

OKALOOSA COUNTY DISTRICT SCHOOL BOARD

FINANCIAL STATEMENTS

AND SUPPLEMENTAL INFORMATION

FOR THE YEAR ENDED JUNE 30, 2001

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FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION
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CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

A Limited Liability Partnership

WILLIAM H. CARR, CPA
STEPHEN C. RIGGS, CPA
PHYLLIS S. INGRAM, CPA
MELANIE L. AMMONS, CPA
BRUCE E. AVERETT, CPA
TRACY T. CONERLY, CPA
TIMOTHY D. FULMER, CPA
HILTON C. GALLOWAY, CPA
GLENN W. GILLYARD, CPA
LISA R. GOOLSBY, CPA
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J. MICHAEL MADDOX, CPA
LILLIAN G. MARTIN, CPA
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MICHAEL A. SCOTT, CPA
ASHLEY H. STAFFORD, CPA
PAUL W. STOREY, CPA
WILLIS A. TEEL, JR., CPA
JAMES F. THIELEN, CPA

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying general purpose financial statements of the Okaloosa County District School Board as of and for the year ended June 30 2001, as listed in the table of contents. These general purpose financial statements are the responsibility of Okaloosa County District School Board management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the Okaloosa Public Schools Foundation, Inc., which represents 83.8% and 79.1%, respectively, of the assets and revenues of the Foundations Component Units column. We also did not audit the financial statements of the Okaloosa Academy, Inc., which represents 100% of the assets and revenues of the Okaloosa Academy Component Units column. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Okaloosa Public Schools Foundation, Inc., and the Okaloosa Academy, Inc., is based on the reports of the other auditors.

DESTIN

4460 LEGENDARY DRIVE
SUITE 100
DESTIN, FL 32541
(850) 837-3141
FAX (850) 654-4619

OFFICES IN:

DOTHAN, AL
ENTERPRISE, AL
FORT WALTON BEACH, FL
GENEVA, AL
MONTGOMERY, AL
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PANAMA CITY, FL
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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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Okaloosa County District School Board as of June 30, 2001, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 24, 2001, on our consideration of the Okaloosa County District School Board's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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AN INDEPENDENT MEMBER

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. 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 general purpose financial statements of the Okaloosa County District School Board. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

Carr, Riggs & Ingram, LLP

CARR, RIGGS & INGRAM, LLP
Certified Public Accountants

Destin, Florida
October 24, 2001

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD
COMBINED BALANCE SHEET - ALL FUND TYPES, ACCOUNT GROUPS
AND DISCRETELY PRESENTED COMPONENT UNITS
JUNE 30, 2001**

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
ASSETS AND OTHER DEBITS				
Cash and cash equivalents	\$ 1,347,449	\$ 416,081	\$ -	\$ -
Investments	13,932,383	586,092	3,398,295	14,377,791
Accounts receivable	1,143	486	48,175	-
Due from other funds	694,594	-	-	-
Due from other agencies	2,671,152	662,758	-	642,992
Inventories	104,013	398,482	-	-
Other assets	-	-	-	-
Fixed assets	-	-	-	-
Amount available for debt service	-	-	-	-
Amount to be provided for:				
Retirement of general long-term debt	-	-	-	-
Payment of certificates of participation	-	-	-	-
Payment of estimated insurance claims	-	-	-	-
Compensated absences	-	-	-	-
TOTAL ASSETS AND OTHER DEBITS	\$ 18,750,734	\$ 2,063,899	\$ 3,446,470	\$ 15,020,783
LIABILITIES, FUND EQUITY, AND OTHER CREDITS				
Accounts payable	\$ 263,113	\$ 28,575	\$ -	\$ 1,404
Construction contracts payable	128,844	-	-	615,631
Due to other funds	-	660,684	-	-
Due to other agencies	137,698	17,014	-	548
Deferred revenue	51,374	28,300	-	-
Estimated liability for arbitrage rebate payable	-	-	47	22,544
Notes payable	-	-	-	-
Obligations under capital leases	-	-	-	-
Bonds payable	-	-	-	-
Certificates of participation payable	-	-	-	-
Compensated absences payable	-	-	-	-
Estimated insurance claims payable	-	-	-	-
Total liabilities	581,029	734,573	47	640,127
Equity and other credits				
Investment in general fixed assets	-	-	-	-
Component unit - fund equity	-	-	-	-
Fund balances:				
Reserved for State categorical programs	4,885,152	-	-	-
Reserved for encumbrances	1,153,187	28,147	-	1,469,997
Reserved for debt service	-	-	3,446,423	-
Reserved for inventory	104,013	398,482	-	-
Unreserved:				
Designated for school carryovers	3,756,804	-	-	-
Designated for insurance	2,700,000	-	-	-
Designated for FTE adjustment	1,000,000	-	-	-
Designated for retirement	1,000,000	-	-	-
Undesignated	3,570,549	902,697	-	12,910,659
Total fund equity and other credits	18,169,705	1,329,326	3,446,423	14,380,656
TOTAL LIABILITIES, FUND EQUITY, AND OTHER CREDITS	\$ 18,750,734	\$ 2,063,899	\$ 3,446,470	\$ 15,020,783

The accompanying notes are an integral part of these financial statements.

Fiduciary Fund Types	Account Groups		Total (Memorandum Only) Primary Government	Component Units		Total (Memorandum Only) Reporting Entity
	Trust and Agency	General Fixed Assets		General Long-Term Debt	Foundations	
\$ 1,334,764	\$ -	\$ -	\$ 3,098,294	\$ 120,501	\$ 578,499	\$ 3,797,294
2,463,907	-	-	34,758,468	367,654	-	35,126,122
-	-	-	49,804	20,630	166	70,600
-	-	-	694,594	-	-	694,594
-	-	-	3,976,902	-	-	3,976,902
-	-	-	502,495	-	-	502,495
-	-	-	-	-	156	156
-	252,528,168	-	252,528,168	23,558	1,139,961	253,691,687
-	-	3,446,422	3,446,422	-	-	3,446,422
-	-	11,448,398	11,448,398	-	-	11,448,398
-	-	5,798,164	5,798,164	-	-	5,798,164
-	-	2,700,000	2,700,000	-	-	2,700,000
-	-	24,364,479	24,364,479	-	-	24,364,479
\$ 3,798,671	\$ 252,528,168	\$ 47,757,463	\$ 343,366,188	\$ 532,343	\$ 1,718,782	\$ 345,617,313
\$ -	\$ -	\$ -	\$ 293,092	\$ -	\$ 49,134	\$ 342,226
-	-	-	744,475	-	-	744,475
-	-	-	660,684	-	-	660,684
142,378	-	-	155,260	-	-	155,260
-	-	-	222,052	8,074	-	230,126
-	-	-	22,591	-	37,082	59,673
-	-	800,000	800,000	-	-	800,000
-	-	257,984	257,984	-	-	257,984
-	-	11,650,000	11,650,000	-	-	11,650,000
-	-	7,985,000	7,985,000	-	-	7,985,000
-	-	24,364,479	24,364,479	-	-	24,364,479
-	-	2,700,000	2,700,000	-	-	2,700,000
142,378	-	47,757,463	49,855,617	8,074	86,216	49,949,907
-	252,528,168	-	252,528,168	-	1,139,961	253,668,129
-	-	-	-	524,269	492,605	1,016,874
-	-	-	4,885,152	-	-	4,885,152
-	-	-	2,651,331	-	-	2,651,331
-	-	-	3,446,423	-	-	3,446,423
-	-	-	502,495	-	-	502,495
-	-	-	3,756,804	-	-	3,756,804
-	-	-	2,700,000	-	-	2,700,000
-	-	-	1,000,000	-	-	1,000,000
-	-	-	1,000,000	-	-	1,000,000
3,656,293	-	-	21,040,198	-	-	21,040,198
3,656,293	252,528,168	-	293,510,571	524,269	1,632,566	295,667,406
\$ 3,798,671	\$ 252,528,168	\$ 47,757,463	\$ 343,366,188	\$ 532,343	\$ 1,718,782	\$ 345,617,313

The accompanying notes are an integral part of these financial statements.

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD
 COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCE – ALL GOVERNMENTAL FUND TYPES,
 EXPENDABLE TRUST FUNDS, AND DISCRETELY PRESENTED COMPONENT UNITS
 FOR THE YEAR ENDED JUNE 30, 2001**

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
REVENUES				
Intergovernmental:				
Federal direct	\$ 6,420,378	\$ -	\$ -	\$ -
Federal through State	267	11,705,579	-	-
Federal through local	-	31,552	-	-
State	98,955,741	122,444	1,149,114	5,183,678
Local	55,821,026	3,757,202	328,770	11,071,741
Other	-	-	-	-
Total revenues	161,197,412	15,616,777	1,477,884	16,255,419
EXPENDITURES				
Current - education:				
Instruction	100,104,093	4,144,868	-	-
Pupil personnel services	6,122,832	721,675	-	-
Instructional media services	3,605,004	67,984	-	-
Instruction and curriculum development	2,853,234	2,297,184	-	-
Instructional staff training services	741,507	220,033	-	-
Board	1,604,313	-	-	-
General administration	389,219	274,044	-	-
School administration	13,517,057	30	-	-
Facilities acquisition and construction	19,518	2,714	-	7,296,540
Fiscal services	1,181,135	-	-	-
Food services	-	7,128,994	-	-
Central services	5,200,895	86,536	-	-
Pupil transportation services	6,569,264	16,369	-	-
Operation of plant	11,677,009	2,411	-	-
Maintenance of plant	4,835,101	-	-	-
Community services	847,128	36,631	-	-
Other	-	-	-	-
Fixed capital outlay:				
Facilities acquisition and construction	121,830	-	-	6,204,138
Other capital outlay	2,546,653	343,646	-	2,897,603
Debt service:				
Redemption of principal	79,352	21,642	2,810,000	-
Interest and fiscal charges	9,561	11,358	1,237,130	817
Total expenditures	162,024,705	15,376,119	4,047,130	16,399,098
Excess (deficiency) of revenues over expenditures	(827,293)	240,658	(2,569,246)	(143,679)
Other financing sources (uses):				
Transfers in	2,369,578	11,060	2,784,716	-
Proceeds from capital leases	30,325	-	-	-
Proceeds from sale of fixed assets	-	-	-	14,350
Loss recoveries	19,107	-	-	142,282
Transfers out	(195,673)	(344,864)	-	(4,809,430)
Total other financing sources (uses)	2,223,337	(333,804)	2,784,716	(4,652,798)
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	1,396,044	(93,146)	215,470	(4,796,477)
Fund balance, July 1, 2000	16,773,661	1,422,472	3,230,953	19,177,133
Fund balance, June 30, 2001	\$ 18,169,705	\$ 1,329,326	\$ 3,446,423	\$ 14,380,656

The accompanying notes are an integral part of these financial statements.

