
Indirect:				
Florida Department of Education:				
Special Education Cluster:				
Special Education - Grants to States	84.027	263	5,699,779.49	
Special Education - Preschool Grants	84.173	267	174,482.08	
Total Special Education Cluster			5,874,261.57	
Title I Grants to Local Educational Agencies	84.010	212, 222, 223, 226, 228	4,986,298.78	
Career and Technical Education - Basic Grants to States	84.048	151, 161	375,533.27	
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	127,262.95	
Education for Homeless Children and Youth	84.196	127	48,036.19	
State Grants for Innovative Programs	84.298	113	48.69	
Education Technology State Grants	84.318	121	39,403.66	
English Language Acquisition Grants	84.365	102	152,796.05	
Improving Teacher Quality State Grants	84.367	224	1,228,683.41	
Total Indirect			12,832,324.57	
Total United States Department of Education			18,813,371.40	132,511.00
United States Department of Homeland Security:				
Indirect:				
Florida Division of Emergency Management:				
Hazard Mitigation Grant	97.039 (2)(B)	07HM-NF-01-56-03-023	967,047.23	
Florida Department of Education:				
Homeland Security Grant Program	97.067	532	143,032.90	
Total United States Department of Homeland Security			1,110,080.13	
United States Department of Defense:				
Direct:				
Public Law 110-417	None	N/A	999,203.47	
Air Force Junior Reserve Officers Training Corps	None	N/A	176,344.51	
Army Junior Reserve Officers Training Corps	None	N/A	127,416.02	
Total United States Department of Defense			1,302,964.00	
Total Expenditures of Federal Awards			$ 26,127,673.20	$ 132,511.00

Notes:

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

(2) Noncash Assistance.
(A) National School Lunch Program - Represents the amount of donated food received during the fiscal year. Commodities are valued at fair value as determined at the time of donation.
(B) Hazard Mitigation Grant - Represents the Federally-paid portion of an emergency power generator for a special-needs shelter.

(3) Impact Aid - Expenditures include $1,225,268.92 for grant number/program year S041B-2006-1256 and $4,341,867.29 for grant number/program year S041B-2009-1256.



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House of Representatives, and the
Legislative Auditing Committee

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

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 as of and for the fiscal year ended June 30, 2009, which collectively comprise the District's basic financial statements, and have issued our report thereon under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the basic financial statements 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 the school internal funds and the aggregate discretely presented component units, as described in our report on the Okaloosa County District School Board's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial

statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider Financial Statement Finding No. 1, which is described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report, to be a significant deficiency in internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report is not a material weakness.

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, rules, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

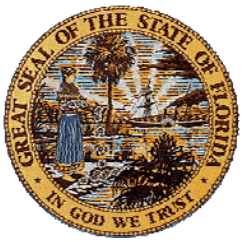
We noted certain additional matters that are discussed in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report.

Management's response to the findings described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report is included as Exhibit A. We did not audit management's response and, accordingly, we express no opinion on it.

Pursuant to Section 11.45(4), Florida Statutes, this report 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 report is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, Federal and other granting agencies, and applicable management and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

David W. Martin, CPA
January 29, 2010



DAVID W. MARTIN, CPA
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The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB *CIRCULAR A-133*

Compliance

We have audited the Okaloosa County District School Board's compliance with the types of compliance requirements described in the United States Office of Management and Budget's (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the fiscal year ended June 30, 2009. The District's major Federal programs are identified in the **SUMMARY OF AUDITOR'S RESULTS** section of the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of the District's 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 of the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2009. However, the results of our auditing procedures disclosed some instances of noncompliance with those requirements, which are required to be reported in accordance with OMB *Circular A-133* and which are described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding Nos. 1, 2, and 3.

Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the District's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a certain deficiency in internal control over compliance that we considered to be a significant deficiency.

A *control deficiency* in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency in internal control over compliance described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding No. 1 to be a significant deficiency.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the District's internal control. We did not consider the Federal Awards control deficiency described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report to be a material weakness.

Management's response to the findings described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report is included as Exhibit A. We did not audit management's response and, accordingly, we express no opinion on it.

