

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD**  
**FINANCIAL STATEMENTS**  
**AND SUPPLEMENTAL INFORMATION**  
**FOR THE YEAR ENDED JUNE 30, 2002**

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD  
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2002**

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**OKALOOSA COUNTY DISTRICT SCHOOL BOARD  
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2002**

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**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 basic financial statements of the Okaloosa County District School Board (the District) as of and for the year ended June 30 2002, as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. We did not audit the financial statements of the Okaloosa Public Schools Foundation, Inc., the Okaloosa Academy, Inc., or the Liza Jackson Preparatory School, which represent 95.5% of the total assets and 99.6% of the total revenues of the aggregate discretely presented component units. 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., the Okaloosa Academy, Inc., and the Liza Jackson Preparatory School, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic 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 basic financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2002, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2 to the basic financial statements, the District adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments*; Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments: Omnibus*; and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, as of June 30, 2002. This results in a change in the format and content of the basic financial statements.



An Independent Member

In accordance with *Government Auditing Standards*, we have also issued a report dated November 19, 2002 on our consideration of the District'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.

The Management's Discussion and Analysis and the Budgetary Comparison Schedules, as listed in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion thereon.

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

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

**CARR, RIGGS & INGRAM, LLC**  
**Certified Public Accountants**

Destin, Florida  
November 19, 2002

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

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The Management of the Okaloosa County District School Board has prepared the following discussion and analysis of financial activities for the fiscal year ended June 30, 2002. The intent of this discussion and analysis is to (a) assist the reader in focusing on significant financial issues, (b) provide an overview and analysis of the District's financial activities, (c) identify changes in the District's financial position, (d) identify material deviations from the approved budget, and (e) highlight significant issues in individual funds. Because the information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events and conditions, it should be considered in conjunction with the District's financial statements and notes to the financial statements.

The District implemented the requirements of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and related pronouncements. One of the requirements to be presented in the Management's Discussion and Analysis (MD&A) is certain comparative information between the current year and the prior year. However, because this is the first year of implementing the new reporting model, comparative information of the previous year is not provided. Governmental Accounting Standards Board Statement No. 34 permits omission of comparative information in the first year of adoption of the new reporting model. Subsequent reports will include the comparative information.

**FINANCIAL HIGHLIGHTS**

Key financial highlights for the 2001-2002 fiscal year are as follows:

- The District's total net assets increased by \$3,287,560 or 1.9 percent. Overall, the District's financial status improved from the previous year.
- General revenues totaled \$179,966,663, or 89.55 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions totaled \$21,003,631 or 10.45 percent of total revenues.
- The unreserved fund balance of the General Fund, representing the net current financial resources available for general appropriation by the Board, totaled \$3,717,470 at June 30, 2002, or 2.29 percent of General Fund expenditures.
- The District's total long-term liabilities decreased by \$4,515,437, or approximately 9.45 percent. The long-term liability for compensated absences decreased \$1,438,636, or 5.9 percent, and the long-term liability for debt decreased \$3,076,801, or approximately 14.87 percent.
- During the current year, General Fund expenditures exceeded revenues by \$511,262. This may be compared to last year's results in which General Fund expenditures exceeded revenues by \$827,293.

**NON-FINANCIAL HIGHLIGHTS**

Key non-financial highlights for the 2001-2002 fiscal year are as follows:

- The District's student enrollment increased by 423 students or 1.41 percent over the preceding fiscal year, primarily due to the opening of Liza Jackson Preparatory School – Charter School and to the District operating two new Department of Juvenile Justice Centers.

## OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements consist of three components:

1. Government-wide financial statements.
2. Fund financial statements.
3. Notes to the financial statements.

### Government-wide Financial Statements

The government-wide financial statements provide both short-term and long-term information about the District's overall financial condition in a manner similar to those of a private-sector business. The statements include a statement of net assets and a statement of activities that are designed to provide consolidated financial information about the governmental and business-type activities of the Primary Government presented on the accrual basis of accounting. The statement of net assets provides information about the government's financial position, its assets and liabilities, using an economic resources measurement focus. The difference between the assets and liabilities, the net assets, is a measure of the financial health of the District. The statement of activities presents information about the change in the District's net assets, the results of operations, during the fiscal year. An increase or decrease in net assets is an indication of whether the District's financial health is improving or deteriorating.

The government-wide statements present the District's activities in three categories:

- Governmental activities – This represents most of the District's services including its educational programs: basic, vocational, adult, and exceptional education. Support functions such as transportation and administration are also included. Local property taxes and the State's education finance program provide most of the resources that support these activities.
- Business-type activities – The District does not have any business-type activities.
- Component units – The District presents four separate legal entities in this report including the Okaloosa Academy, Inc. - Charter School; the Liza Jackson Preparatory School – Charter School; the Okaloosa Communications Foundation, Inc.; and the Okaloosa Public School Foundation, Inc. Although legally separate organizations, the component units are included in this report because they meet the criteria for inclusion provided by generally accepted accounting principles.

Over a period of time, changes in the District's net assets are an indication of improving or deteriorating financial condition. This information should be evaluated in conjunction with other non-financial factors, such as changes in the District's property tax base, student enrollment, and the condition of the District's capital assets including its school buildings and administrative facilities.

### Fund Financial Statements

Fund financial statements are one of the components of the basic financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements and prudent fiscal management. Certain funds are established by law while others are created by legal agreements, such as bond covenants. Fund financial statements provide more detailed information about the District's financial activities, focusing on its most significant or "major" funds rather than fund types. This is in contrast to the entity-wide perspective contained in the government-wide statements.



All of the District's funds may be classified within one of two broad categories: governmental funds or fiduciary funds.

- **Governmental Funds** – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, the governmental funds utilize a spendable financial resources measurement focus rather than the economic resources measurement focus found in the government-wide financial statements. This financial resources measurement focus allows the governmental fund statements to provide information on near-term inflows and outflows of spendable resources as well as balances of spendable resources available at the end of the fiscal year.

The governmental fund statements provide a detailed short-term view that may be used to evaluate the District's near-term financing requirements. This short-term view is useful when compared to the long-term view presented as governmental activities in the government-wide financial statements. To facilitate this comparison, both the governmental balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation of governmental funds to governmental activities.

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

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

- **Fiduciary Funds** – Fiduciary funds are used to report assets held in a trustee or fiduciary capacity for the benefit of external parties, such as student activity funds. Fiduciary funds are not reflected in the government-wide statements because the resources are not available to support the District's own programs. In its fiduciary capacity, the District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes.

The District uses an agency fund to account for resources held for student activities groups and for resources held for Employees IRS Section 125 Cafeteria Plan.

### *Notes to Financial Statements*

The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The following is a summary of the District's net assets as of June 30, 2002:

### Net Assets, End of Year

	Governmental Activities
Current Assets	\$ 42,530,504
Other Assets	180,621,542
<b>Total Assets</b>	<b>223,152,046</b>
Current Liabilities	10,261,431
Noncurrent Liabilities	36,706,673
<b>Total Liabilities</b>	<b>46,968,104</b>
Invested in Capital Assets	
- Net of Debt	163,005,359
Restricted	24,245,267
Unrestricted	(11,066,684)
<b>Total Net Assets</b>	<b>\$ 176,183,942</b>

The largest portion of the District's net assets (92.52%) reflects its investment in capital assets (e.g., land, buildings, furniture and equipment), less any related debt still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending.

The restricted portion of the District's net assets is subject to external restrictions on how they may be used. The negative unrestricted net asset amount of \$11,066,684 results primarily from the recognition of a liability for vested employee annual and sick leave balances, reported in Noncurrent Liabilities – Portion Due Within One Year and Portion Due After One Year. Under the District's policy, vested employees will be paid for the value of their annual and sick leave balances when they terminate from the District. The District estimates this liability to be \$22,925,843 at June 30, 2002.

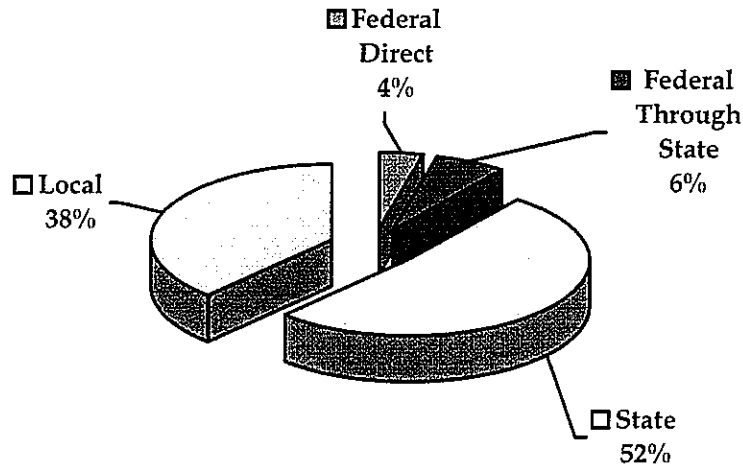
Operating results for the year ended June 30, 2002, are as follows:

**Operating Results for the Year**

		<u>Governmental Activities</u>
Program Revenues:		
Charges for Services	\$	5,840,243
Operating Grants and Contributions		8,822,056
Capital Grants and Contributions		6,341,332
General Revenues:		
Property Taxes Levied for Operational Purposes		52,756,705
Property Taxes Levied for Capital Projects		13,771,900
Local Sales Taxes		442,839
Grants and Contributions not Restricted to Specific Programs		108,595,829
Investment Earnings		1,241,762
Miscellaneous		3,157,628
Total Revenues		<u>200,970,294</u>
Function/Program Expenses:		
Instruction		108,921,951
Pupil Personnel Services		6,747,989
Instructional Media Services		3,578,160
Instruction and Curriculum Development		4,604,428
Instructional Staff Training		661,533
Board		1,925,941
General Administration		642,023
School Administration		12,574,149
Facilities Acquisition and Construction		13,656,122
Fiscal Services		1,247,054
Food Services		7,207,675
Central Services		5,438,905
Pupil Transportation		7,631,845
Operation of Plant		11,681,301
Maintenance of Plant		4,511,706
Community Services		946,290
Interest on Long-term Debt		1,023,229
Unallocated Depreciation/Amortization Expense		4,682,433
Total Function/Program Expenses		<u>197,682,734</u>
Increase in Net Assets	\$	<u>3,287,560</u>

Instructional expenses represent 55 percent of total governmental expenses in the 2001-2002 fiscal year. Instructional expenses increased by approximately \$4 million, or 3.8 percent, from the previous year due mainly to an increase in the District's contribution to employee health insurance and the allocation of depreciation expense.