Fiduciary Fund Types	Total (Memorandum Only) Primary Government	Component Units		Total (Memorandum Only) Reporting Entity
		Trust and Agency	Foundations	
\$ -	\$ 6,420,378	\$ -	\$ -	\$ 6,420,378
-	11,705,846	-	-	11,705,846
-	31,552	-	-	31,552
-	105,410,977	29,502	2,049,806	107,490,285
48,254	71,026,993	89,415	23,905	71,140,313
9,175,288	9,175,288	-	-	9,175,288
9,223,542	203,771,034	118,917	2,073,711	205,963,662
-	104,248,961	39,503	749,153	105,037,617
-	6,844,507	-	-	6,844,507
-	3,672,988	-	231	3,673,219
-	5,150,418	-	100,376	5,250,794
-	961,540	-	6,084	967,624
-	1,604,313	-	11,757	1,616,070
-	663,263	9,879	125,580	798,722
-	13,517,087	-	263,332	13,780,419
-	7,318,772	-	160,856	7,479,628
-	1,181,135	-	101,620	1,282,755
-	7,128,994	-	1,289	7,130,283
-	5,287,431	-	83,890	5,371,321
-	6,585,633	-	147,814	6,733,447
-	11,679,420	-	78,009	11,757,429
-	4,835,101	-	2,998	4,838,099
76,438	960,197	15,545	-	975,742
9,146,075	9,146,075	-	-	9,146,075
-	6,325,968	-	-	6,325,968
-	5,787,902	-	139,059	5,926,961
-	2,910,994	-	-	2,910,994
-	1,258,866	-	-	1,258,866
9,222,513	207,069,565	64,927	1,972,048	209,106,540
1,029	(3,298,531)	53,990	101,663	(3,142,878)
184,613	5,349,967	-	-	5,349,967
-	30,325	-	-	30,325
-	14,350	-	-	14,350
-	161,389	-	-	161,389
-	(5,349,967)	-	-	(5,349,967)
184,613	206,064	-	-	206,064
185,642	(3,092,467)	53,990	101,663	(2,936,814)
3,470,651	44,074,870	470,279	390,942	44,936,091
\$ 3,656,293	\$ 40,982,403	\$ 524,269	\$ 492,605	\$ 41,999,277

The accompanying notes are an integral part of these financial statements.

OKALOOSA COUNTY DISTRICT SCHOOL BOARD
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL – ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2001

	Governmental Fund Types		
	General		
	Budget	Actual	Variance - Favorable (Unfavorable)
REVENUES			
Intergovernmental:			
Federal direct	\$ 6,509,800	\$ 6,420,378	\$ (89,422)
Federal through State	267	267	-
Federal through local	-	-	-
State	99,038,453	98,955,741	(82,712)
Local	55,847,435	55,821,026	(26,409)
Total revenues	161,395,955	161,197,412	(198,543)
EXPENDITURES			
Current - education:			
Instruction	103,572,538	100,104,093	3,468,445
Pupil personnel services	6,328,290	6,122,832	205,458
Instructional media services	3,667,413	3,605,004	62,409
Instruction and curriculum development	3,156,445	2,853,234	303,211
Instructional staff training services	1,081,631	741,507	340,124
Board	1,617,015	1,604,313	12,702
General administration	401,459	389,219	12,240
School administration	16,050,784	13,517,057	2,533,727
Facilities acquisition and construction	70,897	19,518	51,379
Fiscal services	1,290,753	1,181,135	109,618
Food services	-	-	-
Central services	5,349,121	5,200,895	148,226
Pupil transportation services	6,616,390	6,569,264	47,126
Operation of plant	11,866,838	11,677,009	189,829
Maintenance of plant	5,468,465	4,835,101	633,364
Community services	1,273,744	847,128	426,616
Fixed capital outlay:			
Facilities acquisition and construction	121,830	121,830	-
Other capital outlay	3,354,564	2,546,653	807,911
Debt service:			
Redemption of principal	79,352	79,352	-
Interest and fiscal charges	9,561	9,561	-
Total expenditures	171,377,090	162,024,705	9,352,385
Excess (deficiency) of revenues over expenditures	(9,981,135)	(827,293)	9,153,842
Other financing sources (uses):			
Transfers in	2,370,421	2,369,578	(843)
Proceeds from capital leases	30,325	30,325	-
Proceeds from sale of fixed assets	-	-	-
Loss recoveries	19,107	19,107	-
Transfers out	(205,100)	(195,673)	9,427
Total other financing sources (uses)	2,214,753	2,223,337	8,584
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(7,766,382)	1,396,044	9,162,426
Fund balance, July 1, 2000	16,773,661	16,773,661	-
Fund balance, June 30, 2001	\$ 9,007,279	\$ 18,169,705	\$ 9,162,426

The accompanying notes are an integral part of these financial statements.

Governmental Fund Types

Special Revenue			Debt Service		
Budget	Actual	Variance - Favorable (Unfavorable)	Budget	Actual	Variance - Favorable (Unfavorable)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
13,211,367	11,705,579	(1,505,788)	-	-	-
55,217	31,552	(23,665)	-	-	-
135,000	122,444	(12,556)	1,149,114	1,149,114	-
3,825,767	3,757,202	(68,565)	328,770	328,770	-
17,227,351	15,616,777	(1,610,574)	1,477,884	1,477,884	-
4,818,245	4,144,868	673,377	-	-	-
757,819	721,675	36,144	-	-	-
56,772	67,984	(11,212)	-	-	-
2,659,097	2,297,184	361,913	-	-	-
335,351	220,033	115,318	-	-	-
-	-	-	-	-	-
302,758	274,044	28,714	-	-	-
30	30	-	-	-	-
10,492	2,714	7,778	-	-	-
-	-	-	-	-	-
7,364,793	7,128,994	235,799	-	-	-
120,863	86,536	34,327	-	-	-
19,129	16,369	2,760	-	-	-
12,585	2,411	10,174	-	-	-
28,347	-	28,347	-	-	-
50,618	36,631	13,987	-	-	-
2,714	-	2,714	-	-	-
602,209	343,646	258,563	-	-	-
21,642	21,642	-	2,810,000	2,810,000	-
11,358	11,358	-	1,237,136	1,237,130	6
17,174,822	15,376,119	1,798,703	4,047,136	4,047,130	6
52,529	240,658	188,129	(2,569,252)	(2,569,246)	6
11,060	11,060	-	2,784,716	2,784,716	-
-	-	-	-	-	-
-	-	-	-	-	-
(344,864)	(344,864)	-	-	-	-
(333,804)	(333,804)	-	2,784,716	2,784,716	-
(281,275)	(93,146)	188,129	215,464	215,470	6
1,422,472	1,422,472	-	3,230,953	3,230,953	-
\$ 1,141,197	\$ 1,329,326	\$ 188,129	\$ 3,446,417	\$ 3,446,423	\$ 6

(continued)

The accompanying notes are an integral part of these financial statements.

OKALOOSA COUNTY DISTRICT SCHOOL BOARD
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUND TYPES (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2001

	Governmental Fund Types		
	Capital Projects		
	Budget	Actual	Variance - Favorable (Unfavorable)
REVENUES			
Intergovernmental:			
Federal direct	\$ -	\$ -	\$ -
Federal through State	-	-	-
Federal through local	-	-	-
State	6,521,654	5,183,678	(1,337,976)
Local	11,071,741	11,071,741	-
Total revenues	17,593,395	16,255,419	(1,337,976)
EXPENDITURES			
Current - education:			
Instruction	-	-	-
Pupil personnel services	-	-	-
Instructional media services	-	-	-
Instruction and curriculum development	-	-	-
Instructional staff training services	-	-	-
Board	-	-	-
General administration	-	-	-
School administration	-	-	-
Facilities acquisition and construction	12,361,152	7,296,540	5,064,612
Fiscal services	-	-	-
Food services	-	-	-
Central services	-	-	-
Pupil transportation services	-	-	-
Operation of plant	-	-	-
Maintenance of plant	-	-	-
Community services	-	-	-
Fixed capital outlay:			
Facilities acquisition and construction	13,123,602	6,204,138	6,919,464
Other capital outlay	2,897,603	2,897,603	-
Debt service:			
Redemption of principal	-	-	-
Interest and fiscal charges	831	817	14
Total expenditures	28,383,188	16,399,098	11,984,090
Excess (deficiency) of revenues over expenditures	(10,789,793)	(143,679)	10,646,114
Other financing sources (uses):			
Transfers in	-	-	-
Proceeds from capital leases	-	-	-
Proceeds from sale of fixed assets	14,350	14,350	-
Loss recoveries	142,282	142,282	-
Transfers out	(4,809,430)	(4,809,430)	-
Total other financing sources (uses)	(4,652,798)	(4,652,798)	-
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(15,442,591)	(4,796,477)	10,646,114
Fund balance, July 1, 2000	19,177,133	19,177,133	-
Fund balance, June 30, 2001	\$ 3,734,542	\$ 14,380,656	\$ 10,646,114

The accompanying notes are an integral part of these financial statements.