Pursuant to Section 11.45(4), Florida Statutes, this report 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 report is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, Federal and other granting agencies, and applicable management and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

David W. Martin, CPA
January 29, 2010

OKALOOSA COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	Yes
Type of report the auditor issued on compliance for major programs:	Unqualified for all major programs
Any audit findings disclosed that are required to be reported in accordance with Section __.510(a) of OMB *Circular A-133*?	Yes
Identification of major programs:	Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559); Title I Grants to Local Educational Entities (CFDA No. 84.010); and Hazard Mitigation Grant (CFDA No. 97.039)
Dollar threshold used to distinguish between Type A and Type B programs:	$783,830
Auditee qualified as low-risk auditee?	Yes

OKALOOSA COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

FINANCIAL STATEMENT FINDING

SIGNIFICANT DEFICIENCY

Finding No. 1: Financial Reporting

Our review of the District's 2008-09 fiscal year annual financial report, as presented for audit, disclosed that enhancements could be made in financial reporting. For example:

- Due to a clerical error, District personnel underreported beginning net assets by approximately $213 million, resulting in total ending net assets on the statement of activities being less than the total ending net assets reported on the statement of net assets by that amount.
- District personnel mistakenly considered unspent debt proceeds in the calculation of net assets invested in capital assets, net of related debt, resulting in an understatement of this account and an overstatement of net assets restricted for capital projects totaling approximately $20.1 million each.
- District personnel omitted certain required disclosures in the notes to financial statements for investments, such as State Board of Administration (SBA) Fund B Surplus Funds Trust Fund interest rate risk, and SBA Local Government Surplus Funds Trust Fund Investment Pool and money market mutual fund credit risks.

Based on responses to our inquiries, District personnel were unaware of the reporting requirement relating to unspent debt proceeds in the calculation of net assets invested in capital assets, net of related debt, and investment risk note disclosures. Proper reporting of net asset amounts and investment risks would enhance the information available to financial statement users. We extended our audit procedures to determine the necessary adjustments to the financial statements and revisions to the note disclosures, and the District accepted these changes.

Recommendation: To facilitate necessary financial reporting, the District should enhance procedures to ensure that financial statement account balances and note disclosures are properly reported.

ADDITIONAL MATTERS

Finding No. 2: Information Technology – Review of Access Privileges

Periodically reviewing information technology (IT) access privileges assigned to employees promotes good internal control and is necessary to ensure that employees cannot access computer resources inconsistent with their assigned job responsibilities. An effective IT environment is designed to control access to computer resources by assigning employees only those system access privileges that are necessary for their job duties and minimize the possibility that an employee could subvert a critical process.

Although Information Systems (IS) management reviewed reports to verify that employees were still active and assigned to the appropriate school or department, IS and end-user departments did not review application profiles to

ensure that access privileges assigned to the profiles were appropriate or that the profiles assigned to the employees were appropriate. In addition, although District management reviewed new employee access privileges assigned to operating system user profiles prior to giving access privileges to employees, District management did not periodically review employee access privileges to ensure that the access privileges remained appropriate.

We reviewed selected access privileges to the finance and human resource applications and the supporting operating system to determine the appropriateness of access privileges. We identified various employees whose profiles allowed them inappropriate or unnecessary access privileges as described below:

- One Staff Development employee could update job base pay information. Only Human Resource Department employees who have responsibilities relating to maintaining employee information should have this access.
- Seventeen Finance Department employees and one IS employee could add or change vendor information. Only Purchasing Department employees who have responsibilities relating to maintaining vendor information should have this access.
- Seven Finance Department employees could add or change chart of accounts information. This access was unnecessary for their assigned job duties and should only be given to employees whose responsibilities are to add or change account information.
- Nine Finance Department employees had the ability to approve a requisition. This access was unnecessary for their assigned job duties and should only be given to employees whose responsibilities are to approve requisitions.
- Six Finance Department employees, two Payroll Department employees, and one IS employee could change a user's access to computer applications. Only the Security Administrator whose responsibilities are to manage system access should be able to change user access to computer applications.
- Two school bookkeepers and one school secretary had special operating system authority to, among other things, hold, release, change, and cancel other users' jobs; change, delete, display, hold, and release jobs waiting to be executed or files waiting to be processed; and terminate the operation of application subsystems. Only certain selected IS employees should have this access.
- One Finance Department employee and one IS employee had special operating system authority to, among other things, change system communication configurations such as an employee adding or changing printer devices. Only certain selected IS employees should have this access.

