

OKALOOSA COUNTY DISTRICT SCHOOL BOARD

FINANCIAL STATEMENTS

AND SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED JUNE 30, 2004

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD
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FOR THE YEAR ENDED JUNE 30, 2004**

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**OKALOOSA COUNTY DISTRICT SCHOOL BOARD
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FOR THE YEAR ENDED JUNE 30, 2004**

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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 financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Okaloosa County District School Board (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Okaloosa Public Schools Foundation, Inc., the Okaloosa Academy, Inc., or the Liza Jackson Preparatory School, Inc., which represent 96% of the total assets and 99% of the total revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Okaloosa Public Schools Foundation, Inc., the Okaloosa Academy, Inc., and the Liza Jackson Preparatory School, Inc., is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the District as of June 30, 2004, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

American Institute of
Certified Public Accountants

Alabama Society of
Certified Public Accountants

Florida Institute of
Certified Public Accountants

Mississippi Society of
Certified Public Accountants

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In accordance with *Government Auditing Standards*, we have also issued a report dated November 10, 2004 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the Budgetary Comparison schedules on pages 3 through 10 and 41 through 42, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Okaloosa County District School Board. The Schedule of Expenditures of Federal Awards 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.

Carri Riggs & Ingram, L.L.C.

Destin, Florida
November 10, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

OKALOOSA COUNTY DISTRICT SCHOOL BOARD MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management of the Okaloosa County District School Board has prepared the following discussion and analysis of financial activities for the fiscal year ended June 30, 2004. 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.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2003-2004 fiscal year are as follows:

- The District's total net assets increased by \$5,862,495, or 3 percent.
- General revenues totaled \$200,286,702, or 89 percent of all revenues in fiscal year 2003-2004, as compared to \$187,566,773, or 90 percent for fiscal year 2002-2003. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions totaled \$23,857,172, or 11 percent as compared to \$19,708,058, or 10 percent in the prior year.
- The unreserved fund balance of the General Fund, representing the net current financial resources available for general appropriation by the Board, totaled \$4,634,776, at June 30, 2004, or 3 percent of General Fund expenditures as compared to \$3,940,469, or 2 percent at June 30, 2003.
- The District's total long-term liabilities increased by \$13,397,111, or approximately 33 percent, as compared to a decrease of \$2,813,721, or approximately 7 percent in the prior year. Within long-term liabilities, the liability for compensated absences increased \$497,445, or 2 percent as compared to a decrease of \$83,908, or less than 1 percent in fiscal year 2002-2003; the long-term liability for estimated insurance claims increased \$512,000, or 18 percent; and the long-term liability for debt increased \$12,387,666, or 84 percent as compared to a decrease of \$2,886,812, or 16 percent in fiscal year 2002-2003.
- During the current year, General Fund revenues exceeded expenditures by \$1,391,165. This may be compared to last year's results in which General Fund revenues exceeded expenditures by \$2,713,608.

NON-FINANCIAL HIGHLIGHTS

Key non-financial highlights for the 2003-2004 fiscal year are as follows:

- Thirty-one (31) of thirty-five (35) district-operated schools earned A's under the state's school grading system for the 2003-2004 school year, giving Okaloosa schools the highest percentage of A schools in the state.
- The District's student enrollment increased by 57 students or less than 1 percent as compared to the preceding year in which the District's enrollment increased 241 students or less than 1 percent. The increase in student enrollment is a net of increases and decreases in all grade levels and programs.

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, Inc. -- Charter School; the Okaloosa Communications Foundation, Inc.; and the Okaloosa Public Schools Foundation, Inc. Although legally separate organizations, the component units are included in this report because they meet the criteria for inclusion provided by generally accepted accounting principles. Separately issued financial statements for these component units are available on file at the District's administrative office.

The Okaloosa School Board Leasing Corporation was formed to facilitate the financing for the acquisition of facilities and equipment for the District. Due to the substantive economic relationship between the School Board and the Leasing Corporation, the Leasing Corporation has been included as an integral part of the primary government.

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 – 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 fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation of governmental funds to governmental activities.