## Revenues by Source Governmental Funds



The largest revenue source is the State of Florida (52 percent). These revenues decreased approximately by \$2.4 million, or 2.28 percent. Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data and is designed to maintain equity in funding across all Florida school districts, taking into consideration the school district's funding ability based on the local property tax base.

### FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

#### Major Governmental Funds

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved fund balance was \$3,717,470 while the total fund balance was \$21,446,356. The unreserved fund balance increased by \$146,921 while the total fund balance increased by \$3,276,651 during the fiscal year.

Key factors in this growth are as follows:

- Federal Direct revenue, primarily Federal Impact Aid, increased approximately \$1,057,459.
- Local revenues increased approximately \$1,386,812 primarily due to the increase in local property values.
- State revenues decreased by approximately \$2,405,549, primarily a result of a state-wide reduction in funding due to the reduction in state sales tax revenues.

The Capital Projects – Capital Improvement Tax Fund has a total fund balance of \$5,329,103, all of which is restricted for the acquisition, construction, and maintenance of capital assets. The fund balance increased in the current year due to an increase in local capital improvement taxes which resulted from an increase in the property tax values and an increase in the local capital improvement tax millage rate.

The Special Revenue Funds – Other Federal Programs revenues and expenditures increased by approximately \$684,382, primarily due to an increase in Title I and Individuals with Disabilities Education Act funding.

### **BUDGET VARIANCES IN THE GENERAL FUND**

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

During the course of the 2001-2002 fiscal year, the District amended its General Fund budget several times, which resulted in an increase in total appropriations, excluding reserves, amounting to \$10,499,830, or 6.4 percent. At the same time, final budgeted revenues were more than the original budgeted amounts by \$1,036,044, or approximately 1 percent. This resulted in a final budgeted ending fund balance of \$9,188,230, or 46.5 percent less than the ending fund balance included in the original budget.

Actual revenues were \$78,558 less than the final budgeted amounts, whereas actual expenditures were \$12,336,684 less than the final budgeted amounts. Positive budget variances occurred in all functions. The ending fund balance exceeded the estimated fund balance contained in the final amended budget by \$12,258,126.

### **CAPITAL ASSETS AND LONG-TERM DEBT**

#### **Capital Assets**

The District's investment in capital assets for its governmental and business-type activities as of June 30, 2002, amount to \$180,621,542 (net of accumulated depreciation). This investment in capital assets includes land, improvements other than buildings, buildings and fixed equipment, furniture, fixtures and equipment, motor vehicles, property under capital lease, construction in progress, and computer software.

Major capital asset events during the current fiscal year included the following:

- Construction in progress at June 30, 2002, includes roofing, retrofit for technology, additions and renovations to facilities, and computer to teachers program.
- Major capital projects were as follows:
  - ◆ Bruner Middle School Renovations
  - ◆ Purchase of 16 school buses
  - ◆ District-wide Wireless – Wide Area Network
  - ◆ Teacher Academic Help Desk
  - ◆ Laptops to Teachers Program
  - ◆ Remodeling and renovations for female athletic/physical education facilities
    - Crestview High School
    - Fort Walton Beach High School
    - Lewis Middle School
    - Niceville High School
    - Richbourg Middle School
  - ◆ Numerous retrofit for technology projects
  - ◆ Numerous roofing projects

Additional information on the District's capital assets can be found in notes 1, 5 and 19 to the financial statements.

### **Debt Administration**

At June 30, 2002, the District had total long-term debt outstanding of \$ 17,616,183. This amount was comprised of \$126,183 of capital leases, \$400,000 of notes payable, \$5,965,000 of certificates of participation payable, and \$11,125,000 of bonds payable. During the year, retirement of debt amounted to \$3,076,801.

Additional information on the District's long-term debt can be found in notes 7-12 to the financial statements.

### **SIGNIFICANT ECONOMIC FACTORS**

During the fiscal year, the Florida Legislature reduced funding to certain areas, due to shortfalls in anticipated State tax revenues, causing the District to review and reduce certain programs. Florida Education Finance Program (FEFP) funding for the fiscal year decreased \$4,216,078, or 5.2 percent, as compared to the previous fiscal year. The District developed and implemented a plan to contend with the revenue shortfall, including a one-time retirement incentive to employees currently in the Deferred Retirement Option Program and for employees at the top of the salary scale who had passed their first eligibility for retirement, leaving employee vacancies unfilled, reducing administrative overhead, delaying capital purchases, and eliminating all non-essential training and travel.

### **REQUESTS FOR INFORMATION**

This report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate compliance and accountability for its resources. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, Okaloosa County School District, 120 Lowery Place S.E., Ft. Walton Beach, Florida, 32548 or telephone 850-833-7653.

**BASIC FINANCIAL STATEMENTS**

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2002**

	Primary Government	
	Governmental Activities	Component Units
<b>ASSETS</b>		
Cash and cash equivalents	\$ 17,894,134	\$ 903,234
Investments	21,180,305	24,863
Accounts receivable	82,921	16,249
Deposits receivable	-	15,156
Due from other agencies	3,109,750	14,891
Inventories	263,394	-
Prepaid items	-	33,361
Capital assets, net	180,621,542	1,159,576
<b>TOTAL ASSETS</b>	<b>\$ 223,152,046</b>	<b>\$ 2,167,330</b>
<b>LIABILITIES AND NET ASSETS</b>		
Salaries and wages payable	\$ 42,572	\$ 29,483
Payroll deductions and withholdings	1,554	8,576
Accounts payable	1,730,029	74,028
Construction contracts payable	1,547,903	-
Due to fiscal agent	74	-
Accrued interest payable	364,716	-
Due to other agencies	20,741	10,966
Sales tax payable	519	-
Deferred revenue	17,970	-
Non-current liabilities:		
Portion due within one year	6,535,353	22,070
Portion due after one year	36,706,673	-
<b>TOTAL LIABILITIES</b>	<b>46,968,104</b>	<b>145,123</b>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	163,005,359	1,124,288
Restricted for:		
State categorical programs	6,887,197	403
Debt service	3,199,487	-
Capital projects	12,556,543	236,725
Other purposes	1,602,040	45,019
Unrestricted	(11,066,684)	615,772
<b>TOTAL NET ASSETS</b>	<b>176,183,942</b>	<b>2,022,207</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 223,152,046</b>	<b>\$ 2,167,330</b>

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



**OKALOOSA COUNTY DISTRICT SCHOOL BOARD  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2002**

FUNCTION/PROGRAM	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Current - education:				
Instruction	\$ 108,921,951	\$ 1,808,440	\$ -	\$ -
Pupil personnel services	6,747,989	-	-	-
Instructional media services	3,578,160	-	-	-
Instruction and curriculum development	4,604,428	-	-	-
Instructional staff training	661,533	-	-	-
Board	1,925,941	-	-	-
General administration	642,023	-	-	-
School administration	12,574,149	-	-	-
Facilities acquisition and construction	13,656,122	-	-	5,198,508
Fiscal services	1,247,054	-	-	-
Food services	7,207,675	3,723,912	3,680,957	-
Central services	5,438,905	-	-	-
Pupil transportation	7,631,845	307,891	5,141,099	-
Operation of plant	11,681,301	-	-	-
Maintenance of plant	4,511,706	-	-	-
Community services	946,290	-	-	-
Interest on long-term debt	1,023,229	-	-	1,142,824
Unallocated depreciation/amortization expense	4,682,433	-	-	-
Total governmental activities	\$ 197,682,734	\$ 5,840,243	\$ 8,822,056	\$ 6,341,332
Component units				
Charter schools/foundations	5,478,439	396,430	930,281	607,250
Total component units	\$ 5,478,439	\$ 396,430	\$ 930,281	\$ 607,250

**General revenues**

Taxes:

Property taxes, levied for operational purposes

Property taxes, levied for capital projects

Local sales taxes

Grants and contributions not restricted to specific programs

Investment earnings

Miscellaneous

Total general revenues

Change in net assets

Net assets - July 1, 2001

Net Assets - June 30, 2002

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

Net (Expense) Revenue and Changes in Net Assets	
Primary Government	
Governmental Activities	Component Units
\$ (107,113,511)	\$ (1,919,510)
(6,747,989)	(53,614)
(3,578,160)	(313)
(4,604,428)	(181,640)
(661,533)	(33,757)
(1,925,941)	(19,947)
(642,023)	(51,466)
(12,574,149)	(483,702)
(8,457,614)	(90,023)
(1,247,054)	(127,089)
197,194	(73,286)
(5,438,905)	(74,736)
(2,182,855)	(196,757)
(11,681,301)	(195,332)
(4,511,706)	(2,025)
(946,290)	23,853
119,595	-
(4,682,433)	(65,134)
(176,679,103)	-
-	(3,544,478)
-	(3,544,478)
52,756,705	-
13,771,900	-
442,839	-
108,595,829	3,480,257
1,241,762	13,360
3,157,628	72,499
179,966,663	3,566,116
3,287,560	21,638
172,896,382	2,000,569
\$ 176,183,942	\$ 2,022,207

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

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2002**

	General Fund	Other Federal Programs Fund	Capital Improvement Section 236.25(2) Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 17,544,653	\$ -	\$ -	\$ 349,482	\$ 17,894,135
Investments	2,751,020	-	7,652,751	10,776,535	21,180,306
Accounts receivable	2,191	-	-	49,387	51,578
Due from other funds	1,219,106	-	-	-	1,219,106
Due from other agencies	455,570	1,315,291	2,577	1,336,311	3,109,749
Inventories	86,922	-	-	176,471	263,393
<b>TOTAL ASSETS</b>	<b>\$ 22,059,462</b>	<b>\$ 1,315,291</b>	<b>\$ 7,655,328</b>	<b>\$ 12,688,186</b>	<b>\$ 43,718,267</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Salaries, benefits and payroll taxes payable	\$ -	\$ 42,573	\$ -	\$ -	\$ 42,573
Payroll deductions and withholdings	602	952	-	-	1,554
Accounts payable	459,207	57,650	1,164,861	48,311	1,730,029
Construction contracts payable	143,243	-	1,161,364	243,296	1,547,903
Due to fiscal agent	-	-	-	74	74
Sales tax payable	-	-	-	519	519
Due to other funds	-	1,185,459	-	2,304	1,187,763
Due to other agencies	4,666	16,075	-	-	20,741
Deferred revenue	5,388	12,582	-	-	17,970
<b>Total liabilities</b>	<b>613,106</b>	<b>1,315,291</b>	<b>2,326,225</b>	<b>294,504</b>	<b>4,549,126</b>
<b>Fund balances:</b>					
Reserved for State categorical programs	6,887,197	-	-	-	6,887,197
Reserved for encumbrances	1,248,405	-	1,007,515	867,203	3,123,123
Reserved for inventory	86,922	-	-	176,472	263,394
Reserved for other purposes	9,506,362	-	4,203,245	9,426,532	23,136,139
Unreserved, reported in:	-	-	-	-	-
General fund	3,717,470	-	-	-	3,717,470
Special revenue funds	-	-	-	912,563	912,563
Debt service funds	-	-	-	-	-
Capital project funds	-	-	118,343	1,010,912	1,129,255
<b>Total fund balances</b>	<b>21,446,356</b>	<b>-</b>	<b>5,329,103</b>	<b>12,393,682</b>	<b>39,169,141</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 22,059,462</b>	<b>\$ 1,315,291</b>	<b>\$ 7,655,328</b>	<b>\$ 12,688,186</b>	<b>\$ 43,718,267</b>

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

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD  
RECONCILIATION OF THE GOVERNMENTAL BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
GOVERNMENTAL FUNDS  
JUNE 30, 2002**

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Total fund balances - governmental funds	\$ 39,169,141
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources, and therefore, are not reported in the governmental funds.	180,621,542
Interest on long-term debt is accrued as a liability in the government-wide statements but is not recognized in the governmental funds until due. This is the amount of accrued interest payable at year-end.	(364,715)
Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore, are not reported in the governmental funds	<u>(43,242,026)</u>
Total net assets - governmental activities	<u>\$ 176,183,942</u>

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

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2002**

	General Fund	Other Federal Programs Fund	Capital Improvement Section 236.25(2) Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Intergovernmental:					
Federal direct	\$ 7,477,837	\$ 490,186	\$ -	\$ -	\$ 7,968,023
Federal through State	526,960	8,708,015	-	3,548,779	12,783,754
State sources	96,550,192	-	-	6,453,543	103,003,735
Local sources	57,207,838	-	13,943,222	4,647,318	75,798,378
Total revenues	<u>161,762,827</u>	<u>9,198,201</u>	<u>13,943,222</u>	<u>14,649,640</u>	<u>199,553,890</u>
<b>EXPENDITURES</b>					
Current - education:					
Instruction	102,916,130	5,303,080	-	-	108,219,210
Pupil personnel services	6,228,403	572,531	-	-	6,800,934
Instructional media services	3,429,717	113,566	-	-	3,543,283
Instruction and curriculum development	2,207,025	2,193,321	-	-	4,400,346
Instructional staff training	470,725	165,897	-	-	636,622
Board	1,924,612	-	-	-	1,924,612
General administration	267,751	373,085	-	-	640,836
School administration	12,410,342	-	-	-	12,410,342
Facilities acquisition and construction	381,596	-	3,216,050	2,823,910	6,421,556
Fiscal services	1,248,341	-	-	-	1,248,341
Food services	30,400	-	-	7,080,469	7,110,869
Central services	5,199,117	119,575	-	-	5,318,692
Pupil transportation	7,045,642	27,110	-	-	7,072,752
Operation of plant	11,636,621	1,278	-	-	11,637,899
Maintenance of plant	4,476,063	-	-	-	4,476,063
Community services	926,974	2,269	-	-	929,243
Fixed capital outlay:					
Facilities acquisition and construction	123,556	9,366	1,074,567	3,339,310	4,546,799
Other capital outlay	1,229,333	317,123	3,713,287	1,904,969	7,164,712
Debt service:					
Redemption of principal	112,829	-	-	2,945,000	3,057,829
Interest and fiscal charges	8,912	-	-	1,059,087	1,067,999
Miscellaneous expenditures	-	-	-	7,390	7,390
Total expenditures	<u>162,274,089</u>	<u>9,198,201</u>	<u>8,003,904</u>	<u>19,160,135</u>	<u>198,636,329</u>
Excess (deficiency) of revenues over expenditures	<u>(511,262)</u>	<u>-</u>	<u>5,939,318</u>	<u>(4,510,495)</u>	<u>917,561</u>
Other financing sources (uses):					
Proceeds from sale of capital assets	-	-	-	106,925	106,925
Loss recoveries	821,480	-	-	565	822,045
Transfers in	2,955,593	-	-	2,782,766	5,738,359
Transfers out	-	-	(4,925,578)	(812,781)	(5,738,359)
Total other financing sources (uses)	<u>3,777,073</u>	<u>-</u>	<u>(4,925,578)</u>	<u>2,077,475</u>	<u>928,970</u>
Net change in fund balances	3,265,811	-	1,013,740	(2,433,020)	1,846,531
Adjustment to fund balances	10,840	-	-	(14,340)	(3,500)
Fund balances, July 1, 2001	<u>18,169,705</u>	<u>-</u>	<u>4,315,363</u>	<u>14,841,042</u>	<u>37,326,110</u>
Fund balances, June 30, 2002	<u>\$ 21,446,356</u>	<u>\$ -</u>	<u>\$ 5,329,103</u>	<u>\$ 12,393,682</u>	<u>\$ 39,169,141</u>

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

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2002**

Net change in fund balances - total governmental funds	\$ 1,846,531
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives.	(3,614,000)
The net effect of miscellaneous transactions involving capital assets (i.e. donations and disposals) is to increase capital assets.	487,432
Repayment of principal on notes, bonds, and certificates of participation is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	3,076,801
Interest on long-term debt in the statement of activities differs from the amount reported in governmental funds because interest is recorded as an expenditure when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. This is the amount of the decrease in accrued interest on notes, bonds, leases, and certificates of participation.	52,160
Some expenses reported in the statement of activities do not require the use of current financial resources, and therefore, are not reported as expenditures in government funds.	<u>1,438,636</u>
Change in net assets of governmental activities	<u>\$ 3,287,560</u>

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

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD  
STATEMENT OF NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2002**

	Agency Fund
<hr/>	
<b>ASSETS</b>	
Cash and cash equivalents	\$ 1,397,313
Investments	<u>2,682,358</u>
<b>TOTAL ASSETS</b>	<u>\$ 4,079,671</u>
<b>LIABILITIES AND NET ASSETS</b>	
Payroll deductions and withholdings	\$ 160,463
Internal accounts payable	3,887,865
Due to other funds	<u>31,343</u>
<b>TOTAL LIABILITIES</b>	<u>4,079,671</u>
Net assets	
Invested in capital assets, net of related debt	-
Unrestricted	<u>-</u>
<b>TOTAL NET ASSETS</b>	<u>-</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 4,079,671</u>

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

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD**  
**STATEMENT OF NET ASSETS**  
**COMPONENT UNITS**  
**JUNE 30, 2002**