Although the District had compensating controls in place (e.g., management review of edit reports and budgetary restrictions) to mitigate the risks of the control deficiencies noted above, periodically reviewing the appropriateness of employee access privileges would provide additional assurance that employees cannot access computer resources that might potentially be misused. In response to our inquiry, District management indicated that the employees' access privileges discussed above have now been changed to reflect current job responsibilities.

Recommendation: The District should review the ongoing appropriateness of access privileges and timely remove or adjust any inappropriate or unnecessary access detected to ensure that access privileges to the applications and operating system are compatible with employee job responsibilities.

Finding No. 3: Information Technology – Timely Removal of Access Privileges

Effective IT access controls include provisions to timely remove employee access privileges when employment terminations occur. Prompt action is necessary to ensure that a former employee does not retain IT access privileges that would allow misappropriation or abuse of District assets.

Monthly, the District generates a report for the Board that shows the names of former employees. IS uses this report to remove the access privileges of former employees. However, our review of ten employees who terminated employment from July 1, 2008, through March 17, 2009, disclosed that network user identifications (IDs) for six of the ten former employees were active from 38 to 188 days after the employees' termination dates. In addition, four of the six network user IDs were used from 11 to 178 days after the termination dates.

In response to our inquiry, District management identified the resources that were accessed but could not determine who used the network IDs. Also, District management indicated that the network IDs have now been disabled. Although our tests did not disclose any instances of errors or misappropriations as a result of the control deficiencies noted above, the District is exposed to a greater risk of loss when it does not timely terminate the IT access privileges of former employees.

Recommendation: The District should promptly remove access privileges of former employees to minimize the risk that access privileges could be used to compromise District data or IT resources.

Finding No. 4: Information Technology – Program Change Controls

Periodically, IT application programs need to be changed or modified to suit user needs. To ensure that only authorized and properly functioning changes are implemented, the District needs to ensure that it has effective controls over changes to application programs. Program change controls typically include controlled libraries that restrict individuals who developed program changes from moving the program changes into the production environment.

Our audit disclosed that District program change controls needed improvement in the following areas:

- An operating system group profile and one user profile allowed all eight programming staff, one Program Director, and one Operations and Security Coordinator the ability to create or modify a program and move the program into the production environment. The ability to create or modify a program and move the program to production exposes the District to a greater risk that these employees could implement unauthorized or erroneous programs and manipulate data without timely detection.
- IS programmers had special authority that allowed update access to the production environment in order to perform post-implementation testing of program changes. Although programmers tested the program changes in a test environment before moving the programs into the production environment, they performed a final test of program changes using the production programs and data in the production environment. Although the production libraries and data were backed up, testing program changes in the production environment increased the risk of corrupting production program libraries and a loss of productivity for employees who would need to reenter lost information should production programs become corrupted and the District is unable to restore the previous version.

In response to our inquiry, District management indicated that they are in the process of improving the above-described program change control issues.

Recommendation: The District should ensure that an appropriate separation of duties exists regarding the access to the production libraries. In addition, the District should ensure that all testing is performed in the established test environment.

Finding No. 5: Information Technology – Security Awareness

A comprehensive security awareness program apprises new users of, and reemphasizes to current users, the importance of preserving the integrity, confidentiality, and availability of data and IT resources entrusted to them. Included in the data maintained by the District's IT systems are significant nonpublic records (e.g., student record information and other records that contain sensitive information). Although the District required new employees to sign acknowledgments when hired that they had read and understood the *Electronic Resources Acceptable Use Guidelines*, there was no formal ongoing security awareness training program to facilitate employees' education and training on security responsibilities, including data classification and acceptable or prohibited methods for storage and transmission of data, password protection and usage, malicious software and virus threats, remote access issues, personal digital assistants, laptops, workstation controls, and handling of confidential information. In addition, the District did not require all employees to sign annual acknowledgements that they have read, understand, and accept security policies. The District's failure to implement a formal, ongoing, security awareness training program increases the risk that the District's IT resources could be unintentionally compromised by employees while performing their assigned duties.

Recommendation: The District should promote security awareness through formal ongoing training programs to ensure that its employees are aware of the importance of information handled and their responsibilities for maintaining its confidentiality, integrity, and availability. In addition, the District should require all employees to sign annual acknowledgments that they have read and understand the security policies.