The governmental fund 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 Fund, Capital Projects – Capital Improvement Tax Construction Fund, and Capital Projects – Other Capital Projects Fund. Data from the other governmental funds are combined into a single, aggregated presentation.

The District adopts an annual appropriated budget for its governmental funds. A budgetary comparison schedule has been provided for the General Fund and the 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 and groups and for resources held for Employee 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, 2004, as compared to June 30, 2003:

	Governmental Activities		
	6/30/2003	6/30/2004	Increase (Decrease)
Current Assets	\$ 54,476,883	\$ 76,717,332	\$ 22,240,449
Capital Assets	175,820,209	167,609,899	(8,210,310)
 Total Assets	230,297,092	244,327,231	14,030,139
 Long-term Liabilities	40,428,304	53,825,415	13,397,111
Other Liabilities	9,041,697	3,812,230	(5,229,467)
 Total Liabilities	49,470,001	57,637,645	8,167,644
 Invested in Capital Assets - Net of Debt	161,090,839	140,492,863	(20,597,976)
Restricted	23,034,053	40,389,137	17,355,084
Unrestricted (Deficit)	(3,297,801)	5,807,586	9,105,387
 Total Net Assets	\$ 180,827,091	\$ 186,689,586	\$ 5,862,495

The largest portion of the District's net assets (75% in fiscal year 2003-2004 and 89% in fiscal year 2002-2003) reflects its investment in capital assets (e.g., land, buildings, furniture and equipment), less any related debt still outstanding. The District's investment in capital assets net of debt decreased \$20,597,976 or 13%. The decrease in investment in capital assets net of debt is primarily related to the increase in long-term debt and to the transfer of certain computer-related assets to a third-party as part of the seat management operating lease. 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 District's unrestricted net assets increased \$9,105,387, in fiscal year 2003-2004. The increase in unrestricted net assets is primarily due to the sale/leaseback of computers to Titan Corporation and the receivable associated with the sale.

Operating results for the year ended June 30, 2004, as compared to June 30, 2003, are as follows:

Operating Results for the Year

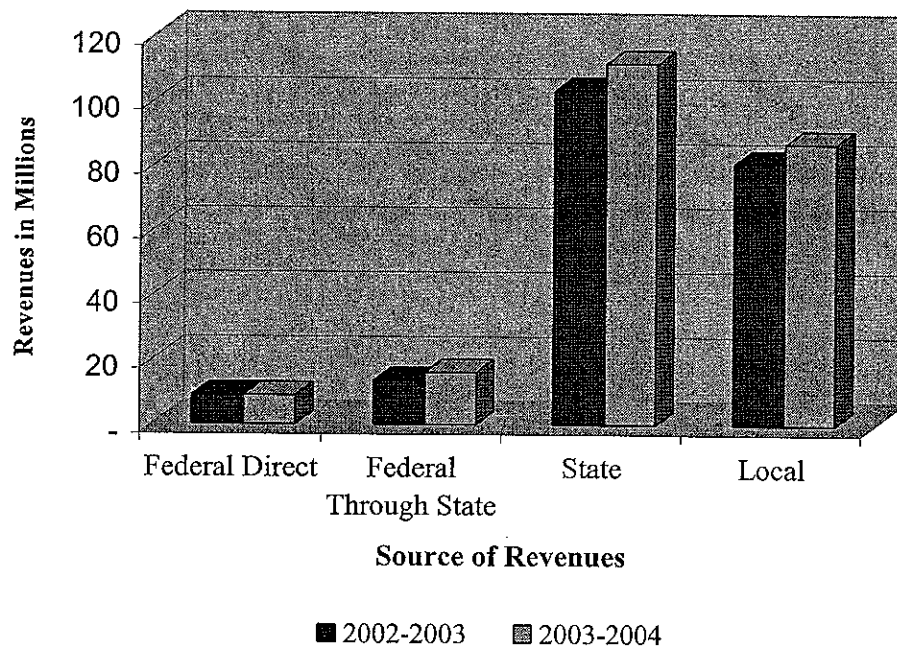
	<u>Governmental Activities</u>		
	<u>6/30/2003</u>	<u>6/30/2004</u>	<u>Increase (Decrease)</u>
Program Revenues:			
Charges for Services	\$ 6,094,837	\$ 6,904,567	\$ 809,730
Operating Grants and Contributions	9,571,647	9,857,334	285,687
Capital Grants and Contributions	4,041,574	7,095,271	3,053,697
General Revenues:			
Property Tax Levied for Operational Purposes	57,792,272	61,462,682	3,670,410
Property Tax Levied for Capital Projects	14,664,038	15,729,320	1,065,282
Local Sales Taxes	49,149	-	(49,149)
Grants and Contributions not Restricted to Specific Purposes	112,148,602	119,832,924	7,684,322
Investment Earnings	717,329	687,851	(29,478)
Miscellaneous	2,195,383	2,573,925	378,542
Total Revenues	<u>207,274,831</u>	<u>224,143,874</u>	<u>16,869,043</u>
Function/Program Expenses:			
Instruction	113,572,640	123,787,937	10,215,297
Pupil Personnel Services	6,776,548	7,148,582	372,034
Instructional Media Services	3,036,134	2,927,070	(109,064)
Instruction and Curriculum Development Services	4,612,102	6,290,385	1,678,283
Instructional Staff Training	629,645	619,085	(10,560)
Board of Education	2,827,951	3,129,022	301,071
General Administration	745,978	1,003,450	257,472
School Administration	12,885,113	12,674,699	(210,414)
Facilities Acquisition and Construction	6,403,048	8,318,377	1,915,329
Fiscal Services	1,246,805	1,200,560	(46,245)
Food Services	7,664,446	9,246,774	1,582,328
Central Services	5,682,834	6,112,700	429,866
Pupil Transportation Services	7,978,811	8,338,551	359,740
Operation of Plant	11,827,846	12,025,694	197,848
Maintenance of Plant	4,762,181	4,912,078	149,897
Community Services	995,052	1,122,446	127,394
Interest on Long-term Debt	620,359	1,441,542	821,183
Unallocated Depreciation Expense	10,364,189	7,982,427	(2,381,762)
Total Functions/Program Expenses	<u>202,631,682</u>	<u>218,281,379</u>	<u>15,649,697</u>
Increase in Net Assets	<u>\$ 4,643,149</u>	<u>\$ 5,862,495</u>	<u>\$ 1,219,346</u>

Instructional expenses represent 57 percent of total governmental expenses in the 2003-2004 fiscal year as compared to 56 percent in fiscal year 2002-2003. Instructional expenses increased by approximately \$10,215,297, or 9 percent versus an increase of \$4,650,689, or 4 percent, in fiscal year 2002-2003. The increase in instructional expenditures is due mainly to an increase in salaries for instructional staff and an increase in the number of classroom teachers as a result of the Class Size Reduction Amendment.

Facilities Acquisition and Construction expenses increased \$1,915,329, or 30 percent as a result of the increases in capital construction expenditures for educational facilities.

The largest revenue source is the State of Florida (50 percent). These revenues increased approximately \$8,356,587, or 8 percent primarily due to Class Size Reduction funding and Classrooms for Kids capital outlay funding. 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 District's funding ability based on the local property tax base.

**Revenues by Source
Governmental Activities**



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 \$4,634,776, while the total fund balance was \$35,279,241. For fiscal year 2002-2003, unreserved fund balance was \$3,940,469, while the total fund balance was \$27,663,631. The unreserved fund balance increased by \$694,307 in fiscal year 2003-2004 while the total fund balance increased by \$7,615,610, as compared to an increase in fiscal year 2002-2003 in unreserved fund balance of \$222,999, and an increase in total fund balance of \$6,217,275.

Key factors in this growth are as follows:

- State revenues increased approximately \$5,701,856, in the current fiscal year primarily due to state funding for Class Size Reduction. In fiscal year 2002-2003, state revenues increased by approximately \$2,636,407, primarily due to an increase in student enrollment and district schools receiving additional School Recognition funding.
- Local revenues increased approximately \$4,235,761 in the current year as compared to an increase of \$4,844,829, in fiscal year 2002-2003. The increase is primarily due to the increase in local property values.