	Total Nonmajor Component Units	Total
<b>ASSETS</b>		
Cash and cash equivalents	\$ 903,234	\$ 903,234
Investments	24,863	24,863
Accounts receivable	16,249	16,249
Deposits receivable	15,156	15,156
Due from other agencies	14,891	14,891
Prepaid items	33,361	33,361
Capital assets, net	1,159,576	1,159,576
<b>TOTAL ASSETS</b>	<b>\$ 2,167,330</b>	<b>\$ 2,167,330</b>
<b>LIABILITIES AND NET ASSETS</b>		
Salaries and wages payable	\$ 29,483	\$ 29,483
Payroll deductions and withholdings	8,576	8,576
Accounts payable	74,028	74,028
Due to other agencies	10,966	10,966
Non-current liabilities: Portion due within one year	22,070	22,070
<b>TOTAL LIABILITIES</b>	<b>145,123</b>	<b>145,123</b>
Net assets		
Invested in capital assets, net of related debt	1,124,288	1,124,288
Restricted for:		
State categorical programs	403	403
Capital projects	236,725	236,725
Other purposes	45,019	45,019
Unrestricted	615,772	615,772
<b>TOTAL NET ASSETS</b>	<b>2,022,207</b>	<b>2,022,207</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 2,167,330</b>	<b>\$ 2,167,330</b>

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



**OKALOOSA COUNTY DISTRICT SCHOOL BOARD  
STATEMENT OF ACTIVITIES  
COMPONENT UNITS  
FOR THE YEAR ENDED JUNE 30, 2002**

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Component Units Activities
<b>Total Nonmajor Component Units</b>					
Current - education:					
Instruction	\$ 2,187,010	\$ 164,586	\$ 102,914	\$ -	\$ (1,919,510)
Pupil personnel services	53,614	-	-	-	(53,614)
Instructional media services	313	-	-	-	(313)
Instruction and curriculum development	181,640	-	-	-	(181,640)
Instructional staff training services	56,015	-	22,258	-	(33,757)
Board	19,947	-	-	-	(19,947)
General administration	74,050	-	22,584	-	(51,466)
School administration	483,702	-	-	-	(483,702)
Facilities acquisition and construction	697,273	-	-	607,250	(90,023)
Fiscal services	127,089	-	-	-	(127,089)
Food services	168,761	95,475	-	-	(73,286)
Central services	74,736	-	-	-	(74,736)
Pupil transportation services	374,800	-	178,043	-	(196,757)
Operation of plant	196,637	1,305	-	-	(195,332)
Maintenance of plant	2,025	-	-	-	(2,025)
Community services	715,693	135,064	604,482	-	23,853
Unallocated depreciation/amortization	65,134	-	-	-	(65,134)
<b>Total component units</b>	<b>\$ 5,478,439</b>	<b>\$ 396,430</b>	<b>\$ 930,281</b>	<b>\$ 607,250</b>	<b>(3,544,478)</b>
<b>General revenues</b>					
Grants and contributions not restricted to specific programs					3,480,257
Investment earnings					13,360
Miscellaneous					72,499
<b>Total general revenues</b>					<b>3,566,116</b>
Change in net assets					21,638
Net assets - July 1, 2001					2,000,569
Net Assets - June 30, 2002					<b>\$ 2,022,207</b>

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

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2002**

**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. Geographic boundaries of the District correspond with those of Okaloosa County.

Criteria for determining if other entities are potential component units which should be reported within the District's basic financial statements are identified and described in the Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600. The application of these criteria provides for identification of any entities for which the District 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 basic 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 Okaloosa Public Schools Foundation, Inc., and the Okaloosa Communications 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, 2002 was conducted and is on file at the District's administrative office.
- The Okaloosa Academy, Inc., (Academy) is a Charter school and 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, 2002 was conducted and is on file at the District's administrative office.
- The Liza Jackson Preparatory School (Liza Jackson) is a Charter school and 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. Liza Jackson operates a charter school under a charter approved by its sponsor, the District. An audit of Liza Jackson for the fiscal year ended June 30, 2002 was conducted and is on file at the District's administrative office.

***Basis of Presentation***

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

Government-wide financial statements are prepared using the economic resources measurement focus. The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are thereby clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2002**

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

that are restricted to meeting the operations or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function or business segment is self-financing or draws from the general revenues of the District.

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

Fund Financial Statements – Fund financial statements report detailed information about the District in the governmental and fiduciary funds. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is reported in a separate column. Nonmajor funds are aggregated and reported in a single column. Because the focus of governmental fund financial statements differs from the focus of government-wide financial statements, a reconciliation is presented with each of the governmental fund financial statements.

The District reports the following major governmental funds:

- General Fund - to account for all financial resources not required to be accounted for in another fund and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.
- Special Revenue Fund – Other Federal Programs - to account for certain Federal grant program resources.
- Capital Projects – Local Capital Improvement Tax Fund - to account for the financial resources generated by local capital improvement tax levy to be used for educational capital outlay needs including new construction, renovation and remodeling projects, and debt service payments.

Additionally, the District reports the following fund type:

- Agency Funds - to account for resources of the school internal funds, which are used to administer moneys collected at the schools in connection with school, athletic, class and club activities, and the amounts held for employees in the District's cafeteria plan.

***Basis of Accounting***

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

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

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

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2002**

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

of the end of the fiscal year. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made. Under the modified accrual basis of accounting, expenditures are generally recognized when the related fund liability is incurred. 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. Allocations of cost, such as depreciation, are not recognized in governmental funds.

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

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

The Okaloosa Public Schools Foundation, Inc. and the Okaloosa Communications 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. and Liza Jackson Preparatory School, shown as discretely-presented component units, are accounted for using the modified accrual basis of accounting.

***Deposits and Investments***

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

Investments consist of amounts placed with the State Board of Administration for participation in the Local Government Surplus Funds Trust Fund investment pool created by Section 218.405, Florida Statutes, and those made locally. The investment pool operates under investment guidelines established by Section 215.47, Florida Statutes. 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. Investments made locally are held by the trustee for the District's Certificates of Participation pursuant to a trust agreement and are reported at fair value.

Types and amounts of investments held at fiscal year-end are described in a subsequent note on investments.

***Inventories***

Inventories consist of expendable supplies held for consumption in the course of District operations. Inventories, except for United States Department of Agriculture surplus commodities and transportation fuel inventories, are valued on a moving-average basis, which approximates cost. Transportation fuel inventories are stated at the last invoice which approximates the first-in, first-out basis, 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. Although the costs of inventories are recorded as expenditures when used rather than when purchased, a fund balance reserve is established at fiscal year-end to indicate that inventories do not constitute available expendable resources even though inventories are a component of current assets.

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2002**

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

***Capital Assets***

Expenditures for capital assets acquired or constructed for general District purposes are reported in the governmental fund that financed the acquisition or construction. The capital assets so acquired are reported at cost in the government-wide statement of net assets but are not reported in the governmental fund financial statements. Capital assets are defined by the District as those costing more than \$500. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at fair value at the date of donation.

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

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

Description	Estimated Lives
Improvements other than buildings	8 - 40 years
Buildings and fixed equipment	10 - 50 years
Furniture, fixtures and equipment	3 - 15 years
Motor vehicles	5 - 10 years
Audio-visual materials and computer software	3 - 5 years

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

***Estimates***

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

***Long-Term Liabilities***

Long-term obligations that will be financed from resources to be received in the future by governmental fund types are reported as liabilities in the government-wide statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the governmental fund financial statements, bonds and other long-term obligations are not recognized as liabilities until due. Governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received are reported as debt service expenditures.

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2002**

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

In the government-wide financial statements, compensated absences (i.e., paid absences for employee vacation leave and sick leave) are recorded as liabilities to the extent that it is probable that the benefits will result in termination payments. A liability is reported in the governmental fund financial statements only for the current portion of compensated absences expected to be paid using expendable available resources.

Changes in the District's long-term debt for the current year is reported in a subsequent note.

***State Revenue Sources***

Revenues from State sources for current operations are primarily from the Florida Education Finance Program administered by the Florida Department of Education (Department) under the provisions of Section 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 nine months following the date of the original reporting. Such amendments may impact funding allocations for subsequent years. The Department may also adjust subsequent fiscal period allocations based upon an audit of the District's compliance in determining and reporting FTE and related data. Normally, such adjustments are treated as reductions or additions of revenue in the year when the adjustments are made.

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

The State allocates gross receipts taxes, generally known as Public Education Capital Outlay money, to the District on an annual basis. The District is authorized to expend these funds only upon applying for and receiving an encumbrance authorization from the Department.

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

***District Property Taxes***

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

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

The School Board adopted the 2001 tax levy on September 10, 2001. 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.

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2002**

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

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. Because any delinquent taxes collected after June 30 would not be material, delinquent taxes receivable are not accrued, and no delinquent tax revenue deferral is recorded.

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

*Federal Revenue Sources*

The District receives Federal awards for the enhancement of various educational programs. Federal awards are generally received based on applications submitted to, and approved by, various granting agencies. For Federal awards in which a claim to these grant proceeds is based on incurring eligible expenditures, revenue is recognized to the extent that eligible expenditures have been incurred.

**NOTE 2 – ACCOUNTING CHANGES**

The District implemented the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, and related GASB pronouncements, during the 2001-2002 fiscal year. GASB Statement No. 34 creates new basic financial statements for reporting the District’s financial activities. In addition to fund-basis financial statements, the financial statements now include government-wide financial statements prepared on the accrual basis of accounting that split the District’s programs between governmental and business-type activities.