Total (Memorandum Only)

Budget	Actual	Variance - Favorable (Unfavorable)
\$ 6,509,800	\$ 6,420,378	\$ (89,422)
13,211,634	11,705,846	(1,505,788)
-	31,552	31,552
106,844,221	105,410,977	(1,433,244)
71,128,930	70,978,739	(150,191)
<u>197,694,585</u>	<u>194,547,492</u>	<u>(3,147,093)</u>
108,390,783	104,248,961	4,141,822
7,086,109	6,844,507	241,602
3,724,185	3,672,988	51,197
5,815,542	5,150,418	665,124
1,416,982	961,540	455,442
1,617,015	1,604,313	12,702
704,217	663,263	40,954
16,050,814	13,517,087	2,533,727
12,442,541	7,318,772	5,123,769
1,290,753	1,181,135	109,618
7,364,793	7,128,994	235,799
5,469,984	5,287,431	182,553
6,635,519	6,585,633	49,886
11,879,423	11,679,420	200,003
5,496,812	4,835,101	661,711
1,324,362	883,759	440,603
13,248,146	6,325,968	6,922,178
6,854,376	5,787,902	1,066,474
2,910,994	2,910,994	-
1,258,886	1,258,866	20
<u>220,982,236</u>	<u>197,847,052</u>	<u>23,135,184</u>
<u>(23,287,651)</u>	<u>(3,299,560)</u>	<u>19,988,091</u>
5,166,197	5,165,354	(843)
30,325	30,325	-
14,350	14,350	-
161,389	161,389	-
<u>(5,359,394)</u>	<u>(5,349,967)</u>	<u>9,427</u>
<u>12,867</u>	<u>21,451</u>	<u>8,584</u>
<u>(23,274,784)</u>	<u>(3,278,109)</u>	<u>19,996,675</u>
<u>40,604,219</u>	<u>40,604,219</u>	<u>-</u>
<u>\$ 17,329,435</u>	<u>\$ 37,326,110</u>	<u>\$ 19,996,675</u>

The accompanying notes are an integral part of these financial statements.

OKALOOSA COUNTY DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Okaloosa County District School Board (District) has direct responsibility for operation, control, and supervision of Okaloosa County District schools and is considered a primary government for financial reporting. The Okaloosa County School District is considered part of the Florida system of public education.

The governing body of the District is the Okaloosa County District School Board (Board), which is composed of five elected members. The elected Superintendent of Schools (Superintendent) is the executive officer of the District. The general operating authority of the Board and the Superintendent is contained in Chapters 228 through 239, Florida Statutes. Geographic boundaries of the District correspond with those of Okaloosa County. Pursuant to Section 237.01, Florida Statutes, the Superintendent is responsible for keeping records and accounts of all financial transactions in the manner prescribed by the State Board of Education.

Criteria for determining if other entities are potential component units which should be reported within the District's general purpose 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 provide for identification of any entities for which the District is financially accountable and other organizations for which the nature and significance of their relationships with the District are such that exclusion would cause the District's general purpose financial statements to be misleading or incomplete.

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

- The Foundations Component Units columns in the general purpose financial statements include the financial data of The Okaloosa Communications Foundation, Inc., and the Okaloosa Public Schools Foundation, Inc. The Okaloosa Communications Foundation, Inc., and the Okaloosa Public Schools Foundation, Inc., are separate not-for-profit corporations organized and operated as direct-support organizations under Section 237.40, Florida Statutes, to receive, hold, invest, and administer property and to make expenditures to or for the benefit of the District. An audit of each corporation for the fiscal year ended June 30, 2001 was conducted and is on file at the District's administrative office.
- The Charter School Component Units columns in the general purpose financial statements include the financial data of the Okaloosa Academy, Inc. (Academy), a separate, not-for-profit corporation organized pursuant to Chapter 617, Florida Statutes, the Florida Not For Profit Corporation Act, and Section 228.056, Florida Statutes. The Academy operates a charter school under a charter approved by its sponsor, the District. An audit of the Academy for the fiscal year ended June 30, 2001 was conducted and is on file at the District's administrative office.

OKALOOSA COUNTY DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The financial information for each of the District's Foundations reported as discretely presented component units for the 2001 fiscal year is as follows:

	Balance Sheets		
	The Okaloosa Communications Foundation, Inc.	Okaloosa Public Schools Foundation, Inc.	Total
Assets:			
Cash	\$ 50,218	\$ 70,283	\$ 120,501
Investments	12,555	355,099	367,654
Interest receivable	-	\$ 20,630	20,630
Property and equipment, net	23,558	-	23,558
Total assets	\$ 86,331	\$ 446,012	\$ 532,343
Liabilities and fund equity:			
Deferred revenue	\$ 8,074	\$ -	\$ 8,074
Fund equity	78,257	446,012	524,269
Total liabilities and fund equity	\$ 86,331	\$ 446,012	\$ 532,343
	Statements of Activities		
	The Okaloosa Communications Foundation, Inc.	Okaloosa Public Schools Foundation, Inc.	Total
Revenues:			
Other	\$ 24,865	\$ 94,052	\$ 118,917
Expenditures:			
Other	9,879	55,048	64,927
Excess of revenues over expenditures	14,986	39,004	53,990
Fund equity, July 1, 2000	63,271	407,008	470,279
Fund equity, June 30, 2001	\$ 78,257	\$ 446,012	\$ 524,269

OKALOOSA COUNTY DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation

The District's financial statements have been prepared in accordance with generally accepted accounting principles applicable to State and local governmental units. Accordingly, the District's accounting system is organized on the basis of funds and account groups. A fund is an accounting entity having a self-balancing set of accounts for recording assets, liabilities, fund equity, revenues, expenditures and other financing sources and uses. Account groups are not funds. They consist of self-balancing sets of accounts and are used only to establish accounting control over general fixed assets and general long-term obligations. Account groups are not used to account for available resources or the actual acquisition of fixed assets or payment of liabilities.

Resources are allocated to and accounted for in the following fund types and account groups:

GOVERNMENTAL FUND TYPES

- General Fund - to account for all financial resources not required to be accounted for in another fund and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.
- Special Revenue Fund - to account for the financial resources of the school food service program and certain Federal grant program resources.
- Debt Service Fund - to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.
- Capital Projects Fund - to account for the financial resources to be used for educational capital outlay needs including new construction and renovation and remodeling projects.

FIDUCIARY FUND TYPES

- Expendable Trust Fund - to account for resources of the school internal funds which are used to administer monies collected in connection with school, student athletic, class, and club activities and financial aid fee collections and expenditures.
- Agency Fund - to account for the financial resources of the pre-tax flexible benefits plans.

ACCOUNT GROUPS

- General Fixed Assets Account Group - to establish accounting control for general fixed assets. General fixed assets are usually acquired with resources of governmental fund types and Expendable Trust Funds and used in association with activities of those funds.
- General Long-Term Debt Account Group - to establish accounting control for long-term debts and other long-term obligations of governmental fund types.

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting

All governmental fund types and the Agency Fund are accounted for using the modified accrual basis of accounting. Under the modified accrual basis, revenues, except for certain grant revenues, are recognized when they become measurable and available. 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. The principal exceptions to this general rule are: 1) prepaid items are generally not accrued; 2) interest on general long-term debt is recognized as expenditures when due; and 3) expenditures related to liabilities reported as general long-term debt are recognized when due. Agency Funds are purely custodial (assets equal liabilities) and thus do not involve measurement of operations.

Expendable Trust Funds are accounted for on the cash basis of accounting, whereby revenues and expenditures are recognized when cash is received or disbursed.

The Okaloosa Communications Foundation, Inc., and the Okaloosa Public Schools Foundation, Inc., shown as discretely presented component units, use the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred.

The Okaloosa Academy, Inc., shown as a discretely presented component unit, is accounted for using the modified accrual basis of accounting.

Budgetary Basis Accounting

The Board follows these procedures, established by State statutes and State Board of Education rules, in establishing final budget balances reported on the financial statements:

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

Cash and Cash Equivalents

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

OKALOOSA COUNTY DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The District maintains its deposits with banks qualified as public depositories under Florida law. All deposits are insured by Federal depository insurance and/or collateralized with securities held in Florida's multiple financial institution collateral pool pursuant to the Public Depository Security Act of the State of Florida.

Investments

The District is authorized to invest and reinvest surplus public funds in its control or possession. Under Section 218.407, Florida Statutes, the District is authorized to participate in the State Board of Administration investment pool. Section 236.24, Florida Statutes, as well as other general laws of Florida, also authorize the District to invest in obligations of the United States Treasury and United States agencies, bonds of the District, and Florida State Board of Education bonds.

Investments are stated at fair market value, except for amounts placed with the State Board of Administration for participation in the local Government Surplus Funds Trust Fund investment pool. The District's investment in the external pool, a Securities and Exchange Commission Rule 2a7-like external investment pool, is reported at amortized cost, which approximates fair market value.

Inventories

Inventories consist of expendable supplies held for consumption in the course of District operations. Inventories, except for United States Department of Agriculture surplus commodities and transportation fuel inventories, are valued on a moving-average basis. Transportation fuel inventories are stated at the last invoice which approximates the first-in, first-out basis and surplus commodities are stated at their fair value as determined at the time of donation to the District's food service program by the Florida Department of Agriculture and Consumer Services, Bureau of Food Distribution. The costs of inventories are recorded as expenditures when used rather than when purchased.

Fixed Assets and Depreciation

Facilities acquisition and construction expenditures for new or additional fixed assets are reported as fixed capital outlay in the governmental fund type or Expendable Trust Fund that financed the acquisition or construction; whereas facilities acquisition and construction expenditures for repairs and replacements are recorded as current expenditures. The new fixed assets acquired are capitalized (recorded) at cost in the General Fixed Assets Account Group. Donated assets are recorded at fair value at the date of donation. Depreciation of general fixed assets is not recorded in the District's accounts. Interest costs incurred during construction of general fixed assets are not capitalized as part of the cost of construction.

Estimates

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

Long-Term Debt and Compensated Absences

Long-term obligations that will be financed from resources to be received in the future by governmental fund types and the Expendable Trust Funds are reported in the General Long-Term Debt Account Group, not in individual funds.

OKALOOSA COUNTY DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated absences, i.e., paid absences for employee vacation leave and sick leave, are recorded in governmental fund types as an expenditure when leave is used or when accrued as payable to employees entitled to cash payment in lieu of taking leave. Compensated absences that exceed this amount at fiscal year-end are reported in the General Long-Term Debt Account Group and recorded as expenditures when used in subsequent years.

Property Taxes – Revenue Recognition

The District is authorized by State law to levy property taxes for 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 2000 tax levy on September 11, 2000. Taxes become an enforceable lien on property as of January 1; tax bills are mailed in October; and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to 4 percent for early payment. Taxes become delinquent on April 1 of the year following the year of assessment, and State law provides for enforcement of collection of personal property taxes by seizure of the property to satisfy unpaid taxes and for enforcement of collection of real property taxes by the sale of interest-bearing tax certificates to satisfy unpaid taxes. The procedures result in the collection of essentially all taxes prior to June 30 of the year following the year of assessment.