The Capital Projects – Capital Improvement Tax Construction Tax Fund has a total fund balance of \$11,140,776, all of which is restricted for the acquisition, construction, and maintenance of capital assets. This is an increase of \$2,514,708, as compared to total fund balance for fiscal year 2002-2003 of \$8,626,068. 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 capital projects being started but not completed during the fiscal year.

The Capital Projects – Other Fund has a total fund balance of \$15,403,992, all of which is restricted for the acquisition and construction of capital assets and is primarily comprised of the remaining proceeds of the 2003 Certificates of Participation.

The Special Revenue – Other Federal Programs Fund revenues and expenditures increased by approximately \$1,698,721, as compared to an increase of \$931,923, in fiscal year 2002-2003. The increase in revenues and expenditures in fiscal year 2003-2004 is primarily due to an increase in Individuals with Disabilities Education Act and Eisenhower Math and Science (Title II) funding while in fiscal year 2002-2003 the increase was 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 are made according to Florida law. The most significant budgeted fund is the General Fund.

During the course of the 2003-2004 fiscal year, the District amended its General Fund budget several times, which resulted in an increase in total appropriations, excluding reserves, amounting to \$11,862,376, or 7 percent. At the same time, final budgeted revenues, excluding beginning fund balance, were more than the original budgeted amounts by \$9,202,840, or 5 percent. This resulted in a final budgeted ending fund balance of \$2,659,536, or 11 percent less than the ending fund balance included in the original budget. The decrease in budgeted ending fund balance is a result of project reserves such as School Recognition and Supplementary Academic Instruction being appropriated throughout the fiscal year.

Actual revenues were \$282,229 more than the final budgeted amounts, or less than 1 percent difference, whereas actual expenditures were \$12,397,292 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 \$12,679,521.

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, 2004, amounts to \$167,609,899 (net of accumulated depreciation), as compared to \$175,820,209, in fiscal year 2002-2003. The decrease is primarily due to the transfer of computers, laptops and servers to a third-party as part of the seat management operating lease. The investment in capital assets includes land, improvements other than buildings, buildings and fixed equipment, furniture, fixtures and equipment, motor vehicles, property under capital leases, construction in progress, and computer software.

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

- Construction in progress at June 30, 2004, includes Baker School – ESE suites addition, Lewis Middle School band classrooms and ESE suites addition, Richbourg Middle School ESE suites addition, Crestview High School – CHOICE renovation, Choctawhatchee High School – CHOICE addition, Niceville High School – CHOICE addition, Okaloosa Applied Technology Center – CHOICE renovation, Silver Sands School – ESE suites addition, Northwood Elementary School – classroom addition, and Destin Elementary classroom addition.
- Major capital projects were as follows:
 - ◆ Meigs Middle School – Science /Math Academy Renovations and ESE Suites Addition
 - ◆ Pryor Middle School –ESE Suites Addition
 - ◆ Niceville High School – Roofing Project
 - ◆ Florosa Elementary School – Renovations
 - ◆ Numerous roofing projects

Additional information on the District's capital assets can be found in notes 1, 4 and 18 to the financial statements.

Debt Administration

At June 30, 2004 the District had total long-term debt outstanding of \$27,117,036, as compared to \$14,729,370, in fiscal year 2002-2003. At June 30, 2004, long-term debt was comprised of \$87,036 of capital leases, \$9,990,000 of bonds, and \$17,040,000 of certificates of participation. During the fiscal year, issuance of debt amounted to \$17,040,000 through certificates of participation, and retirement debt amounted to \$4,652,334.

Additional information on the District's long-term debt can be found in notes 7 – 10 to the financial statements.