The beginning net asset amount for governmental activities reflects the following changes required by GASB Statement No. 34:

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Fund balances - governmental funds, June 30, 2001	\$ 37,326,110
Adjustment to fund balances	(3,500)
Capital assets, net	183,693,845
Long-term liabilities	(47,757,463)
Other adjustments:	
Fixed assets purchased in prior year - capitalized in fiscal year 2001-2002	54,267
Interest paid in fiscal year 2001-2002 which related to fiscal year 2000-2001	(416,877)
	\$ 172,896,382
Net assets - governmental activities, July 1, 2001	\$ 172,896,382

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2002**

**NOTE 3 – BUDGETARY COMPLIANCE AND ACCOUNTABILITY**

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

- Budgets are prepared, public hearings are held, and original budgets are adopted annually for all governmental fund types in accordance with procedures and time intervals prescribed by law and State Board of Education rules.
- During the year, several supplemental appropriations were necessary. All budget amounts in the accompanying supplementary information reflect the original budget and the amended budget (which have been adjusted for legally authorized revisions of the annual budgets during the year).
- Appropriations are controlled at the object level (e.g., salaries, purchased services, and capital outlay) within each activity (e.g., instruction, pupil personnel services, and school administration) and may be amended by resolution at any Board meeting prior to the due date for the annual financial report.
- Budgets are prepared using the same modified accrual basis as is used to account for actual transactions.
- Budgetary information is integrated into the accounting system and, to facilitate budget control, budget balances are encumbered when purchase orders are issued. Appropriations lapse at fiscal year-end, and encumbrances outstanding are honored from the subsequent year's appropriations as described in a subsequent note on reserve for encumbrances.

**NOTE 4 – INVESTMENTS**

Generally accepted accounting principles require that the credit risk of investments be classified into the following three categories:

- 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.

Section 218.415, Florida Statutes, authorizes the District to participate in the State Board of Administration investment pool. Section 236.24(2), Florida Statutes, as well as other general laws of Florida, also authorizes the District to invest in obligations of the United States Treasury and United States agencies, bonds of the District, and in Florida State Board of Education bonds.



**OKALOOSA COUNTY DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 4 – INVESTMENTS (CONTINUED)**

All securities held at June 30, 2002, 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, 2002 are shown below:

	Carrying Amount
Federally-sponsored agency obligations	\$ 2,489,422
Local government surplus funds trust fund	18,690,809
Other investments	<u>74</u>
Total investments, primary government	21,180,305
Discretely-presented component units:	
The Okaloosa Communications Foundation, Inc.	13,057
Okaloosa Public Schools Foundation, Inc.	<u>11,806</u>
<b>TOTAL INVESTMENTS, REPORTING ENTITY</b>	<b><u><u>\$ 21,205,168</u></u></b>

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2002**

**NOTE 5 – CHANGES IN CAPITAL ASSETS**

Changes in capital assets for the year ended June 30, 2002 are shown below:

	Balance 7-1-01	Additions	Transfers	Deletions	Balance 6-30-02
<b>Governmental Activities</b>					
<i>Capital assets not being depreciated:</i>					
Land	\$ 6,103,563	\$ 32,182	\$ -	\$ -	\$ 6,135,745
Construction in progress	3,298,904	2,552,568	(3,765,274)	-	2,086,198
<b>Total capital assets not being depreciated</b>	<b>9,402,467</b>	<b>2,584,750</b>	<b>(3,765,274)</b>	<b>-</b>	<b>8,221,943</b>
<i>Capital assets being depreciated:</i>					
Improvements other than buildings	8,833,408	328,327	-	-	9,161,735
Buildings and fixed equipment	184,296,475	2,777,440	3,765,274	(24,000)	190,815,189
Furniture, fixtures and equipment	34,575,817	3,921,294	-	(2,014,019)	36,483,092
Motor vehicles	11,559,867	843,430	-	(21,095)	12,382,202
Property under capital leases	668,542	-	-	(245,483)	423,059
Computer software	3,081,166	1,797,967	-	(303,571)	4,575,562
Audio-visual materials	110,426	-	-	(47,874)	62,552
<b>Total capital assets being depreciated</b>	<b>243,125,701</b>	<b>9,668,458</b>	<b>3,765,274</b>	<b>(2,656,042)</b>	<b>253,903,391</b>
<i>Less accumulated depreciation for:</i>					
Improvements other than buildings	4,057,734	448,550	-	-	4,506,284
Buildings and fixed equipment	37,169,047	5,944,860	-	(24,000)	43,089,907
Furniture, fixtures and equipment	19,045,043	7,012,321	-	(2,014,019)	24,043,345
Motor vehicles	6,470,771	807,847	-	(21,095)	7,257,523
Property under capital leases	251,350	314,385	-	(245,483)	320,252
Computer software	1,781,939	747,361	-	(303,571)	2,225,729
Audio-visual materials	58,439	50,187	-	(47,874)	60,752
<b>Total accumulated depreciation</b>	<b>68,834,323</b>	<b>15,325,511</b>	<b>-</b>	<b>(2,656,042)</b>	<b>81,503,792</b>
<b>Total capital assets being depreciated, net</b>	<b>174,291,378</b>	<b>(5,657,053)</b>	<b>3,765,274</b>	<b>-</b>	<b>172,399,599</b>
<b>Governmental activities - capital assets, net</b>	<b>\$ 183,693,845</b>	<b>\$ (3,072,303)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 180,621,542</b>

In connection with the implementation of GASB Statement 34, the District made adjustments to the amounts reported in capital assets.

The classes of property under capital leases are presented in Note 7.

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2002**

**NOTE 5 – CHANGES IN CAPITAL ASSETS (CONTINUED)**

Depreciation/amortization expense was charged to functions as follows:

Function	Amount
Instruction	\$ 1,679,438
Pupil personnel services	14,972
Instructional media services	67,804
Instruction and curriculum development	241,032
Instructional training services	26,882
Board	4,192
General administration	3,283
School administration	282,200
Facilities acquisition and construction	7,235,947
Fiscal services	8,649
Food service	130,553
Central services	149,071
Pupil transportation services	617,323
Operation of plant	92,694
Maintenance of plant	66,070
Community service	22,968
Unallocated	<u>4,682,433</u>
<b>TOTAL</b>	<b><u>\$ 15,325,511</u></b>

**NOTE 6 – CAFETERIA PLAN**

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

**NOTE 7 – OBLIGATIONS UNDER CAPITAL LEASES**

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

	Asset Balance
Computer equipment	<u>\$ 423,059</u>

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2002**

**NOTE 7 – OBLIGATIONS UNDER CAPITAL LEASES (CONTINUED)**

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

Fiscal Year Ending June 30	Amount
2003	\$ 142,315
Total minimum lease payments	142,315
Less: amount representing interest	<u>(16,132)</u>
Present value of minimum lease payments	<u>\$ 126,183</u>

**NOTE 8 – NOTES PAYABLE**

Notes payable at June 30, 2002 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%	\$ 400,000

Amounts payable for the planned extended repayment of notes payable at June 30, 2002 are as follows:

Fiscal Year Ending June 30	Amount
2003	\$ 415,629
Total minimum payments	415,629
Less: amount representing interest	<u>(15,629)</u>
Present value of minimum payments	<u>\$ 400,000</u>

**NOTE 9 – CERTIFICATES OF PARTICIPATION PAYABLE**

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.

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2002**

**NOTE 9 – CERTIFICATES OF PARTICIPATION PAYABLE (CONTINUED)**

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
2003	\$ 2,419,075
2004	1,819,688
2005	<u>2,289,375</u>
Total minimum lease payments	6,528,138
Less, amount representing interest	<u>(563,138)</u>
Present value of minimum lease payments	<u>\$ 5,965,000</u>

**NOTE 10 – BONDS PAYABLE**

Bonds payable at June 30, 2002, is as follows:

Bond Type	Interest Rates (Percent)	Annual Maturity To	Amount Outstanding
State School Bonds:			
Series 1996-A	4.60-6.00	2016	\$ 7,615,000
Series 1998-A	4.00-5.50	2018	1,615,000
Series 1999-A	4.00-4.75	2019	560,000
District Revenue Bonds:			
Series 1994-A	4.90-6.10	2015	<u>1,335,000</u>
<b>TOTAL BONDS PAYABLE</b>			<u><u>\$ 11,125,000</u></u>

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2002**

**NOTE 10 – BONDS PAYABLE (CONTINUED)**

*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, 2002 are as follows:

Fiscal Year Ending June 30	State School Bonds	District Revenue Bonds	Total
2003	\$ 970,076	\$ 153,069	\$ 1,123,145
2004	969,324	149,094	1,118,418
2005	970,276	150,044	1,120,320
2006	969,649	150,644	1,120,293
2007	972,226	150,884	1,123,110
2008 - 2012	4,866,987	750,165	5,617,152
2013 - 2017	4,022,281	449,715	4,471,996
2018 - 2022	159,200	-	159,200
Total minimum payments	13,900,019	1,953,615	15,853,634
Less: amount representing interest	(4,110,019)	(618,615)	(4,728,634)
Present value of minimum payments	\$ 9,790,000	\$ 1,335,000	\$ 11,125,000

**NOTE 11 – 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, 2002, 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, 2002, no amounts were outstanding under these lines.