Finding No. 6: Information Technology – User Authentication, Logging, and Monitoring

Security controls are intended to protect the confidentiality, integrity, and availability of data and IT resources. Our audit disclosed certain District security controls related to user authentication, logging, and monitoring that needed improvement. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising District data and IT resources. However, we have notified appropriate District management of the specific issues. Without adequate security controls, the confidentiality, integrity, and availability of data and IT resources may be compromised, increasing the risk that District data and IT resources may be subject to improper disclosure, modification, or destruction.

Recommendation: The District should improve security controls related to user authentication, logging, and monitoring to ensure the continued confidentiality, integrity, and availability of District data and IT resources.

Finding No. 7: Policies for Reporting Fraud

The District had not developed policies for communicating and reporting known or suspected fraud. Such policies should clearly identify actions constituting fraud, reporting procedures, responsibilities for fraud investigation, and consequences for fraudulent behavior. Fraud policies are necessary to educate employees about proper conduct,

create an environment that deters dishonesty, and maintain controls that provide reasonable assurance of achieving management objectives and detecting dishonest acts. In addition, such policies serve to establish the responsibilities for investigating potential incidents of fraud, taking appropriate actions, and reporting evidence of such actions to the appropriate authorities. Fraud policies also help to avoid damaging the reputations of persons suspected of fraud but subsequently found innocent. In the absence of such policies, the risk increases that a known or suspected fraud may be identified but not reported to the appropriate authorities.

Recommendation: The District should develop policies for communicating and reporting known or suspected fraud to the appropriate authorities.

Finding No. 8: Collection and Use of Social Security Numbers

The Legislature has acknowledged in Section 119.071(5)(a), Florida Statutes, that it is necessary to collect social security numbers (SSNs) for certain purposes because over time they have been used as a unique, numeric identifier for identity verification and other legitimate purposes. The Legislature has also recognized that SSNs can be used to acquire sensitive personal information, the release of which could result in fraud against individuals or cause other financial or personal harm. Therefore, public entities are required to provide extra care in maintaining such information to ensure its confidential status.

Section 119.071(5)(a), Florida Statutes, provides, in part, that the District:

- may not collect an individual's SSN unless the District has stated in writing the purpose for its collection and unless it is specifically authorized by law to do so or it is imperative for the performance of the District's duties and responsibilities as prescribed by law;
- must provide the individual with a copy of the written statement indicating the purpose for collecting the SSN;
- may not use SSNs collected for any purpose other than the purpose provided in the written statement; and
- shall review whether its collection of SSNs is in compliance with the above requirements and immediately discontinue the collection of SSNs for purposes that are not in compliance.

The District's SSN usage policy for applicants and employees indicates that SSNs are obtained for various purposes such as verifying citizenship or immigration status, employee benefit processing, processing required criminal background checks, and for direct deposit of wages. The District provided the usage policy to new employees and in February 2009, it was provided by e-mail to all employees.

In addition to the purposes listed above, the District obtained SSNs from employees for other reasons such as to verify the work experience of education support employees, process applications for purchasing cards, and reimburse employees for travel costs. However, because of oversights, the District did not include these purposes in the District's SSN usage policy, and written notifications were not provided to evidence that the SSNs were being obtained for those purposes. We also noted that District personnel overlooked providing written notifications to students or parents when SSNs were obtained on certain student forms such as school activity consent forms, transcript request forms, and dual enrollment data forms, contrary to the above law. Effective controls to properly monitor the need for and use of SSNs and ensure compliance with statutory requirements reduce the risk that SSNs may be used for unauthorized purposes.

Recommendation: The District should continue its efforts to comply with Section 119.071(5)(a), Florida Statutes, and properly notify individuals of the need for and use of social security numbers.

Finding No. 9: High School Diplomas

The District should strengthen controls over ordering, processing, and distributing high school diplomas. During the 2008-09 fiscal year, the District operated eight high schools. Our review of the procedures used to process high school diplomas at Baker School (110 graduates), Fort Walton Beach High School (382 graduates), and Choctawhatchee High School (389 graduates) disclosed that:

- When purchasing diplomas, the schools either hand-delivered or e-mailed lists of potentially graduating seniors to the printing company; however, the schools did not have written agreements with the printing company that specified procedures to be followed for diploma orders and the District employees authorized to submit diploma orders. Written agreements would decrease the risk that diplomas could be ordered by unauthorized persons or that diplomas could be prepared for and distributed to unauthorized persons.
- At Baker School and Fort Walton Beach High School, one employee at each school was responsible for both submitting a listing of students to the printing company for diplomas to be printed and receiving the diplomas from the printing company to verify them for accuracy. Under these circumstances, one employee had control over the process in such a way that diplomas prepared for and distributed to unauthorized persons might not be detected in a timely manner.