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, 2004

	Primary Government	
	Governmental Activities	Component Units
ASSETS		
Cash and cash equivalents	\$ 1,159,186	\$ 576,760
Investments	66,059,654	26,014
Receivable from Titan Corporation	4,221,013	-
Accounts receivable	4,807	33,487
Deposits receivable	-	45,000
Due from other agencies	4,628,961	25,696
Inventories	643,711	-
Prepaid items	-	53,714
Capital assets, net	167,609,899	1,309,140
TOTAL ASSETS	\$ 244,327,231	\$ 2,069,811
LIABILITIES AND NET ASSETS		
Salaries and wages payable	\$ 325,435	\$ -
Payroll deductions and withholdings	-	28,727
Accounts payable	1,741,010	28,255
Construction contracts payable	1,720,968	-
Accrued interest payable	-	1,170
Due to other agencies	16,837	-
Deferred revenue	7,980	-
Long-term liabilities:		
Portion due within one year	5,611,938	37,971
Portion due after one year	48,213,477	65,458
TOTAL LIABILITIES	57,637,645	161,581
Net assets		
Invested in capital assets, net of related debt	140,492,863	1,205,711
Restricted for:		
State categorical programs	6,984,289	-
Debt service	1,120,524	-
Capital projects	31,305,411	-
Other purposes	978,913	188,532
Unrestricted	5,807,586	513,987
TOTAL NET ASSETS	186,689,586	1,908,230
TOTAL LIABILITIES AND NET ASSETS	\$ 244,327,231	\$ 2,069,811

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, 2004**

FUNCTION/PROGRAM	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Current - education:				
Instruction	\$ 123,787,937	\$ 671,130	\$ -	\$ -
Pupil personnel services	7,148,582	-	-	-
Instructional media services	2,927,070	-	-	-
Instruction and curriculum development	6,290,385	-	-	-
Instructional staff training	619,085	-	-	-
Board of Education	3,129,022	-	-	-
General administration	1,003,450	-	-	-
School administration	12,674,699	-	-	-
Facilities acquisition and construction	8,318,377	-	-	5,946,352
Fiscal services	1,200,560	-	-	-
Food services	9,246,774	4,535,109	4,443,682	-
Central services	6,112,700	-	-	-
Pupil transportation services	8,338,551	335,626	5,413,652	-
Operation of plant	12,025,694	-	-	-
Maintenance of plant	4,912,078	-	-	-
Community services	1,122,446	1,362,702	-	-
Interest on long-term debt	1,441,542	-	-	1,148,919
Unallocated depreciation/amortization expense	7,982,427	-	-	-
Total governmental activities	\$ 218,281,379	\$ 6,904,567	\$ 9,857,334	\$ 7,095,271
Component units				
Charter schools/foundations				
Total component units	\$ -	\$ -	\$ -	\$ -

General revenues

Taxes:

Property taxes, levied for operational purposes
Property taxes, levied for capital projects
Grants and contributions not restricted to specific programs
Investment earnings
Miscellaneous

Total general revenues

Change in net assets

Net assets - July 1, 2003

Net Assets - June 30, 2004

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
\$ (123,116,807)	\$ (2,474,709)
(7,148,582)	(33,303)
(2,927,070)	(20,763)
(6,290,385)	(154,730)
(619,085)	(25,808)
(3,129,022)	(22,138)
(1,003,450)	(132,243)
(12,674,699)	(444,172)
(2,372,025)	(99,080)
(1,200,560)	(153,987)
(267,983)	(42,562)
(6,112,700)	(135,417)
(2,589,273)	(308,674)
(12,025,694)	(600,191)
(4,912,078)	(4,246)
240,256	(58,457)
(292,623)	(11,444)
(7,982,427)	-
<u>\$ (194,424,207)</u>	<u>\$ -</u>
-	-
<u>\$ -</u>	<u>\$ (4,721,924)</u>
\$ 61,462,682	\$ -
15,729,320	-
119,832,924	4,241,695
687,851	7,174
2,573,925	303,539
<u>200,286,702</u>	<u>4,552,408</u>
5,862,495	(169,516)
<u>180,827,091</u>	<u>2,077,746</u>
<u>\$ 186,689,586</u>	<u>\$ 1,908,230</u>