Property tax revenue is recognized 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.

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 236.081, 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 one year following the date of the original reporting. Such amendments may impact funding allocations for subsequent years. The Department may also adjust subsequent fiscal period allocations based upon an audit of the District's compliance in determining and reporting FTE and related data. Normally, such adjustments are treated as reductions or additions of revenue in the year when the adjustments are made.

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

The State allocates gross receipts taxes, generally known as Public Education Capital Outlay money, to the District on an annual basis. The District is authorized to expend these funds only upon applying for and receiving an encumbrance authorization from the Department. Accordingly, the District recognizes the allocation of Public Education Capital Outlay funds as deferred revenue until such time as an encumbrance authorization is received. As of June 30, 2001, no Public Education Capital Outlay amounts were recognized as deferred revenue.

OKALOOSA COUNTY DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Total Columns on the Combined Statements

Total columns on the accompanying general purpose financial statements are captioned "Memorandum Only" because they are presented only to facilitate financial analyses. In as much as the total columns include fund types, account groups, and the discretely-presented component units that use different bases of accounting, include both restricted and unrestricted amounts, and include interfund transactions that have not been eliminated, data in the total columns is not intended to present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation.

NOTE 2 – INVESTMENTS

Investments are categorized into three categories of credit risk:

- Risk Category 1 - Insured or registered, or securities held by the District or its agent in the District's name.
- Risk Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the District's name.
- Risk Category 3 - Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the District's name.

All securities held at June 30, 2001, except for the Federally-sponsored agency obligations and certain money market mutual funds, were insured or registered, or were held by the District or its agent in the District's name (Category 1). The Federally-sponsored agency obligations and money market mutual funds were held by a counterparty trust department in the District's name (Category 2). Investments at June 30, 2001, are shown below:

	Carrying Amount
Federally-sponsored agency obligations	\$ 2,396,646
Local government surplus funds trust fund	32,072,965
Other investments	288,857
Total investments, primary government	34,758,468
Discretely-presented component units:	
The Okaloosa Communications Foundation, Inc.	12,555
Okaloosa Public Schools Foundation, Inc.	355,099
TOTAL INVESTMENTS, REPORTING ENTITY	\$ 35,126,122

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001**

NOTE 3 – CHANGES IN GENERAL FIXED ASSETS

Changes in general fixed assets are shown below:

	Balance 7-1-00	Additions	Transfers	Deletions	Balance 6-30-01
Land	\$ 5,981,733	\$ 238,457	\$ -	\$ (116,627)	\$ 6,103,563
Improvements other than buildings	7,527,345	1,306,063	-	-	8,833,408
Buildings and fixed equipment	178,121,658	177,290	6,020,569	(23,042)	184,296,475
Furniture, fixtures and equipment	32,982,150	3,501,922	-	(1,908,255)	34,575,817
Motor vehicles	10,941,928	1,132,825	-	(514,886)	11,559,867
Construction in progress	4,213,648	5,105,825	(6,020,569)	-	3,298,904
Audio-visual materials and computer software	2,723,799	621,164	-	(153,371)	3,191,592
Property under capital leases	740,518	30,325	-	(102,301)	668,542
TOTAL	\$ 243,232,779	\$ 12,113,871	\$ -	\$ (2,818,482)	\$ 252,528,168

The classes of property under capital leases are presented in Note 6.

The following is a summary of the changes in general fixed assets of the Okaloosa Academy, Inc., a discretely-presented component unit:

	Balance 7-1-00	Additions	Deletions	Balance 6-30-01
Land	\$ 547,339	\$ -	\$ -	\$ 547,339
Improvements other than buildings	191,061	41,328	-	232,389
Buildings	70,000	2,345	-	72,345
Furniture, fixtures, and equipment	140,910	95,386	-	236,296
Motor vehicles	51,592	-	-	51,592
TOTAL	\$ 1,000,902	\$ 139,059	\$ -	\$ 1,139,961

NOTE 4 – CAFETERIA PLAN

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

OKALOOSA COUNTY DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 5 – NOTE PAYABLE

Note payable at June 30, 2001 is as follows:

Description	Interest Rate	Amount
Borrowings from bank under Section 237.161, Florida Statutes, payable in semi-annual installments of \$200,000 plus interest, matures January 2003.	5.1765%	\$ 800,000

Amounts payable for the planned extended repayment of notes payable at June 30, 2001 are as follows:

Fiscal Year Ending June 30	Amount
2002	\$ 436,335
2003	414,250
Total minimum payments	850,585
Less: amount representing interest	(50,585)
Present value of minimum payments	<u>\$ 800,000</u>

NOTE 6 – OBLIGATIONS UNDER CAPITAL LEASES

The classes and amounts of property acquired under capital leases are as follows:

	Asset Balance
Copiers	\$ 93,006
Mail processors	35,550
Computers	539,986
TOTAL	<u>\$ 668,542</u>

Future minimum capital lease payments and the present value of those payments as of June 30 are as follows:

Fiscal Year Ending June 30	Amount
2002	\$ 201,546
2003	83,091
Total minimum lease payments	284,637
Less: amount representing interest	(26,653)
Present value of minimum lease payments	<u>\$ 257,984</u>

OKALOOSA COUNTY DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 7 – CERTIFICATES OF PARTICIPATION

The District entered into a financing arrangement on April 1, 1992 with the Florida School Boards Association, Inc., which was characterized as a lease-purchase agreement, whereby financing was secured to refund the District's \$5,150,000 Certificates of Participation, Series 1988 - No. 1, and the District's \$15,800,000 Certificates of Participation, Series 1988 - No. 3, of which \$4,220,000 and \$13,730,000, respectively, were outstanding at April 1, 1992. The financing was accomplished through the issuance of Certificates of Participation, Series 1992, 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 certain District property to the Florida School Boards Association, Inc., with a rental fee of \$10 per year. The initial term of the ground lease began on April 1, 1992, and will terminate on the earlier of the date on which the Certificates are paid in full or July 1, 2017. The properties covered by the ground lease, together with the improvements constructed thereon from the financing proceeds, are 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 Agreement for the benefit of the securers of the Certificates for a period of time specified by the arrangement which may be through July 1, 2017.

The District properties included in the ground lease under this arrangement include all or parts of properties under the Certificates of Participation, Series 1988 - No. 1 and Series 1988 No. 3; Baker School, Niceville Senior High School, Walker Elementary School, Fort Walton Beach Senior High School, Choctawhatchee Senior High School, Crestview Senior High School, and Bluewater Bay Elementary School.

The lease payments are payable by the District, semiannually, on October 1 and April 1 at interest rates ranging from 6.00 to 6.25 percent. The following is a schedule by years of future minimum lease payments under the lease agreement together with the present value of minimum lease payments as of June 30:

Fiscal Year Ending June 30	Amount
2002	\$ 2,448,125
2003	2,419,075
2004	1,819,688
2005	<u>2,289,375</u>
Total minimum lease payments	8,976,263
Less, amount representing interest	<u>(991,263)</u>
Present value of minimum lease payments	<u><u>\$ 7,985,000</u></u>

OKALOOSA COUNTY DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 8 – BONDS PAYABLE

Bonds payable at June 30, 2001, is as follows:

Bond Type	Interest Rates (Percent)	Annual Maturity To	Amount Outstanding
State School Bonds:			
Series 1996-A	4.60-6.00	2016	\$ 7,930,000
Series 1998-A	4.00-5.50	2018	1,725,000
Series 1999-A	4.00-4.75	2019	590,000
District Revenue Bonds:			
Series 1994-A	4.90-6.10	2015	1,405,000
TOTAL BONDS PAYABLE			\$ 11,650,000

The following is a description of bonded debt issues:

State School Bonds

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

District Revenue Bonds

These bonds are generally referred to as "Series 1994 Revenue Refunding Bonds" and are authorized by Chapter 65-843 Laws of Florida, Special Acts of 1965, and Chapter 67-1793. Laws of Florida, Special Acts of 1967, which provide that the bonds be secured from the pari-mutuel tax proceeds distributed annually to the District from the State's Pari-Mutuel Tax Collection Trust Fund pursuant to Chapter 550, Florida Statutes. As required by the bond resolution, the Board has established and maintained adequate resources in the sinking fund.

Amounts payable for the planned extended repayment of bonds payable at June 30, 2001 are as follows:

Fiscal Year Ending June 30	State School Bonds	District Revenue Bonds	Total
2002	\$ 968,075	\$ 151,709	\$ 1,119,784
2003	970,075	153,069	1,123,144
2004	969,325	149,094	1,118,419
2005	970,275	150,044	1,120,319
2006	969,650	150,644	1,120,294
Later years	10,020,695	1,350,764	11,371,459
Total minimum payments	14,868,095	2,105,324	16,973,419
Less: amount representing interest	(4,623,095)	(700,324)	(5,323,419)
Present value of minimum payments	\$ 10,245,000	\$ 1,405,000	\$ 11,650,000

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001**

NOTE 9 – REVOLVING LINES OF CREDIT

Pursuant to the provisions of Section 237.151, Florida Statutes, the District maintains two separate lines of credit with a financial institution. The aggregate amounts available total \$7.4 million, expire on October 31, 2001, and any outstanding principal amounts bear interest at 53.9% of the Prime Rate. The District may borrow against and repay these lines from time to time, provided that the outstanding principal balance does not exceed the maximum available at any time. As of June 30, 2001, no amounts were outstanding under these lines.

NOTE 10 – CHANGES IN GENERAL LONG-TERM DEBT

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

Description	Balance 7-1-00	Additions	Deductions	Balance 6-30-01
Bonds payable	\$ 12,150,000	\$ -	\$ (500,000)	\$ 11,650,000
Certificates of participation payable	9,895,000	-	(1,910,000)	7,985,000
Obligations under capital leases	335,668	30,325	(108,009)	257,984
Notes payable	1,200,000	-	(400,000)	800,000
Estimated insurance claims payable	2,500,000	200,000	-	2,700,000
Compensated absences payable	23,559,888	804,591	-	24,364,479
TOTAL	\$ 49,640,556	\$ 1,034,916	\$ (2,918,009)	\$ 47,757,463

Records kept for compensated absences relate only to hours earned, used, and available. Accordingly, only the net change in compensated absences payable is shown.