Recommendation: The District should strengthen controls over diploma processing to ensure that diplomas are only prepared for and distributed to those students who meet the requirements for graduation.

Finding No. 10: Purchasing Cards

The District provides credit cards (purchasing cards) to certain authorized employees for the purchase of goods and services. In general, purchasing cards are designed to efficiently and effectively handle and expedite low dollar purchases (e.g., purchases under $5,000) of goods and services. Although purchasing cards are subject to the same rules and regulations that apply to regular District purchases, the Board has established purchasing card procedures to provide additional guidelines on the proper use of purchasing cards. During the 2008-09 fiscal year, District employees purchased approximately $3.1 million in goods and services using purchasing cards. Due to the significant volume of purchases made with purchasing cards, we perused the District's purchasing card transactions for the period July 1, 2008, through April 24, 2009, and judgmentally selected 71 purchasing card transactions, totaling approximately $43,100, to determine whether purchasing card usage was consistent with the District's purchasing card procedures and good business practice. Our review of those 71 purchasing card transactions disclosed the following:

- The District's purchasing card procedures require that department supervisors review and approve purchasing card transactions made by employees within their department by signing monthly summaries of their purchasing card transactions and by initialing each applicable vendor invoice or receipt. However, our review disclosed 49 purchasing card transactions totaling approximately $23,300 in which the department supervisor did not evidence approval of the transactions by signing the monthly summaries or initialing the vendor invoices or receipts. Documented approval of purchasing card charges by supervisory staff evidences management's responsibility for such charges and serves to establish authorization to pay purchasing card billings.
- The District's purchasing card procedures require that transaction limits be established for each cardholder and that purchases should not be split to circumvent these transaction limits. However, five purchases totaling approximately $18,700 appeared to be split into 14 transactions to circumvent cardholder transaction limits. For example, a cardholder made two separate payments of $1,251.44 each, using a purchasing card, to purchase rye grass from a vendor at a total cost of $2,502.88, although the cardholder's single transaction limit was $2,000. When cardholders make multiple payments that collectively exceed their established

transaction thresholds, such payments may be inconsistent with Board intentions, and the usefulness of the transaction limits is not realized.

- The District's purchasing card procedures require that purchases be supported by vendor invoices or receipts. However, vendor invoices or receipts were not retained in the purchasing files for six purchases totaling approximately $440 from a florist, party supply store, restaurant, bookstore, and local newspaper. Absent such documentation, District records did not evidence that the purchases were made for allowable purposes. Subsequent to our inquiry, District personnel obtained receipts for two of the purchases totaling $48.
- The District's purchasing card procedures prohibit the purchase of snacks and meals, and state that goods and services purchased should be allowable and for official business use only; however, we noted several purchases that were not for an apparent public purpose based on District records. Upon inquiry, District personnel indicated that 6 transactions totaling approximately $4,100 were for flowers, plaques, and framed certificates in recognition of employee performance and service; 6 transactions totaling approximately $1,200 were for staff appreciation items, such as ornaments and goody bags; and 15 transactions totaling approximately $580 were for food, refreshments, and decorations at meetings and receptions. State Board of Education Rule 6A-1.0143, Florida Administrative Code, and School Board Policy 2-12 allow such expenditures if they are for promotion, public relations, and hospitality and when the expenditures are made from undesignated gifts or donations to the District or from profits of enterprise-type activities. However, the above purchases were made from District budgeted funds and not from allowable promotion, public relations, and business hospitality resources.

Recommendation: The District should strengthen control procedures over its purchasing card program to ensure purchases are properly supported by vendor invoices, not split to circumvent transaction limits, serve a public purpose based on resource use restrictions, and evidence supervisory review and approval.