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

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004**

	General Fund	Other Federal Programs Fund	Capital Improvement Section 236.25(2) Fund	Other Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 1,106,851	\$ -	\$ -	\$ -	\$ 52,335	\$ 1,159,186
Investments	34,252,369	-	11,420,272	16,683,028	3,703,985	66,059,654
Accounts receivable	3,561	-	-	-	1,246	4,807
Due from other funds	611,390	-	-	-	-	611,390
Due from other agencies	965,370	591,730	3,325	59,350	3,009,186	4,628,961
Inventories	111,810	-	-	-	531,901	643,711
TOTAL ASSETS	\$ 37,051,351	\$ 591,730	\$ 11,423,597	\$ 16,742,378	\$ 7,298,653	\$ 73,107,709
LIABILITIES AND FUND BALANCES						
Liabilities:						
Salaries, benefits and payroll taxes payable	\$ 261,331	\$ 64,104	\$ -	\$ -	\$ -	\$ 325,435
Payroll deductions and withholdings	-	-	-	-	-	-
Accounts payable	1,492,948	147,796	97,743	-	2,523	1,741,010
Construction contracts payable	-	-	185,078	1,099,840	436,050	1,720,968
Due to other funds	-	372,844	-	238,546	-	611,390
Due to other agencies	10,000	6,837	-	-	-	16,837
Deferred revenue	7,831	149	-	-	-	7,980
Total liabilities	1,772,110	591,730	282,821	1,338,386	438,573	4,423,620
Fund balances:						
Reserved for State categorical programs	6,984,289	-	-	-	-	6,984,289
Reserved for encumbrances	1,650,663	-	1,186,467	696,580	316,780	3,850,490
Reserved for inventory	111,810	-	-	-	531,901	643,711
Reserved for other purposes	21,897,703	-	9,490,374	14,639,500	4,673,426	50,701,003
Unreserved, reported in:						
General fund	4,634,776	-	-	-	-	4,634,776
Special revenue funds	-	-	-	-	156,357	156,357
Debt service funds	-	-	-	-	1,120,524	1,120,524
Capital project funds	-	-	463,935	67,912	61,092	592,939
Total fund balances	35,279,241	-	11,140,776	15,403,992	6,860,080	68,684,089
TOTAL LIABILITIES AND FUND BALANCES	\$ 37,051,351	\$ 591,730	\$ 11,423,597	\$ 16,742,378	\$ 7,298,653	\$ 73,107,709

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

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
JUNE 30, 2004**

Total fund balances - governmental funds	\$ 68,684,089
Amounts reported for governmental activities in the statement of net assets are different because:	
Receivable from Titan Corporation for transfer of fixed assets is not due and payable in the current period and therefore is not reported in the funds.	4,221,013
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources, and therefore, are not reported in the governmental funds.	167,609,899
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>(53,825,415)</u>
Total net assets - governmental activities	<u>\$ 186,689,586</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, 2004