NOTE 11 – RESERVE FOR ENCUMBRANCES

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

The Florida Department of Education requires that fund balances be reserved at fiscal year-end to report an amount likely to be expended from the 2001 fiscal year budget as a result of purchase orders outstanding at June 30, 2001. At June 30, 2001, these encumbrances totaled \$2,651,331.

Because revenues of grants accounted for in Special Revenue Funds are not recognized until expenditures are incurred, these grant funds generally do not accumulate fund balances. Accordingly, no reserve for encumbrances is reported for grant funds. However, purchase orders outstanding for grants accounted for in the Special Revenue Funds total \$238,287 at June 30, 2001.

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001**

NOTE 12 – INTERFUND RECEIVABLES AND PAYABLES

The following is a summary of interfund receivables and payables:

Funds	Interfund	
	Receivables	Payables
General	\$ 694,594	\$ -
Special Revenue - Other	-	660,684
Expendable Trust: Internal Account	-	33,910 *
TOTAL	\$ 694,594	\$ 694,594

* - As discussed in Note 1 to the financial statements, the expendable trust funds are accounted for on the cash basis of accounting. Accordingly, the \$33,910 payable due from the expendable trust fund is not recorded on the accompanying combined balance sheet.

NOTE 13 – SCHEDULE OF STATE REVENUE SOURCES

The District's principal source of revenues is the State of Florida, which provided approximately 51.7% of total revenues in the 2001 fiscal year. The following is a schedule of State revenue sources and amounts:

Sources	Amount
Florida Education Finance Program	\$ 81,749,031
Categorical Educational Programs	9,308,216
Gross Receipts Tax (Public Education Capital Outlay)	4,539,190
Workforce Development Funds	2,734,503
Discretionary Lottery Funds	2,275,389
Motor Vehicles License Tax (Capital Outlay and Debt Service)	1,121,558
School Recognition/Merit Schools	1,032,588
Preschool Projects	841,403
Charter School Capital Outlay	497,607
Pari-Mutuel Tax	190,750
Florida Teachers Lead Program	189,769
Food Service Supplement	122,444
State License Tax	121,176
State Forest Funds	9,607
Miscellaneous	677,746
Total	\$ 105,410,977

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001**

NOTE 14 – PROPERTY TAXES

The following is a summary of millages and taxes levied on the 2000 tax roll for the 2001 fiscal year:

	Millages	Taxes Levied
<hr/>		
General Fund		
<hr/>		
Nonvoted School Tax:		
Required local effort	6.211	\$ 47,634,173
Discretionary local effort	0.718	5,506,626
Capital Projects Funds		
<hr/>		
Nonvoted Tax:		
Local capital improvements	1.289	9,885,707
		<hr/>
Total	8.218	\$ 63,026,506
		<hr/> <hr/>

NOTE 15 – STATE RETIREMENT PROGRAM

Plan Description

All regular employees of the District are covered by the Florida Retirement System, a State-administered cost-sharing multiple-employer defined benefit retirement plan (Plan). Plan provisions are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code, wherein Plan eligibility, contributions, and benefits are defined and described in detail. Essentially all regular employees of participating employers are eligible and must enroll as members of the Plan. Benefits vest at specified ages or number of years of service depending upon the employee's classification. The Plan also includes an early retirement provision but imposes a penalty for each year a member retires before the specified retirement age. The Plan provides retirement, disability, and death benefits and annual cost-of-living adjustments, as well as supplements for health-care insurance and, for certain employees, a supplement to cover social security benefits lost by virtue of retirement system membership.

A Deferred Retirement Option Program (DROP), subject to provisions of Section 121.091, Florida Statutes, was established July 1, 1998. It permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with a Florida Retirement System employer. An employee may participate in the DROP for a period not to exceed 60 months after electing to participate. During the period of DROP participation, deferred monthly benefits are held in the Florida Retirement System Trust Fund and accrue interest.

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001**

NOTE 15 – STATE RETIREMENT PROGRAM (CONTINUED)

The Plan's financial statements and required supplemental information are included in the comprehensive annual financial report of the State of Florida which may be obtained by contacting the Florida State Comptroller's Office in Tallahassee, Florida. Also, an annual report on the Plan, which includes its financial statements, required supplemental information, actuarial report, and other relevant information may be obtained from the State of Florida, Division of Retirement in Tallahassee, Florida.

Funding Policy

The contribution rates for Plan members are established, and may be amended, by the State of Florida. During the 2001 fiscal year, contribution rates were as follows:

Class or Plan	Percent of Gross Salary	
	Employee	Employer
Florida Retirement System, Regular	-	9.15
Florida Retirement System, County Elected Officers	-	16.99
Teachers Retirement System, Plan E	6.25	11.18
Deferred Retirement Option Program	-	12.50
Florida Retirement System, Reemployed Retiree	-	9.15
Florida Retirement System, Reemployed County Elected Officers	-	16.99

The District's liability for participation in the Plan is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the District. The District's contributions to the Plan (including employee contributions) for the fiscal years ended June 30, 1999, June 30, 2000, and June 30, 2001, totaled \$16,286,030, \$10,024,878 and \$10,570,567 respectively, which were equal to the required contributions for each fiscal year.

NOTE 16 – SPECIAL TERMINATION BENEFITS

District policy provides for the payment of retirement incentive bonuses to employees who are eligible to retire under an existing State retirement system and have 10 years of creditable service earned in the District, if they retire no later than June 30 of their first year of normal retirement eligibility. The District reported expenditures totaling \$289,387 during the 2001 fiscal year for special termination benefits.

In addition, employees who are eligible for payment of 100 percent of their unused sick leave may formally resign for retirement purposes a maximum of 3 years in advance of the date of their first opportunity for normal retirement and receive payment for accumulated sick leave in up to 3 annual payments prior to retirement. Employees who have exceeded their first eligibility for normal retirement are not eligible for this provision. First eligibility for purposes of this provision is defined as having 30 years of creditable service or age 62 and being vested in the Florida Retirement System.

OKALOOSA COUNTY DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 17 – CONSTRUCTION CONTRACT COMMITMENTS

The District's construction contract commitments are primarily associated with a five year construction program involving a construction management entity. Although the contract with the construction management entity is for a single guaranteed maximum price, approximately \$69 million, budgets have been established for the various projects for which the construction management entity is responsible. Depending on the phase of construction, an individual project's budget may appear to be overspent. Similarly, projects that have been completed may have budgets remaining, which can be allocated to other projects. As long as the overall expenditures do not exceed the guaranteed maximum price, the balance is considered to be a commitment of the District.

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

Project	Contract Amount	Completed to Date	Balance Committed
Baker School Addition/Renovation	\$ 1,080,651	\$ 1,000,988	\$ 79,663
Bluewater Elementary School Renovation	530,080	412,566	117,514
Bob Sikes Elementary School Renovation	1,367,640	1,201,870	165,770
Bruner Middle School Renovation	785,343	943,529	(158,186)
Cherokee Elementary School Renovation	463,127	431,291	31,836
Choctawhatchee High School Renovation	1,548,894	998,761	550,133
Crestview High School Addition/Renovation	1,852,207	1,021,522	830,685
Destin Elementary School Renovation	766,511	598,585	167,926
Elliott Point Elementary School Renovation	420,241	721,564	(301,323)
Florosa Elementary School Renovation	342,077	353,203	(11,126)
Fort Walton Beach High School Addition/Renovation	2,408,599	1,779,096	629,503
Kenwood Elementary School Addition/Renovation	941,865	862,754	79,111
Laurel Hill School Remodeling/Renovation	1,016,232	708,001	308,231
Lewis Middle School Addition/Renovation	926,142	500,797	425,345
Longwood Elementary School Renovation	407,093	276,405	130,688
Mary Esther Elementary School Renovation	142,502	195,081	(52,579)
Meigs Middle School Renovation	419,453	432,130	(12,677)
Niceville High School Addition/Renovation	1,628,014	874,281	753,733
Northwood Elementary School Addition/Renovation	4,774,503	3,176,891	1,597,612
Oak Hill Elementary School Renovation	1,462,816	1,062,044	400,772
Ocean City Elementary School Renovation	2,562,511	2,026,212	536,299
Plew Elementary School Renovation	326,228	486,291	(160,063)
Pryor Middle School Renovation	1,163,409	1,026,208	137,201
Richbourg Middle School Addition/Renovation	1,178,256	1,141,398	36,858
Ruckel Middle School Renovation	385,408	318,748	66,660
Shalimar Elementary School Renovation	1,411,185	781,907	629,278
Silver Sands School Renovation	2,629,711	1,995,911	633,800
Southside Elementary School Addition/Renovation	3,725,881	3,551,258	174,623
Valparaiso Elementary School Renovation	153,933	96,504	57,429
Walker Elementary School Addition/Renovation	1,237,388	1,062,363	175,025
Wright Elementary School Addition/Renovation	232,567	215,654	16,913
	<u>\$ 38,290,467</u>	<u>\$ 30,253,813</u>	<u>\$ 8,036,654</u>

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001**

NOTE 18 – 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. The Board is completely self-insured for general liability claims up to \$100,000. The District relies upon the doctrine of sovereign immunity to indemnify the District against claims in excess of that amount. Workers' compensation, automobile liability, and property insurance coverage are being provided on a self-insured basis up to certain specified limits. For workers' compensation and automobile liability coverage, the District has entered into agreements with insurance companies to provide specific excess coverage of individual claims exceeding stated amounts. For property insurance coverage, the District has obtained specific excess coverage through the Florida School Boards Insurance Trust, a public entity risk pool through which several district school boards have established a combined limited self-insurance program for various types of insurance coverage.

Health, life, and dental coverage for District employees are being provided through purchased commercial insurance.

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

The District reports all of its risk management activities in the General Fund. An actuarially determined liability discounted to a present value of \$2,700,000 is reported as estimated insurance claims payable in the General Long-Term Debt Account Group. As of June 30, 2001, \$2,700,000 of the District's unreserved fund balance was designated to fund future claims.