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2002**

**NOTE 12 – CHANGES IN LONG-TERM LIABILITIES**

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

Description	Balance 7-1-01	Additions	Deductions	Balance 6-30-02	Due in One Year
Bonds payable	\$ 11,650,000	\$ -	\$ (525,000)	\$ 11,125,000	\$ 555,000
Certificates of participation payable	7,985,000	-	(2,020,000)	5,965,000	2,115,000
Obligations under capital leases	257,984	-	(131,801)	126,183	126,183
Notes payable	800,000	-	(400,000)	400,000	400,000
Estimated insurance claims payable	2,700,000	-	-	2,700,000	1,500,000
Compensated absences payable	24,364,479	-	(1,438,636)	22,925,843	1,839,170
<b>TOTAL</b>	<b>\$ 47,757,463</b>	<b>\$ -</b>	<b>\$ (4,515,437)</b>	<b>\$ 43,242,026</b>	<b>\$ 6,535,353</b>

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 13 – 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 2002-2003 fiscal year budget as a result of purchase orders outstanding at June 30, 2002.

**NOTE 14 – INTERFUND RECEIVABLES AND PAYABLES**

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

Funds	Interfund Receivables	Payables
Major funds:		
General	\$ 1,219,106	\$ -
Special revenue - other special revenue	-	1,185,459
Nonmajor governmental funds	-	2,304
Fiduciary funds	-	31,343
<b>TOTAL</b>	<b>\$ 1,219,106</b>	<b>\$ 1,219,106</b>

The amount due to the general fund is primarily for amounts to cover expenditures of grants and contracts funded on a cost reimbursement basis. Advances are made as needed and will be repaid within one year without interest.

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2002**

**NOTE 14 – INTERFUND RECEIVABLES AND PAYABLES (CONTINUED)**

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

Funds	Interfund	
	Transfers In	Transfers Out
Major funds:		
General	\$ 2,955,593	\$ -
Capital improvement section	-	4,925,578
Nonmajor governmental funds	<u>2,782,766</u>	<u>812,781</u>
<b>TOTAL</b>	<u><u>\$ 5,738,359</u></u>	<u><u>\$ 5,738,359</u></u>

Transfers to the General Fund were to finance maintenance and renovation projects and for charter school capital outlay. Transfers to the nonmajor governmental funds were to provide funding for principal and interest payments on notes payable and certificates of participation.

**NOTE 15 – SCHEDULE OF STATE REVENUE SOURCES**

The following is a schedule of the District's State revenue for the 2001-2002 fiscal year:

Sources	Amount
Florida education finance program	\$ 77,532,953
Categorical educational programs	10,973,973
Gross receipts tax (Public Education Capital Outlay)	4,257,039
Discretionary lottery funds	2,723,448
Workforce development funds	2,424,895
School recognition/merit schools	1,425,932
Motor vehicles license tax (capital outlay and debt service)	1,114,020
Preschool projects	935,971
Charter school capital outlay	779,523
Pari-mutuel tax	190,750
Florida teachers lead program	191,181
Food service supplement	128,475
State license tax	64,051
State forest funds	10,880
Miscellaneous	<u>250,644</u>
<b>Total</b>	<u><u>\$ 103,003,735</u></u>

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



**OKALOOSA COUNTY DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2002**

**NOTE 16 – PROPERTY TAXES**

The following is a summary of millages and taxes levied on the 2001 tax roll for the 2002 fiscal year:

	Millages	Taxes Levied
<u>General Fund</u>		
Nonvoted School Tax:		
Required local effort	5.817	\$ 48,754,417
Discretionary local effort	0.700	5,867,005
<u>Capital Projects Funds</u>		
Nonvoted Tax:		
Local capital improvements	1.701	14,256,314
<b>Total</b>	<u>8.218</u>	<u>\$ 68,877,736</u>

**NOTE 17 – 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 numbers of years of service depending on 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 certain employees to cover social security benefits lost by virtue of retirement system membership.

A Deferred Retirement Option Program (DROP) was established July 1, 1998, subject to provisions of Section 121.091, Florida Statutes. 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.

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.

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 17 – STATE RETIREMENT PROGRAM (CONTINUED)**

*Funding Policy*

The contribution rates for Plan members are established, and may be amended, by the State of Florida. During the 2002 fiscal year, contribution rates were as follows:

Class or Plan	Percent of Gross Salary	
	Employee	Employer
Florida Retirement System, Regular	-	7.30
Florida Retirement System, Elected County Officers	-	15.14
Teachers Retirement System, Plan E	6.25	11.35
Deferred Retirement Option Program	-	12.67
Florida Retirement System, Reemployed Retiree	-	7.30
Florida Retirement System, Reemployed Elected County Officers	-	15.14

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, 2002, June 30, 2001, and June 30, 2000, totaled, \$8,505,602, \$10,570,567 and \$10,024,878 respectively, which were equal to the required contributions for each fiscal year.

**NOTE 18 – 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. During fiscal year 2001-2002, the District also approved a one-time retirement incentive program for employees in the DROP and for employees at the top of the salary scale that had passed their first eligibility for retirement. This incentive program offered 40% of the current year's salary to eligible employees who chose to retire by January 11, 2002. In addition to payments for accrued leave used and regular termination benefits, the District reported expenditures totaling \$1,020,394 during the 2002 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 three years in advance of the date of their first opportunity for normal retirement and receive payment for accumulated sick leave in up to three annual payments 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**  
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**NOTE 19 – CONSTRUCTION CONTRACT COMMITMENTS**

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

Project	Contract Amount	Completed to Date	Balance Committed
Baker School technology retrofit	\$ 208,756	\$ 447	\$ 208,309
Baker School roofing project	117,610	36,420	81,190
Bruner Middle School technology retrofit	53,624	115	53,509
Bruner Middle School renovations and remodeling	4,116,140	2,984,434	1,131,706
Cherokee Elementary School roofing project	80,253	21,665	58,588
Choctawhatchee High School roofing project	138,569	63,067	75,502
Crestview High School girls weight and locker room	396,000	237,307	158,693
Crestview High School roofing project	485,263	475,982	9,281
Davidson Middle School roofing project	67,223	144	67,079
Destin Elementary School roofing project	80,876	42,181	38,695
Destin Middle School technology retrofit	57,243	123	57,120
Edge Elementary School technology retrofit	44,349	95	44,254
Edwins Elementary School technology retrofit	232,356	497	231,859
Elliott Point Elementary School technology retrofit	36,905	79	36,826
Fort Walton Beach High School girls locker room addition	600,000	368,193	231,807
Laurel Hill School roofing project	227,994	208,750	19,244
Laurel Hill School - Pearl Tyner Media Center	75,844	44,708	31,136
Lewis Middle School girls weight and locker room	480,000	231,648	248,352
Mary Esther Elementary School technology retrofit	39,520	85	39,435
Meigs Middle School technology retrofit	79,745	171	79,574
Niceville High School roofing project	71,884	57,093	14,791
Oak Hill Elementary School air condition gym	25,343	54	25,289
Plew Elementary School technology retrofit	50,275	108	50,167
Richbourg Middle School girls softball locker	318,000	186,224	131,776
Ruckel Middle School roofing project	67,110	22,821	44,289
Valparaiso Elementary School technology retrofit	578,838	1,239	577,599
Wright Elementary School technology retrofit	80,157	171	79,986
	<b>\$ 8,809,877</b>	<b>\$ 4,983,821</b>	<b>\$ 3,826,056</b>

**NOTE 20 – RISK MANAGEMENT PROGRAMS**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District 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.

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD  
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JUNE 30, 2002**

**NOTE 20 – RISK MANAGEMENT PROGRAMS (CONTINUED)**

For property insurance coverage, the District has obtained specific excess coverage through the Florida School Boards Insurance Trust (FSBIT), a self-insurance fund for Florida school boards. FSBIT was established pursuant to authority found in Sections 440.38, 768.28, 230.22, 230.23 and Chapter 163, Florida Statutes. Section 230.23(10)(1), Florida Statutes, provides the authority for the District to enter into such a risk management program.

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 long-term liabilities. As of June 30, 2002, \$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 Payments	Balance at Fiscal Year End
2000 - 2001	\$ 2,500,000	\$ 1,278,890	\$ (1,078,890)	\$ 2,700,000
2001 - 2002	\$ 2,700,000	\$ 1,723,553	\$ (1,723,553)	\$ 2,700,000