Finding No. 11: Adult Education Course Hours - Reporting

Section 1004.02(3), Florida Statutes, defines adult general education, in part, as comprehensive instructional programs designed to improve the employability of the State's workforce. Chapter 2008-152, Laws of Florida, Paragraph 120, states that from the funds provided in Specific Appropriations 9A and 120, each school district shall report enrollment for adult general education programs identified in Section 1004.02, Florida Statutes, in accordance with the Florida Department of Education (FDOE) instructional hours reporting procedures.

The District reported 7,121 contact hours for adult general education programs during the 2008-09 school year, including 4,578 contact hours for 28 students that enrolled in the only vocational preparatory instruction (VPI) course offered during the Fall semester. Our review of the contact hours reported for the 28 students taking the VPI course disclosed that the District overreported attendance by 4,374 contact hours. We determined that clerical errors such as incorrectly reporting 180 weekly class minutes as 180 contact hours, and not adjusting reported contact hours to those allowed by FDOE explained why most of the contact hours were overreported. Since future funding may be based, in part, on enrollment data submitted to FDOE, it is important that such data be submitted correctly.

Recommendation: The District should enhance its controls over the reporting of instructional contact hours for adult general education courses to the Florida Department of Education.

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Federal Awards Finding No. 1:
Federal Agency: United States Department of Agriculture
Pass-Through Entity: Florida Department of Agriculture and Consumer Services
Program: Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559)
Finding Type: Noncompliance and Significant Deficiency
Questioned Costs: Not Applicable

Program Administration – Commodities. During November 2008, the Florida Department of Agriculture and Consumer Services (FDACS) conducted a review of the District's commodity food (donated foods) program. The FDACS review included record keeping, usage, storage facilities, and management practices of the donated foods program at selected locations throughout the District. Examples of control deficiencies noted by the review are shown below:

- The District did not effectively integrate commodity use strategies into school food service operations, and did not consistently monitor or practice first-in, first-out (FIFO) inventory management. Consequently, inventory items were noted at the schools with newer pack dates than the same types of items at the central warehouse, and certain inventory items were near or past their expiration dates. In response to this finding, the food service director indicated that inventory will be color coded to indicate the age of the items on the warehouse floor and reviewed on a weekly basis to ensure that new inventory items are not used before older items. Also, in December 2008, warehouse personnel received additional training on FIFO inventory management.
- At several locations, enhancements could be made for inventory storage spaces. The reviewer noted frozen storage spaces with ice build-up, and dry storage spaces with gaps or holes that could potentially allow pests to enter. In addition, the pest control contract only provided that services be performed, as needed, and District records did not evidence the date(s) that pest control services were performed at the schools. In response to these findings, the food service director indicated that repairs had been made to the storage spaces, the maintenance department was working on a Districtwide pest control contract for the 2009-10 fiscal year, and food service managers at the schools would be responsible for maintaining evidence of pest control services performed.

Without proper monitoring procedures over commodity inventory usage, cafeterias may not use inventory timely, increasing the risk of spoilage. In addition, adequate storage facilities and pest control services may help maintain the quality of inventories.

Recommendation: The District should continue its efforts to establish effective controls over the administration of its commodity food program.

District Contact Person: Rick Norris, Purchasing Director

Federal Awards Finding No. 2:
Federal Agency: United States Department of Agriculture
Pass-Through Entity: Florida Department of Education
Program: National School Lunch Program (CFDA No. 10.555)
Finding Type: Noncompliance
Questioned Costs: Not Applicable

Special Tests and Provisions – Competitive Food and Beverage Sales. Title 7, Section 210.11, Code of Federal Regulations, requires that state agencies and school food authorities establish such rules or regulations as are necessary to control the sale of foods in competition with meals served under the National School Lunch Program. State Board of Education Rule 6A-7.0411, Florida Administrative Code, provides that competitive food and beverage items may be sold in secondary schools, with the approval of the school board, one hour following the close of the last lunch period. Also, Board policy provides that the sale of beverage items to students in competition with the District's food service program is prohibited. However, school organizations approved by the School Board are permitted to sell these items only in secondary schools one hour after the close of the last lunch period.

During our site visits to one middle school and two high schools on April 9, 2009, we noted that Meigs Middle School and Choctawhatchee High School operated beverage vending machines that were available to the students during the lunch period, contrary to the above requirements. In addition, the principal at Fort Walton Beach High School indicated that the school's beverage vending machines were available to students between breakfast and lunch, although the Board did not approve this practice. Providing beverage items in competition with the food service program increases the risk that students may not take advantage of the nutritional meals offered by the food service program.