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

	Beginning-of- Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claims Payable	Balance at Fiscal Year End
1999 - 2000	\$ 2,197,000	\$ 1,374,300	\$ (1,071,300)	\$ 2,500,000
2000 - 2001	\$ 2,500,000	\$ 1,278,890	\$ (1,078,890)	\$ 2,700,000

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001**

NOTE 19 – TRUST AND AGENCY FUNDS

The assets, liabilities, and fund balances at June 30, 2001, are as follows:

	Expendable Trust Funds		Agency Fund	Total
	School Internal Funds	Financial Aid Fees	Employee Cafeteria Plan	
ASSETS				
Cash	\$ 1,334,764	\$ -	\$ -	\$ 1,334,764
Investments	2,310,641	10,840	142,426	2,463,907
TOTAL ASSETS	\$ 3,645,405	\$ 10,840	\$ 142,426	\$ 3,798,671
LIABILITIES AND FUND BALANCES				
Deposits payable	\$ -	\$ -	142,378	\$ 142,378
Unreserved fund balances	3,645,405	10,840	48	3,656,293
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,645,405	\$ 10,840	\$ 142,426	\$ 3,798,671

NOTE 20 – LITIGATION

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

NOTE 21 – NEW REPORTING STANDARD

The Governmental Accounting Standards Board (GASB) has issued Statement 34 "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" as amended by Statement 37 "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments." These Statements establish new financial reporting requirements for state and local governments throughout the United States. When implemented, they will require new information and restructure much of the information that governments have presented in the past. Comparability with reports issued in all prior years will be affected. The District is required to implement these standards for the fiscal year ending June 30, 2002. The District has not yet determined the full impact that adoption of GASB Statements 34 and 37 will have on the financial statements of subsequent years.

SINGLE AUDIT SECTION

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2001**

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass- Through Grantor Number	Amount of Expenditures (Note 1)
United States Department of Agriculture:			
Indirect:			
Florida Department of Agriculture and Consumer Services:			
Food Distribution (Note 2)	10.550	None	\$ 268,217
Florida Department of Education:			
Child Nutrition Cluster:			
School Breakfast Program	10.553	321	546,208
National School Lunch Program	10.555	300	2,416,220
Total Child Nutrition Cluster			<u>2,962,428</u>
Florida Department of Banking and Finance:			
Schools and Roads - Grants to States	10.665	None	<u>267</u>
Total United States Department of Agriculture			<u>3,230,912</u>
United States Department of Labor			
Indirect:			
Okaloosa-Walton Community College:			
School-to-Work Opportunities	84.278	None	<u>18,946</u>
Federal Emergency Management Agency:			
Indirect:			
Florida Department of Community Affairs:			
Public Assistance Grants	83.544	None	<u>94,324</u>
United States Department of Education:			
Direct:			
Impact Aid	84.041	None	5,225,253
After School Learning Centers	84.287	None	124,921
Pell Grants	84.063	None	198,904
Foreign Language Assistance	84.293	None	153,210
Total Direct			<u>5,702,288</u>
Indirect:			
Adult Education - State Grant Program	84.002	None	15,182
Title I Grants to Local Educational Agencies	84.010	212	2,859,242
Title VI - Class Size Reduction	84.340	111	521,876
Special Education - Grants to States	84.027	262,263	2,944,852
Vocational Education - Basic Grants to States	84.048	151	266,269
Title II - Eisenhower Professional Development	84.281	224	81,473
Special Education - Preschool Grants	84.173	267	198,199
Safe and Drug-Free Schools and Communities - State Grants	84.183	103	90,490
Goals 2000 - State and Local Education Systematic Improvement Grants	84.276	133	207,578

(continued)

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2001**

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass- Through Grantor Number	Amount of Expenditures (Note 1)
Public Schools Federal Grant Program:			
Charter School: Okaloosa Academy (Note 3)	84.282	298	140,000
Innovative Education Program Strategies	84.298	113	155,385
Technology Literacy Challenge	84.318	121	36,071
Escambia County District School Board:			
FDLRS			130,051
Okaloosa-Walton Community College:			
Vocational Education - Basic Grants to States	84.048	None	27,383
Tech-Prep Education	84.243	None	31,552
Total Indirect			<u>7,705,603</u>
Total United States Department of Education			<u>13,407,891</u>
Corporation for National and Community Service:			
Pass-Through programs from:			
Florida Department of Education:			
Learn and Serve America - School and Community Based Programs	94.004	234	<u>322</u>
United States Department of Defense:			
Direct:			
Public Law 102-484	None	N/A	915,077
Junior Reserve Officers Training Corps	None	N/A	242,492
Troops to Teachers	None	N/A	<u>37,556</u>
Total United States Department of Defense			<u>1,195,125</u>
Total Expenditures of Federal Awards			<u><u>\$ 17,947,520</u></u>

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2001**

Notes:

- 1) Basis of Presentation. The Schedule of Expenditures of Federal Awards represents amounts expended from Federal Programs during the 2001 fiscal year based on the modified accrual basis of accounting. The amounts reported on the Schedule have been reconciled to and are in material agreement with amounts recorded in the District's accounting records from which the general purpose financial statements have been reported.
- 2) Food Distribution. Represents the amount of donated food used during the 2001 fiscal year. Commodities are valued at fair value as determined at the time of donation.
- 3) Subrecipients. The Okaloosa County District School Board provided federal awards to subrecipients as follows:

Program Title	CFDA Number	Amount Provided
Public School Federal Grant Program	84.282	\$ 140,000

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2001**

SUMMARY OF AUDIT RESULTS

As required by United States Office of Management and Budget *Circular A-133*, Section 505, the following is a summary of the results of the audit of the Okaloosa County District School Board for the fiscal year ended June 30, 2001:

- The auditor's report expresses an unqualified opinion on the general purpose financial statements of the Okaloosa County District School Board.
- No reportable conditions relating to the audit of the general purpose financial statements are reported in the Report on Compliance and on Internal Controls Based on an Audit of the General Purpose Financial Statements Performed in Accordance with *Government Auditing Standards*.
- No instances of noncompliance material to the general purpose financial statements of the Okaloosa County District School Board were disclosed during the audit.
- One reportable condition relating to the audit of the major federal award programs is reported in the Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance in Accordance with *OMB Circular A-133*. The condition is reported as a material weakness.
- The auditor's report on compliance for the Title VI -- Class Size Reduction program expresses a qualified opinion; the report on the remaining programs of the Okaloosa County District School Board is unqualified.
- Audit findings relative to the major and non-major Federal programs for the Okaloosa County District School Board are reported in this Schedule.
- The programs tested as major programs included: Impact Aid (CFDA No. 84.041); Title VI – Class Size Reduction (CFDA No. 84.340); Special Education – Grants to States (CFDA No. 84.027); Innovative Education Program Strategies (CFDA No. 84.298); and Public Law 102-484 (No CFDA number).
- The threshold for distinguishing between Types A and B programs was \$536,978.
- The Okaloosa County District School Board was determined to be a low-risk auditee.

FINDINGS – FINANCIAL STATEMENTS AUDIT

None

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

United States Department of Education

01-1: Title VI – Class Size Reduction (CFDA No. 84.340)

Material Weakness: As discussed more fully in finding 01-2, during the fiscal year ending June 30, 2001, the District used Class Size Reduction funds to teach fourth and fifth grade students when class sizes for kindergarten through third grade were not reduced to a required level. This appears to indicate that when class size reduction budget decisions were made in 2000, the District did not have effective controls in place relating to this program. Specifically, program management was not periodically monitoring evidence of allowable cost information, such as reviewing class rosters to verify that only the targeted grades were being serviced. We noted, however, that new budgetary and staffing controls are now in place that will likely alleviate this weakness.

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2001**

01-2: Title VI – Class Size Reduction (CFDA No. 84.340)

During the 2001 fiscal year, the District received Title VI – Class Size Reduction program funds of \$521,876 to reduce class size for targeted grades kindergarten through three by either creating new classes or by pulling students out of their regular classroom into smaller groups. Our review disclosed four teachers at District area schools (Combs-New Heights Elementary, Edge Elementary, Laurel Hill School, and Elliott Point Elementary), that were paid salaries from Class Size Reduction program funds, but who spent a portion of their time teaching fourth and fifth grade students. These fourth and fifth grade students were served even though the class size in grades kindergarten through three at these schools had not been reduced to 18 or fewer students as required by the grant program. Accordingly, Class Size Reduction program grant funds were used for other than the purpose intended by the grant. The portion of the teachers' salaries and benefits for the time the teachers spent teaching fourth and fifth grade students was \$78,801 and represents questioned program costs. As mentioned above, we noted that new controls are now in place that would likely have prevented this finding.

FINDINGS AND QUESTIONED COSTS – NON-MAJOR FEDERAL AWARD PROGRAMS AUDIT

United States Department of Education

01-3: After School Learning Centers - 21st Century Community Learning Centers (CFDA No. 84.287)

Through the United States Department of Education - After School Learning Centers, direct federal assistance was provided to the District. The 21st Century Community Learning Centers grant was initially awarded to Laurel Hill School in 1999 on a calendar-year basis, and the grant period ends in December 2001. The total amount awarded over the three-year period is \$400,825.

1999	\$ 124,825
2000	\$ 144,750
2001	\$ 131,250

OMB A-133 requires compliance with all applicable statutory and regulatory provisions, including ensuring that costs are allocable to a particular cost objective; and ensuring that funds received are spent only for reasonable and necessary costs of the program. Florida Statutes, Chapter 112.313 (3), "Doing Business with One's Agency", states that "nor shall a public officer or employee, acting in a private capacity, rent, lease, or sell any realty, goods, or services to the officer's or employee's own agency, if he or she is a state officer or employee..."

During the 2001 fiscal year, the District Finance department had questioned some payroll charges prepared by the grant administrator as well as the propriety of the purchase of a portable building by a school using funds from the 21st Century Community Learning Centers grant. Our review disclosed excessive payroll charges by the grant administrator at the school, an unallowable purchase of a portable building from the school principal, and travel expenses for an unallowable person. These questioned costs were approved by the school principal. Accordingly, grant funds were used for purposes unintended by the grant.

The questioned payroll costs consists of hourly wages paid to program teachers in excess of program hours, which amounts to approximately \$25,000, as well as approximately \$9,000 paid to a related party for a portable building. In addition, unallowable travel expenses were incurred of approximately \$1,500. Total questioned costs of this program approximate \$35,500. These questioned costs occurred primarily in fiscal year 2001.

We recommend that the questioned costs be refunded from the responsible parties, i.e., excessive payroll from teachers and unallowable purchase from principal, etc.