**NOTE 21 – LITIGATION**

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

**REQUIRED SUPPLEMENTAL INFORMATION (Other Than MD&A)**

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD**  
**REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2002**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/(Negative)
	Original	Final		
<b>REVENUES</b>				
Intergovernmental:				
Federal direct	\$ 5,072,877	\$ 7,477,837	\$ 7,477,837	\$ -
Federal through state	-	526,960	526,960	-
State sources	100,020,493	96,603,581	96,550,192	(53,389)
Local sources	55,711,971	57,233,007	57,207,838	(25,169)
Total revenues	160,805,341	161,841,385	161,762,827	(78,558)
<b>EXPENDITURES</b>				
Current - education:				
Instruction	103,287,427	106,546,564	102,916,130	3,630,434
Pupil personnel services	6,251,485	6,239,463	6,228,403	11,060
Instructional media services	3,288,237	3,518,080	3,429,717	88,363
Instructional and curriculum development	2,079,218	2,508,848	2,207,025	301,823
Instructional staff training	729,746	878,978	470,725	408,253
Board	1,676,685	2,073,554	1,924,612	148,942
General administration	276,729	278,234	267,751	10,483
School administration	12,144,723	16,004,697	12,410,342	3,594,355
Facilities acquisition and construction	176,549	383,824	381,596	2,228
Fiscal services	1,327,255	1,349,192	1,248,341	100,851
Food services	-	30,400	30,400	-
Central services	5,731,623	6,207,772	5,199,117	1,008,655
Pupil transportation services	6,914,711	7,148,037	7,045,642	102,395
Operation of plant	11,538,941	12,277,754	11,636,621	641,133
Maintenance of plant	5,418,097	5,335,812	4,476,063	859,749
Community services	1,325,227	1,516,991	926,974	590,017
Fixed capital outlay:				
Facilities acquisition and construction	82,449	139,264	123,556	15,708
Other capital outlay	1,716,795	2,004,295	1,229,333	774,962
Debt service:				
Retirement of principal	130,361	153,309	112,829	40,480
Interest and fiscal charges	14,685	15,705	8,912	6,793
Total expenditures	164,110,943	174,610,773	162,274,089	12,336,684
Excess (deficiency) of revenues over expenditures	(3,305,602)	(12,769,388)	(511,262)	12,258,126
Other financing sources				
Loss recoveries	-	821,480	821,480	-
Transfers in	2,307,451	2,955,593	2,955,593	-
Total other financing sources	2,307,451	3,777,073	3,777,073	-
Excess (deficiency) of revenues and other sources over expenditures and other uses	(998,151)	(8,992,315)	3,265,811	12,258,126
Adjustment to fund balance	(86,176)	(86,176)	10,840	97,016
Fund balance, July 1, 2001	18,266,721	18,266,721	18,169,705	(97,016)
Fund balance, June 30, 2002	\$ 17,182,394	\$ 9,188,230	\$ 21,446,356	\$ 12,258,126

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD  
REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE  
OTHER FEDERAL PROGRAMS FUND  
FOR THE YEAR ENDED JUNE 30, 2002**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/(Negative)
	Original	Final		
<b>REVENUES</b>				
Intergovernmental:				
Federal direct	\$ -	\$ 490,186	\$ 490,186	\$ -
Federal through state	10,489,644	10,318,822	8,708,015	(1,610,807)
State sources	-	-	-	-
Local sources	-	-	-	-
Total revenues	<u>10,489,644</u>	<u>10,809,008</u>	<u>9,198,201</u>	<u>(1,610,807)</u>
<b>EXPENDITURES</b>				
Current - education:				
Instruction	5,232,000	6,076,147	5,303,080	773,067
Pupil personnel services	792,544	707,279	572,531	134,748
Instructional media services	149,034	134,058	113,566	20,492
Instructional and curriculum development	1,669,450	2,426,042	2,193,321	232,721
Instructional staff training	382,298	356,956	165,897	191,059
Board	-	-	-	-
General administration	362,531	419,364	373,085	46,279
School administration	-	-	-	-
Facilities acquisition and construction	1,126	-	-	-
Fiscal services	-	-	-	-
Food services	-	-	-	-
Central services	162,653	146,262	119,575	26,687
Pupil transportation services	12,769	28,477	27,110	1,367
Operation of plant	10,071	1,291	1,278	13
Maintenance of plant	-	-	-	-
Community services	16,255	16,255	2,269	13,986
Fixed capital outlay:				
Facilities acquisition and construction	9,366	9,366	9,366	-
Other capital outlay	400,339	377,180	317,123	60,057
Debt service:				
Retirement of principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	<u>9,200,436</u>	<u>10,698,677</u>	<u>9,198,201</u>	<u>1,500,476</u>
Excess of revenues over expenditures	<u>1,289,208</u>	<u>110,331</u>	<u>-</u>	<u>(110,331)</u>
Other financing sources (uses)				
Loss recoveries	-	-	-	-
Transfers in	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>1,289,208</u>	<u>110,331</u>	<u>-</u>	<u>(110,331)</u>
Fund balance, July 1, 2001	-	-	-	-
Adjustment to fund balance	-	-	-	-
Fund balance, June 30, 2002	<u>\$ 1,289,208</u>	<u>\$ 110,331</u>	<u>\$ -</u>	<u>\$ (110,331)</u>

**SINGLE AUDIT SECTION**



**OKALOOSA COUNTY DISTRICT SCHOOL BOARD  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2002**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Pass- Through Grantor Number</u>	<u>Amount of Expenditures (Note 1)</u>
<b>United States Department of Agriculture</b>			
Indirect:			
Florida Department of Agriculture and Consumer Services:			
Food Distribution (Note 2)	10.550	None	\$ <u>266,252</u>
Florida Department of Education:			
Child Nutrition Cluster:			
School Breakfast Program	10.553	321	575,230
National School Lunch Program	10.555	300	2,526,579
Summer Food Service Program	10.559	None	<u>180,718</u>
Total Child Nutrition Cluster			<u>3,282,527</u>
Florida Department of Banking and Finance:			
Schools and Roads - Grants to States	10.665	None	<u>356</u>
<b>Total United States Department of Agriculture</b>			<u>3,549,135</u>
<b>United States Department of Labor</b>			
Indirect:			
Florida Department of Education:			
Workforce Investment Act	17.255	None	<u>63,139</u>
<b>Federal Emergency Management Agency</b>			
Indirect:			
Florida Department of Community Affairs:			
Public Assistance Grants	83.544	None	<u>381,362</u>
<b>United States Department of Education</b>			
Direct:			
Impact Aid	84.041	None	6,324,022
After School Learning Centers	84.287	None	32,664
Pell Grants	84.063	None	287,603
Foreign Language Assistance	84.293	None	<u>169,919</u>
Total Direct			<u>6,814,208</u>
Indirect:			
Adult Education - State Grant Program	84.002	None	34,633
Goals 2000 - State and Local Education Systematic Improvement Grants	84.276	133	365,016
Public Schools Federal Grant Program:			
Charter Schools (Note 3):			
Liza Jackson Prep School	84.282	298	19,000

(continued)

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2002**

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass- Through Grantor Number	Amount of Expenditures (Note 1)
<b>United States Department of Education (continued)</b>			
OWCC Charter School	84.282	298	110,000
Innovative Education Program Strategies	84.298	113	174,832
Escambia County District School Board: FDLRS			146,477
Okaloosa-Walton Community College: Vocational Education - Basic Grants to States	84.048	None	36,127
Tech-Prep Education	84.243	None	54,421
Homeless Children and Youth	84.196	127	76,000
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	119,575
Special Education - Grants to States	84.027	262,263	3,427,706
Special Education - Preschool Grants	84.173	267	176,680
Title I Grants to Local Educational Agencies	84.010	212	2,953,386
Title II - Eisenhower Professional Development	84.281	224	159,135
Title VI - Class Size Reduction	84.340	111	592,353
Vocational Education - Basic Grants to States	84.048	151	<u>257,496</u>
Total Indirect			<u>8,702,837</u>
<b>Total United States Department of Education</b>			<u>15,517,045</u>
<b>Corporation for National and Community Service</b>			
Indirect:			
Florida Department of Education:			
Learn and Serve America - School and Community Based Programs	94.004	234	<u>5,176</u>
<b>United States Department of Defense</b>			
Direct:			
Public Law 102-484	None	N/A	826,070
Junior Reserve Officers Training Corps	None	N/A	276,372
Troops to Teachers	None	N/A	<u>51,374</u>
<b>Total United States Department of Defense</b>			<u>1,153,816</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$ 20,669,673</u>

(continued)

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2002**

Notes:

- 1) Basis of Presentation. The Schedule of Expenditures of Federal Awards represents amounts expended from Federal Programs during the 2002 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 basic financial statements have been reported.
- 2) Food Distribution. Represents the amount of donated food used during the 2002 fiscal year. Commodities are recorded 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:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount Provided</u>
Public School Federal Grant Program	84.282	\$ 129,000

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2002**

**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, 2002:

- The auditor's report expresses an unqualified opinion on the basic financial statements of the Okaloosa County District School Board.
- No reportable conditions relating to the audit of the basic financial statements are reported in the Independent Auditor's Report on Compliance and on Internal Controls Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
- No instances of noncompliance material to the basic financial statements of the Okaloosa County District School Board which would be required to be reported in accordance with *Government Auditing Standards* were disclosed during the audit.
- No reportable conditions relating to the audit of the major federal award programs are reported in the Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance in Accordance with *OMB Circular A-133*.
- The auditor's report on compliance for the major Federal award programs for the Okaloosa County District School Board is unqualified.
- Audit findings relative to the major Federal programs for the Okaloosa County District School Board are reported in this Schedule.
- The programs tested as major programs included: Child Nutrition Cluster [School Breakfast Program (CFDA 10.553), National School Lunch Program (CFDA 10.555), Summer Food Service Program (CFDA 10.559)]; Impact Aid (CFDA 84.041); Title VI – Class Size Reduction (CFDA 84.340); and Public Assistance Grants (CFDA 83.544).
- The threshold for distinguishing between Types A and B programs was \$621,468.
- The Okaloosa County District School Board did not qualify as a low-risk auditee.

**FINDINGS – FINANCIAL STATEMENTS AUDIT**

***Reportable Conditions***

None reported

**FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT**

***United States Department of Education***

**02-1: Title VI – Class Size Reduction (CFDA No. 84.340)**

During the fiscal year ended June 30, 2002, the District charged \$31,041 of administrative costs to the Class Size Reduction program. This amount was based on the District's negotiated indirect cost rate with the State of Florida

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – FEDERAL AWARDS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2002**

of 5.53% and direct program costs incurred of \$561,312. The \$31,041 represents approximately 5.24% of the resulting total program award of \$592,353. The grant, however, specifically stipulates that no more than 3% of the total award may be used for administrative cost purposes. Accordingly, Class Size Reduction program grant funds were used for other than the purpose intended by the grant. If the amount of administrative costs is recalculated with the 3% limitation in effect, the administrative costs and total program award amount to \$17,360 and \$578,672, respectively. The resulting difference between administrative costs as charged (\$31,041) and as recalculated (\$17,360) totals \$13,681 and represents questioned program costs.