Recommendation: The District should take appropriate actions to ensure compliance with the Federal regulations, State rules, and Board policy relating to the sale of food and beverages in competition with the National School Lunch Program.

District Contact Person: Rick Norris, Purchasing Director

Federal Awards Finding No. 3:
Federal Agency: United States Department of Homeland Security
Pass-Through Entity: Florida Division of Emergency Management
Program: Hazard Mitigation Grant (CFDA No. 97.039)
Finding Type: Noncompliance
Questioned Costs: Not Applicable

Reporting. In October 2005, the District entered into a Federally-funded subgrant agreement with the Florida Division of Emergency Management (Division) whereby the Division agreed to provide the District with a permanent emergency power generator at Davidson Middle School which serves as a special needs shelter in times of emergency, and, in June 2008, installation of the generator was substantially completed. As part of the agreement with the Division, the District is required to provide the Division and Okaloosa County Emergency Management Agency with annual reports documenting certain information, including assurances that the generator and related equipment are being maintained as recommended by the manufacturer and that the generator is in good working condition. These annual reports serve, in part, to document that no changes have been made at the site that will affect the designation of Davidson Middle School as a special needs shelter or its occupancy capacity as provided for in the Division's biennial Statewide Emergency Shelter Plan. While our review disclosed that District personnel completed the

required monthly generator checks that indicated the equipment was in good working order, District personnel were unaware of the requirement to submit annual reports, and did not submit the report due in June 2009 until November 2009, subsequent to our inquiry. In accordance with the terms of the agreement, failure to provide the required annual reports may result in certain remedies at the option of the Division, including, but not limited to, termination of the agreement and removal of the generator.

Recommendation: The District should continue its efforts to ensure that annual reports are timely submitted to the Division and Okaloosa County Emergency Management Agency, as required.

District Contact Person: Dr. Bill Smith, Facilities Director

PRIOR AUDIT FOLLOW-UP

The District had taken corrective actions for findings included in our report No. 2007-051.

MANAGEMENT'S RESPONSE

Management's response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

OKALOOSA COUNTY
DISTRICT SCHOOL BOARD
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2009

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

Audit Report No. and Federal Awards Finding No.	Program/Area	Brief Description	Status	Comments
Carr, Riggs & Ingram, LLC		No prior Federal audit findings.		

EXHIBIT A

MANAGEMENT'S RESPONSE

SCHOOL DISTRICT OF OKALOOSA COUNTY

SUPERINTENDENT OF SCHOOLS
Dr. ALEXIS TIBBETTS

ATTORNEY TO THE BOARD
C. JEFFREY McINNIS

BOARD MEMBERS
CINDY FRAKES
HOWARD HILL
CHUCK KELLEY
CATHY THIGPEN
RODNEY L. WALKER

January 29, 2010

David W. Martin, CPA
Auditor General
7282 Plantation Road, Suite 401
Pensacola, Florida 32514

RE: Preliminary and Tentative Audit Findings and Recommendations for the Fiscal Year Ended June 30, 2009

Dear Mr. Martin:

Enclosed are our responses to your preliminary and tentative audit findings and recommendations for the fiscal year ended June 30, 2009.

Should you have any questions or require further clarification regarding our responses, please do not hesitate to call.

Sincerely,

Dr. Alexis Tibbetts
Superintendent

AT:rrs

cc: Rodney Walker, Chairman, School Board
Cathy Thigpen, School Board Member
Howard Hill, School Board Member
Chuck Kelley, School Board Member
Cindy Frakes, School Board Member
Rita R. Scallan, Chief Financial Officer

ADMINISTRATIVE COMPLEX – 120 LOWERY PLACE S.E. – FORT WALTON BEACH, FLORIDA 32548
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Finding No. 1: Financial Reporting

The District will implement a Peer Review process to ensure that financial statements are reviewed for clerical errors. The District will provide continuing professional education to district staff responsible for financial statement preparation.

Finding No. 2: Information Technology – Review of Access Privileges

The District will conduct an ongoing review of access privileges and timely removal or adjust any inappropriate or unnecessary access that is detected.