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2001**

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

Audit Report and Schedule Paragraph No.	Program/Area	Brief Description	Status	Comments
State of Florida Auditor General 00-1	Class Size Reduction (CFDA 84.340)/Activities Allowed or Unallowed	Federal Class Size Reduction program grant funds were used for other than the purpose intended by the grant.		The District has contacted the appropriate pass-through entity and is attempting to refund the monies.

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2001**

Audit Reference Number 01-1

Title VI – Class Size Reduction

For fiscal year 2001-2002, the District implemented a more appropriate resource allocation methodology for the Class Size Reduction Grant. Additionally, Finance and Quality Assurance are periodically reviewing class rosters to ensure compliance with the requirements of the grant.

Name of Contact Person: Patricia Wascom, Chief Financial Officer

Date: November 30, 2001

Audit Reference Number 01-2

Title VI – Class Size Reduction

The periodic review of class rosters and program expenditures should eliminate non-compliance with the requirements of the grant. The District has contacted Florida Department of Education regarding the questioned costs, and DOE will deduct the questioned costs from the 2001-2002 Title VI – Class Size Reduction carryforward dollars.

Name of Contact Person: Patricia Wascom, Chief Financial Officer

Date: November 30, 2001

Audit Reference Number 01-3

After School Learning Centers – 21st Century Community Learning Centers

Immediately upon receiving informal reports of suspect activities, the District requested that the CPA firm perform the review of this grant. The District took aggressive action to remedy problems revealed in the review. The principal has resigned, and the teacher who administered the grant resigned in the face of termination. The District has sought and received restitution from the former principal and four current employees, and the District is cooperating with the State Attorney in his investigation of the former teacher who administered the grant

Name of Contact Person: Patricia Wascom, Chief Financial Officer

Date: November 30, 2001



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CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

A Limited Liability Partnership

WILLIAM H. CARR, CPA
STEPHEN C. RIGGS, CPA
PHYLLIS S. INGRAM, CPA
MELANIE L. AMMONS, CPA
BRUCE E. AVERETT, CPA
TRACY T. CONERLY, CPA
TIMOTHY D. FULMER, CPA
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BRUCE A. NUNNALLY, CPA
THOMAS J. RISALVATO, CPA
MICHAEL A. SCOTT, CPA
ASHLEY H. STAFFORD, CPA
PAUL W. STOREY, CPA
WILLIS A. TEEL, JR., CPA
JAMES F. THIELEN, CPA

REPORT ON COMPLIANCE AND ON INTERNAL CONTROLS BASED ON AN AUDIT OF THE GENERAL PURPOSE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited the general purpose financial statements of the Okaloosa County District School Board (District) as of and for the fiscal year ended June 30, 2001, and have issued our report thereon dated October 24, 2001. 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.

DESTIN
4460 LEGENDARY DRIVE
SUITE 100
DESTIN, FL 32541
(850) 837-3141
FAX (850) 654-4619

COMPLIANCE

As part of obtaining reasonable assurance about whether the District's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

OFFICES IN:
DOTHAN, AL
ENTERPRISE, AL
FORT WALTON BEACH, FL
GENEVA, AL
MONTGOMERY, AL
NICEVILLE, FL
PANAMA CITY, FL
TALLAHASSEE, FL

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

Carr, Riggs & Ingram, LLP

CARR, RIGGS & INGRAM, LLP
Certified Public Accountants

Destin, Florida
October 24, 2001



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WILLIAM H. CARR, CPA
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MELANIE L. AMMONS, CPA
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TRACY T. CONERLY, CPA
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ASHLEY H. STAFFORD, CPA
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JAMES F. THIELEN, CPA

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

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

COMPLIANCE

We have audited the compliance of the Okaloosa County District School Board (District) with the types of compliance requirements described in the *United States Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the fiscal year ended June 30, 2001. The District's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of District management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

As described in item 01-2 in the accompanying schedule of findings and questioned costs, the District did not comply with requirements regarding allowable activities that are applicable to its Title VI – Class Size Reduction program. Compliance with such requirements is necessary, in our opinion, for the District to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the fiscal year ended June 30, 2001.

DESTIN
4460 LEGENDARY DRIVE
SUITE 100
DESTIN, FL 32541
(850) 837-3141
FAX (850) 654-4619

OFFICES IN:
DOTHAN, AL
ENTERPRISE, AL
FORT WALTON BEACH, FL
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AN INDEPENDENT MEMBER

INTERNAL CONTROLS OVER COMPLIANCE

The management of the Okaloosa County District School Board is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB *Circular A-133*.

We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the District's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts and grants. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 01-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider item 01-1 to be a material weakness.

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

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Certified Public Accountants

Destin, Florida
October 24, 2001



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MANAGEMENT LETTER

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

In planning and performing our audit of the general purpose financial statements of the Okaloosa County District School Board as of and for the year ended June 30, 2001, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated October 24, 2001 on the general purpose financial statements of the Okaloosa County District School Board.

We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform an additional study of these matters, or assist you in implementing the recommendations.

Carr, Riggs & Ingram, LLP

CARR, RIGGS & INGRAM, LLP
Certified Public Accountants

Destin, Florida
October 24, 2001

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**OKALOOSA COUNTY DISTRICT SCHOOL BOARD
MEMORANDUM OF MANAGEMENT LETTER COMMENTS
JUNE 30, 2001**

Statutorily Required Disclosures

As required by Section 11.45(3)(a)5., Florida Statutes, and defined in Rule 10.804 of the Rules of the Auditor General, we make the following statements:

- Any inaccuracies, shortages, defalcations, fraud, and/or violations of laws, rules, regulations, and contractual provisions reported in the preceding annual financial audit report have been corrected.
- The recommendations made in the preceding annual financial audit report have been followed.
- The District is not in a state of financial emergency as a consequence of conditions described in Section 218.503(1), Florida Statutes.
- Recommendations to improve the District's present financial management, accounting procedures and internal controls are presented below.
- The District complied with Section 218.415, Florida Statutes, regarding the investment of public funds.
- Any violations of laws, rules, regulations, and contractual provisions; illegal or improper expenditures; or other matters requiring correction discovered within the scope of the financial audit are identified in the Schedule of Findings and Questioned Costs – Federal Awards located on page 32 of this report.

Cash Management

During our audit, we noted several instances that we believe present opportunities for improving the District's cash management. A summary of our findings and recommendations related to these instances is as follows:

- As part of our testing of a sample of checks written after June 30, 2001, we noted the District did not take advantage of an available vendor discount on invoices received for roofing materials. The invoices, dated June 27, 2001, offered a 2% discount on a total of \$390,372, or approximately \$7,800, if invoices were paid within 10 days of the invoice date. The goods were certified as received six days after the invoice date; however, it appears that Accounts Payable did not receive the receiving report from the construction management entity until at least July 19, 2001, well after the 10-day discount period. We recommend the District either require the construction management entity to forward all receiving reports on a more timely basis or have the accounts payable department specifically identify invoices received with available discounts and perform necessary follow-up procedures to be able to take those discounts. To facilitate these recommendations, we recommend the District include incentives to the construction management entity such as sharing in the cost savings or back-charging for discounts not able to be utilized.
- Based on testing performed relating to local tax revenue and on conversations with District finance personnel, we noted that large payments (up to \$25 million) are remitted by the tax collector's office to the District using a paper check. This appears to be a less safe and effective method of transferring the District's money. We understand that based on preliminary conversations between the District and the tax collector's office, the tax collector is currently addressing this issue and plans to implement new software and wire transfer procedures during fiscal year 2002. We recommend the District continue to work with the tax collector's office to facilitate this transition.
- We noted the District was charged interest in the amount of \$890 for not paying certain amounts to a charter school within the specified time period identified in the applicable contract. We recommend the District staff be more cognizant of approaching deadlines and make payments appropriately.

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD
MEMORANDUM OF MANAGEMENT LETTER COMMENTS
JUNE 30, 2001**

Fixed Asset Inventory

As part of our audit procedures, we tested fixed asset disposals, paying close attention to those items coded as missing in the District's latest fixed asset inventory. A summary of our findings related to these missing fixed assets is as follows:

- For the fiscal year ending June 30, 2001, we noted that a large majority of the assets notated as "missing" were either computers or computer peripherals. Many of these were purchased in the mid to late 1990's and represent older machines, but some were acquired as recently as fiscal year 2000.
- We analyzed the District's missing fixed assets by location for the fiscal years ending June 30, 1999, 2000 and 2001 and identified a total of \$164,337 (see attached exhibit #1). We noted that almost half of the schools and departments did not have any missing property during the three year period, and accordingly those locations are not included. We further noted that almost 40% of the items were reported as missing from Choctawhatchee High School and Niceville High School. These locations appear to have a disproportionate amount of missing fixed asset items when compared to the District as a whole and to other schools of their size.

We recommend that the District establish policies that identify specific consequences for asset custodians (principals) if their missing asset totals exceed certain levels. In addition, we recommend that the missing asset levels be made a factor in the annual evaluation of the fixed asset custodians.

Central Kitchen

During our audit of the District for the year ended June 30, 1999, we noted matters relating to the operating efficiency of the centralized kitchen. These matters generally fell into one of three categories: inventory levels, food service revenues, and labor cost inefficiencies. As part of our audit procedures for the year ended June 30, 2001, we revisited these items and noted the following:

- Inventory levels at June 30, 2001, had decreased by almost \$300,000 from the significantly higher balances noted as of June 30, 1999. The resulting inventory balance of \$398,482 appears to be in line with historical balances.
- Food service revenues for the year ended June 30, 2001, had increased by approximately \$600,000 over comparable revenues for the year ended June 30, 1999, representing a 4.66% annual growth rate.
- Labor cost inefficiencies identified in our June 30, 1999, report appear to have continued through the current year. Based on a comparison of the actual cost structure of the food services department during fiscal years 2001 and 1999 and the cost structure that was estimated in the Central Kitchen Cook - Chill Study report, it appears that the food service department and central kitchen have not made any substantial progress towards achieving the cost efficiencies indicated in the study (see attached exhibit #2).

It appears that the District has taken steps to gain managerial control over its food service inventory and revenue issues; however, we recommend the District re-address the labor cost inefficiencies. The District could implement new policies, including, but not limited to the following:

- Develop a written plan to achieve the cost savings that were identified in the Central Kitchen Cook - Chill Study. The plan should identify staff levels necessary at the central facility and the school locations, and detail the system adopted to achieve those levels. Implement an assessment plan in order to monitor on a regular basis.