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2002**

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 working to reimburse the unallowed expenditures through reduction of the fiscal year 2002-03 allocation of funds.
Carr, Riggs & Ingram, LLP 01-1	Class Size Reduction (CFDA 84.340)/Activities Allowed or Unallowed	No internal control step to ensure that the appropriate grade-level of student was being taught with program funds.		Corrective action taken.
Carr, Riggs & Ingram, LLP 01-2	Class Size Reduction (CFDA 84.340)/Activities Allowed or Unallowed	Funds were used to teach fourth and fifth grade students when classes for grades kindergarten through three had not been reduced to required levels.		The District has contacted the appropriate pass-through entity and is working to reimburse the unallowed expenditures through reduction of the fiscal year 2002-03 allocation of funds.
Carr, Riggs & Ingram, LLP 01-3	After School Learning Centers (CFDA 84.287)/ Activities Allowed or Unallowed	Unallowable payroll, capital outlay and travel expenses were paid using grant funds.		Corrective action taken.

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD  
CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED JUNE 30, 2002**

**Audit Reference Number 02-1**

Title VI – Class Size Reduction

The District has contacted the appropriate pass-through entity and has reimbursed the unallowed expenditures through reduction of the fiscal year 2002-03 allocation of funds.

Name of Contact Person: Patricia Wascom, Chief Financial Officer

Date: June 18, 2003



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN  
AUDIT OF 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 basic financial statements of the Okaloosa County District School Board (District) as of and for the fiscal year ended June 30, 2002, and have issued our report thereon dated November 19, 2002. 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.

**COMPLIANCE**

As part of obtaining reasonable assurance about whether the District's basic 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*.

**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 basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 errors or fraud in amounts that would be material in relation to the basic 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.



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.

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

**CARR, RIGGS & INGRAM, LLC**  
**Certified Public Accountants**

Destin, Florida  
November 19, 2002



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

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, 2002. 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 the District's 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 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. The legal determination of the District's compliance with these requirements is, however, ultimately the responsibility of the grantor agency.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the fiscal year ended June 30, 2002. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 02-1.

**INTERNAL CONTROLS OVER COMPLIANCE**

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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 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. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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.

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

**CARR, RIGGS & INGRAM, LLC**  
**Certified Public Accountants**

Destin, Florida  
November 19, 2002



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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 basic financial statements of the Okaloosa County District School Board as of and for the year ended June 30, 2002, 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 November 19, 2002 on the basic 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, L.L.C.*

**CARR, RIGGS & INGRAM, LLC**  
**Certified Public Accountants**

Destin, Florida  
 November 19, 2002

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD  
MEMORANDUM OF MANAGEMENT LETTER COMMENTS  
JUNE 30, 2002**

***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 45 of this report.

***Bank Reconciliations***

During the course of our audit procedures, we noted that bank reconciliations were not being performed in a manner that directly reconciled the bank balance to the general ledger cash balance. An intermediate step or tool is utilized in the process which is convoluted, thereby masking the out-of-balance condition. This allowed an erroneous adjustment for inventory consumption to be made at year end and go undetected. As a result, cash was overstated and expenditures were understated by approximately \$239,000 at June 30, 2002.

The District's method of accounting for cash and investments and the process used for reconciling cash and investments has been used since the inception of the TERMS Financial System. This process evolved many years ago because the District used one general ledger account number (Cash - G/L Account 1111) for the activity of several different bank accounts (general operating, payroll, food service, etc.) and used SBA Investments (G/L Account 1164) as the inter-fund clearing account.

While they are not unacceptable, the general ledger accounting method and the reconciliation process are complicated, convoluted, and inefficient.

Due to the complexity of the reconciliation process, errors or misstatements in the reconciliations may not be easily identified. Therefore, the District should revise the procedures and process as follows:

- a. Establish separate general ledger accounts for each bank account.
- b. Reconcile each account's bank statement directly to the related general ledger account.
- c. Revise procedures for processing of cash receipts and cash disbursements to minimize timing differences.
- d. Reassign responsibility for the bank reconciliation to staff not involved in the cash receipt, cash disbursement or cash management functions.

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD**  
**MEMORANDUM OF MANAGEMENT LETTER COMMENTS**  
**JUNE 30, 2002**

- e. Provide appropriate supervisory review and approval of the bank and general ledger account reconciliations.

We recommend that the year end bank reconciliations be performed during close out so the necessary journal entries can be made at that time. Often, bank reconciliations provide information or dictate adjustments that affect other areas such as revenue or expense. It is difficult to ascertain that the numbers being reporting as revenue or expenses are accurate until the bank reconciliations are performed. Performing the year end bank reconciliation process during close out would also ensure that reclassification entries are made as normal closing entries instead of as audit adjustments.

***School Lunch Program Designations – Free vs. Reduced***

As part of our audit testwork, we performed procedures relating to the eligibility of students participating in the District's National School Lunch Program. We selected 31 students at random and verified that they were categorized correctly in the District's system as either free, reduced, or full price based on family size and income level. We noted one instance where a student was correctly coded as "free" in the District's AS400 system but was incorrectly listed as "reduced" in the school's Point of Sale (POS) system. The POS system governed what the student was ultimately charged for lunch at the school. Based on discussions with members of management, the District does not have any reports, edit checks or other procedures in effect that are designed to ensure that the data in one system agrees with the other. This led to the discrepancy noted between the two systems and ultimately caused the student to be categorized incorrectly.

We recommend that the District review its policies, procedures and systems, and either design an internal control step that will ensure that the information in the AS400 and POS systems is checked on a routine basis for consistency or devise a way that the information in one system is automatically updated by input in the other.

***FICA Withholding on Compensation Payments Relating to an Employee's Death***

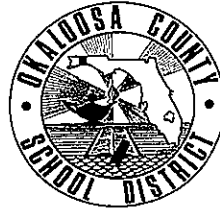
During our audit, we noted that the District paid approximately \$66,000 in other compensation (sick pay, bonuses, etc.) to employees who had deceased during the year. The District did not withhold FICA taxes, social security and Medicare, on these amounts. This appears to conflict with IRS instructions for 1099-Misc, which states if payment for other compensation is made in the same year the employee died (which per discussion with the District's payroll specialist is always the case), the employer must withhold social security and Medicare taxes. IRS Publication 15-A, Employer's Supplemental Tax Guide, further states that even when there is a definite Sick Pay Plan, amounts paid to a former employee are subject to social security and Medicare tax if they would have been paid upon termination for a different reason.

We recommend that the District review and modify its payroll procedures to correctly withhold FICA taxes for these types of other compensation payments.

# OKALOOSA COUNTY SCHOOL DISTRICT

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

June 18, 2003

Mr. Steve Riggs, C. P. A.  
Carr, Riggs, & Ingram, LLP  
Certified Public Accountants  
1077 Highway 98 East  
Destin, FL 32541

Re: Preliminary and Tentative Audit Findings  
And Recommendations for the Fiscal Year  
Ended June 30, 2002

Dear Mr. Riggs:

Enclosed are our responses to your preliminary and tentative audit findings and recommendations for the fiscal year ended June 30, 2002.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Don Gaetz", is written over a faint circular stamp.

Don Gaetz  
Superintendent

DG:jap

cc: Cindy Frakes, Chairman, School Board  
Rodney Walker, 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

ADMINISTRATIVE COMPLEX – 120 LOWERY PLACE S.E. – FORT WALTON BEACH, FLORIDA 32548  
TELEPHONE (850) 833-3100 FAX(850) 833-3436

CARVER HILL – 461 W. SCHOOL AVE. – CRESTVIEW, FLORIDA 32536  
TELEPHONE (850) 689-7300 FAX (850) 689-7129

2001-2002 Preliminary and Tentative  
Audit Findings  
June 18, 2003

### **Bank Reconciliations**

The District has implemented all of the recommended changes in procedures and processes and has reviewed the changes and bank reconciliation with Carr, Riggs and Ingram, L.L.C. The District will continue to revise and improve the cash receipts, cash disbursement and cash management processes and procedures and further streamline the bank reconciliation process.

### **School Lunch Program Designations – Free vs. Reduced**

In August, 2002, the District purchased a new point of sale system (“Horizon”) for Food Service. This system is updated daily with data directly from the District’s main computer system (AS400). This feature overwrites any changes which may be made to a student’s eligibility code at the school level.

In addition, the District is implementing a control procedure by auditing the free/reduced roster. Purchasing the new system coupled with implementing an audit procedure should minimize the chance of any differences remaining in the eligibility codes between the two systems.

### **FICA Withholding on Compensation Payments relating to an Employee’s Death**

Beginning August 1, 2002, the District revised the procedures and calculations of payments for deceased employees to comply with the provisions of IRS Publication 15-A. This change was implemented immediately after Carr, Riggs, and Ingram, L.L.C., advised the District of the correct interpretation of IRS regulations and upon consulting with the Auditor General and Internal Revenue Service.