Finding No. 3: Information Technology – Removal of Access Privileges

The District will develop a supplemental methodology to ensure the timely removal of network identifications.

Finding No. 4: Information Technology – Program Change Controls

The District has removed the operating system group profile from the IS programming staff and created additional profiles that will allow programming staff appropriate authority. Additionally, the District has identified and authorized specific individuals to move application programs into production. Programming staff will run application programs in the test environment and once ready will contact Operations to run programs in the production environment.

Finding No. 5: Information Technology – Security Awareness

The District has developed a revised Electronic Resources Acceptable Use Policy. All district staff were required to view an informational/training video and then signed the new Acceptable Use Policy. Additionally, when logging on to the network employees are required to acknowledge that they agree to the terms and conditions of the Acceptable Use Policy through their logon screen.

Finding No. 6: Information Technology – User Authentication, Logging, and Monitoring

The District will create and review audit logs every week. Additional measures will be implemented beginning July 1, 2010 to further strengthen security controls. In order to avoid compromising district data and IT resources specific details are not included in this response.

Finding No. 7: Policies for Reporting Fraud

The District will develop an appropriate policy for communicating and reporting fraud.

Finding No. 8: Collection and Use of Social Security Numbers

The District will continue its efforts to ensure compliance with Section 119.071(5) (a) Florida Statutes, and properly notify individuals of the need for and use of social security numbers. Notification language has been implemented on several forms to indicate the purpose and use of social security numbers, such as "verify work experience of educational support employees, process applications for purchasing cards, and reimburse employees for travel costs'.

Finding No. 9: High School Diplomas

The District will strengthen controls over diploma processing by implementing the following steps:

1. High Schools will have a written agreement with the diploma printing company to provide only one diploma for each eligible graduate.
2. Each school will establish one employee responsible for developing the student list to the diploma printing company and another employee responsible for receiving the diplomas and verifying their accuracy and correcting any irregularities.
3. Each school will secure diplomas in a secure location until graduation.

Finding No. 10: Purchasing Cards

The District will strengthen controls over its purchasing card program to ensure purchases are properly supported by vendor invoices by adding a section to the Check-In Sheet to verify that all receipts have been initialed by the Cost Center Supervisor. The District will change the daily limit of every cardholder to match their current single transaction limit which should eliminate the circumvention of the transaction limits. The current policy under examples of disallowable purchases will read "Gifts or any items for recognition", i.e. gift certificates, gift cards, flowers, and plaques.

Finding No. 11: Adult General Education Courses

The District has implemented a detailed check and balance system to prevent any future reporting errors. A chart has been developed and the instructor of the VPI course will verify each student's schedule enrolled in the VPI course including the number of minutes reported. This will provide a second level of review prior to submitting the report to FDOE.

Federal Awards Finding 1:
National School Lunch Program (CFDA No. 10.555) - Program Administration – Commodities.

The District continues to establish effective controls over the administration of the commodity food program. As indicated in a response letter from the Florida Department of Agriculture (FDA), dated July 13, 2009, all areas of concern have been addressed and the file is closed. In addition, FDA had two additional site visits during 2008-2009 with no reportable findings. Pest control contracts have been awarded to Southland Pest Service Inc., for cafeterias in the south and to Knox Pest Control for cafeterias in the north.

Federal Awards Finding 2:
National School Lunch Program (CFDA No. 10.555) – Special Tests and Provisions – Competitive Food and Beverage Sales.

The District will continue to make every effort possible to ensure that schools comply with the Federal regulations, State rules and Board policies relating to the sale of food and beverages in competition with the National School Lunch Program. During the annual food service site reviews, food service field supervisors make notes of any vending sales that are in competition with the National School Lunch Program. If any violations are detected the school principal is immediately notified. The school district's vending machine contract states that vending machines should only operate one (1) hour after the close of the last lunch period. Vending machines are supposed to be on timers which do not permit operation of the machine until one (1) hour after the close of the last lunch period. Vending machines located in the school cafeteria are allowed to operate continuously since the proceeds accrue to the School Food Service operation.

Federal Awards Finding 3:
Hazard Mitigation Grant (CFDS No. 97.039) - Reporting.
Due to a change in staff and administration the annual report due June, 2009 was not filed in a timely manner. The District filed the report on November 9, 2009. The District will comply with the reporting requirements in the future.