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD
MEMORANDUM OF MANAGEMENT LETTER COMMENTS
JUNE 30, 2001**

Central Kitchen (continued)

- Develop benchmarks, such as food service labor costs, based on appropriate comparisons with exemplary school districts, private/public sector food service programs, and other applicable industry standards. Also, develop procedures to evaluate performance during the year and compare to the established benchmarks.

The assessment checklists entitled "Best Financial Management Practices Self-Assessment" from the Office of Program Policy Analysis and Government Accountability (OPPAGA) were being completed at the time of our financial statement audit; therefore, we reviewed these checklists and recommend that the District incorporate these practices:

- Distribute materials to students and parents that explain and promote the school food service and nutrition program.
- Assess service delivery alternatives such as contracting and privatization at least every three years.
- Annually assess the need, cost effectiveness, and feasibility of providing additional nutrition programs.
- Establish appropriate per-meal cost for each menu.

Exhibit #1

Okaloosa County District School Board
Missing Inventory
6/30/01

FYE	6/30/01	% of Total	6/30/00	% of Total	6/30/99	% of Total	Total	% of Total
School/Department:								
Baker School	\$ 1,949	2.46%	2,516	5.65%	10,179	24.86%	\$ 14,644	8.90%
Bluewater Elementary	1,756	2.22%	-	-	-	-	1,756	1.07%
Bruner Middle	5,776	7.32%	3,025	6.81%	7,129	17.40%	15,930	9.69%
Cherokee Elementary	1,921	2.43%	-	-	719	1.76%	2,640	1.61%
Choctawhatchee High	17,296	21.91%	12,728	28.65%	1,680	4.10%	31,704	19.29%
Combs-New Heights Elem.	2,246	2.85%	-	-	-	-	2,246	1.37%
Crestview High	-	-	-	-	699	1.71%	699	0.43%
Edwins Elementary	1,404	1.78%	-	-	-	-	1,404	0.85%
Fort Walton Beach High	-	-	7,319	16.47%	-	-	7,319	4.45%
Kenwood Elementary	-	-	-	-	1,312	3.20%	1,312	0.80%
Lewis Middle	9,710	12.30%	-	-	-	-	9,710	5.91%
Niceville High	16,724	21.19%	9,529	21.45%	6,609	16.13%	32,862	20.00%
Northwood Elementary	1,173	1.49%	-	-	-	-	1,173	0.71%
Ocean City Elementary	634	0.80%	-	-	-	-	634	0.39%
Plew Elementary	1,488	1.88%	-	-	-	-	1,488	0.91%
Richbourg Middle	834	1.06%	-	-	-	-	834	0.51%
Ruckel Middle	588	0.74%	-	-	602	1.47%	1,190	0.72%
Southside Elementary	-	-	816	1.84%	3,261	7.96%	4,077	2.48%
Wright Elementary	4,785	6.06%	3,486	7.85%	-	-	8,271	5.03%
Asst. Superintendent/Admin	-	-	540	1.22%	-	-	540	0.33%
Data Processing	-	-	-	-	3,683	8.99%	3,683	2.24%
Exception Student Education	5,564	7.05%	-	-	2,009	4.90%	7,573	4.61%
Instructional Technology	-	-	864	1.94%	-	-	864	0.53%
Maintenance - South	790	1.00%	1,855	4.18%	-	-	2,645	1.61%
Media Services	699	0.89%	974	2.19%	-	-	1,673	1.02%
Personnel Department	2,827	3.58%	-	-	-	-	2,827	1.72%
Risk Management	-	-	-	-	829	2.02%	829	0.50%
School Food Service	-	-	-	-	1,691	4.13%	1,691	1.03%
Staff Development	-	-	-	-	563	1.37%	563	0.34%
Transportation - South	778	0.99%	778	1.75%	-	-	1,556	0.95%
Total	\$ 78,942	100.00%	\$ 44,430	100.00%	40,965	100.00%	\$ 164,337	100.00%

Exhibit #2

Okaloosa County District School Board
Food Service Costs Analysis
6/30/2001

	1996 Budget (1) Amount	Pct of Rev.	Projected 1996 Budget w/ Central Kitchen (1) Amount	Pct of Rev.	F/Y 1999 Amount	Pct of Rev.	F/Y 2001 Amount	Pct of Rev.
Revenues	\$ 6,472,898		\$ 6,472,898		\$ 6,497,417		\$ 7,102,957	
Expenditures	6,472,898		5,042,866		6,770,034		7,128,994	
Excess (deficit)	-		1,430,032		(272,617)		(26,037)	
Food costs and supplies (2)	2,771,500	42.81%	2,603,972	40.23%	2,813,031	43.29%	3,003,762	42.29%
Labor/benefits costs:								
Administration	-		147,824		-		-	
Salaries/wages	2,258,071		1,339,119		2,268,309		2,637,698	
Benefits	920,852		602,603		876,274		822,966	
Substitutes	24,550		24,550		126,811		128,056	
Total labor	3,203,473	49.49%	2,114,096	32.66%	3,271,394	50.35%	3,588,720	50.52%
Other expenses:								
Utilities	107,775		96,998		95,027		95,188	
General operating	32,800		32,800		174,944		205,536	
Repairs & maintenance	7,850		25,000		-		-	
Indirect costs	120,000		120,000		-		-	
Total other expenses	268,425	4.15%	274,798	4.25%	269,971	4.16%	300,724	4.23%
New equipment	229,500	3.55%	50,000	0.77%	415,638	6.40%	235,788	3.32%
Total costs	\$ 6,472,898	100.00%	\$ 5,042,866	77.91%	\$ 6,770,034	104.20%	\$ 7,128,994	100.36%

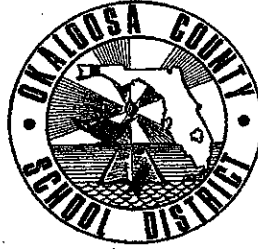
(1) - Summarized from the Central Kitchen Cook-Chill Study prepared for the School Board by The Cornyn Fasano Group (Oct 95).

(2) - In original study supplies were separated from food costs and included in other expense category. Amounts have been reclassified for this analysis.

SCHOOL DISTRICT OF OKALOOSA COUNTY

SUPERINTENDENT OF SCHOOLS
DON GAETZ

ATTORNEY TO THE BOARD
C. JEFFREY McINNIS



BOARD MEMBERS
CINDY FRAKES
HOWARD HILL
LLOYD TAYLOR
CATHY THIGPEN
RODNEY L. WALKER

November 30, 2001

Mr. Steve Riggs, C. P. A.
Carr, Riggs & Ingram, LLP
Certified Public Accountants
1077 Hwy. 98E
Destin, Florida 32541

RE: Preliminary & Tentative Audit Findings
and Recommendations for the Fiscal Year
Ended June 30, 2001

Dear Mr. Riggs:

Enclosed are our responses to your preliminary and tentative audit findings and recommendations for the fiscal year ended June 30, 2001.

Please advise me if you have any questions or need further clarification regarding our responses.

Sincerely,

Don Gaetz
Superintendent

c: Rodney Walker, Chairman, School Board
Cindy Frakes, School Board Member
Howard Hill, School Board Member
Lloyd Taylor, School Board Member
Cathy Thigpen, School Board Member
Terry Bevino, Chief Officer – Quality Assurance
C. Wayne Ansley, Area Superintendent – North Zone
Dr. Frank Fuller, Area Superintendent – South Zone
Dr. Robert McEachern, Area Superintendent – Central Zone
Patricia Wascom, Chief Financial Officer

Attachment

Cash Management

The District has taken aggressive action to ensure that the construction management entity forwards receiving reports to the District in a more timely manner in order to take advantage of payment discounts. The lost discount in the amount of \$7,800 will be deducted from future payments to the construction management entity. Additionally, the District has informed the construction entity in writing that any future lost discounts caused by delayed submission of information to the District will be deducted from payments to the construction management entity. Procedures have already been implemented in accounts payable to identify payments with discounts and perform follow-up procedures with the appropriate school or department in order to optimize payment discounts.

The District has a strong working relationship with the Tax Collector's Office and maintains close communications with the staff in the Tax Collector's Office. The Tax Collector's Office immediately notifies the District as soon as a check is prepared for the District. The District immediately picks up the check and deposits the check in the bank. The elapsed time between picking up the check and depositing the check is less than ten minutes. This process will continue until the Tax Collector's Office implements the new software and wire transfer procedures during fiscal year 2002.

The Chief Financial Officer now reviews, approves and monitors the payments to the charter schools in order to ensure that payments are promptly processed.

Fixed Asset Inventory

The District will increase the training for asset custodians at schools (principals or designated person), and Finance will provide feedback to the appropriate area superintendent for inclusion in the principal's performance evaluation in the area of "Resource Management."

Central Kitchen

In December 2001, the District will be providing an update to the School Board on the management review, analysis, and preliminary recommendations regarding the Central Kitchen operations. The update will include an action plan for the recommendations provided in the management letter.

Summary of Findings and Questioned Costs – Major Federal Award Programs Audit

01-1: Title VI – Class Size Reduction (CFDA No. 84-340)

For fiscal year 2001-2002, the District implemented a more appropriate resource allocation methodology for the Class Size Reduction Grant. Additionally, Finance and Quality Assurance are periodically reviewing class rosters to ensure compliance with the requirements of the grant.

01-2: Title VI – Class Size Reduction (CFDA No. 84-340)

The periodic review of class rosters and program expenditures should eliminate non-compliance with the requirements of the grant. The District has contacted Florida Department of Education regarding the questioned costs, and DOE will deduct the questioned costs from the 2001-2002 Title VI – Class Size Reduction carryforward dollars.

Summary of Findings and Questioned Costs – Non-Major Federal Award Programs Audit

01-3: After School Learning Centers – 21st Century Community Learning Centers (CFDA No. 84-287)

Immediately upon receiving informal reports of suspect activities, the District requested that the CPA firm perform the review of this grant. The District took aggressive action to remedy problems revealed in the review. The principal has resigned, and the teacher who administered the grant resigned in the face of termination. The District has sought and received restitution from the former principal and four current employees, and the District is cooperating with the State Attorney in his current investigation of the former teacher who administered the grant.