	General Fund	Other Federal Programs Fund	Capital Improvement Section 236.25(2) Fund	Other Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES						
Intergovernmental:						
Federal direct	\$ 8,608,759	\$ 337,805	\$ -	\$ -	\$ -	\$ 8,946,564
Federal through state	492,150	11,302,429	-	-	4,329,844	16,124,423
State sources	104,888,455	188,611	-	-	6,637,476	111,714,542
Local sources	66,288,428	-	15,993,710	173,401	4,582,924	87,038,463
Total revenues	180,277,792	11,828,845	15,993,710	173,401	15,550,244	223,823,992
EXPENDITURES						
Current - education:						
Instruction	116,513,520	6,431,533	-	-	-	122,945,053
Pupil personnel services	6,339,197	786,751	-	-	-	7,125,948
Instructional media services	2,741,343	177,569	-	-	-	2,918,912
Instructional and curriculum development	2,931,328	3,343,834	-	-	-	6,275,162
Instructional staff training	545,155	73,482	-	-	-	618,637
Board	3,128,176	-	-	-	-	3,128,176
General administration	327,326	675,278	-	-	-	1,002,604
School administration	12,628,028	8,119	-	-	-	12,636,147
Facilities acquisition and construction	225,877	-	3,347,459	1,741,554	2,447,642	7,762,532
Fiscal services	1,196,829	-	-	-	-	1,196,829
Food services	49,514	-	-	-	9,185,172	9,234,686
Central services	5,472,317	117,986	-	-	-	5,590,303
Pupil transportation services	7,670,203	20,989	-	-	-	7,691,192
Operation of plant	12,009,589	38	-	-	-	12,009,627
Maintenance of plant	4,824,336	-	-	-	-	4,824,336
Community services	1,120,307	-	-	-	-	1,120,307
Fixed capital outlay:						
Facilities acquisition and construction	179,833	-	1,030,558	853,257	1,169,333	3,232,981
Other capital outlay	888,749	193,266	1,392,902	85,455	36,347	2,596,719
Debt service:						
Retirement of principal	79,701	-	-	-	4,536,239	4,615,940
Interest and fiscal charges	15,299	-	-	-	1,007,333	1,022,632
Dues, fees, and issuance costs	-	-	-	-	346,784	346,784
Miscellaneous	-	-	-	-	147,580	147,580
Total expenditures	178,886,627	11,828,845	5,770,919	2,680,266	18,876,430	218,043,087
Excess (deficiency) of revenues over expenditures	1,391,165	-	10,222,791	(2,506,865)	(3,326,186)	5,780,905
Other financing sources (uses):						
Refunding bonds issued	-	-	-	-	40,000	40,000
Discount on refunding bonds issued	-	-	-	-	(36,866)	(36,866)
Certificates of participation issued	-	-	-	16,600,000	400,000	17,000,000
Discount on certificates of participation issued	-	-	-	-	(86,000)	(86,000)
Proceeds from sale of capital assets	461,868	-	-	-	-	461,868
Loss recoveries	13,541	-	-	-	-	13,541
Transfers in	5,749,036	-	-	29,720	1,990,372	7,769,128
Transfers out	-	-	(7,708,083)	(31,325)	(29,720)	(7,769,128)
Total other financing sources (uses)	6,224,445	-	(7,708,083)	16,598,395	2,277,786	17,392,543
Net change in fund balances	7,615,610	-	2,514,708	14,091,530	(1,048,400)	23,173,448
Fund balances, July 1, 2003	27,663,631	-	8,626,068	1,312,462	7,908,480	45,510,641
Fund balances, June 30, 2004	\$ 35,279,241	\$ -	\$ 11,140,776	\$ 15,403,992	\$ 6,860,080	\$ 68,684,089

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 ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

Net change in fund balances - total governmental funds	\$	23,173,448
Amounts reported for <i>governmental activities</i> in the statement of activities are different because:		
Capital outlays are reported in governmental funds as an expenditure. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense <i>exceeds</i> capital outlays in the current period.		(4,382,110)
The net effect of miscellaneous transactions involving capital assets (i.e., donations and disposals) is to increase capital assets.		392,813
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of principal on notes, bonds, and certificates of participation are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which the debt proceeds exceeded the repayments in the current period.		(12,387,667)
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.		75,455
In the statement of activities, certain operating expenses -compensated absences and special termination benefits - are measured by the amounts earned during the year. However, expenditures for these items are measured by the amount of financial resources used (essentially, the amount paid). This is the amount by which accrued special termination benefits increased.		(497,444)
In the statement of activities, certain operating expenses - insurance claims - include additional amounts for increases in long-term insurance claims liabilities. However, expenditures for these items are measured by the amount of financial resources used (essentially, the amount paid). This is the amount by which estimated insurance claims liability increased.		(512,000)
Change in net assets of governmental activities	\$	<u>5,862,495</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, 2004**

	Agency Fund
ASSETS	
Cash and cash equivalents	\$ 1,279,923
Investments	<u>2,995,490</u>
TOTAL ASSETS	<u>\$ 4,275,413</u>
LIABILITIES AND NET ASSETS	
Internal accounts payable	\$ 140,032
Due to other funds	<u>4,135,381</u>
TOTAL LIABILITIES	<u>4,275,413</u>
Net assets	
Invested in capital assets, net of related debt	-
Unrestricted	<u>-</u>
TOTAL NET ASSETS	<u>-</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,275,413</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, 2004**

	Total Nonmajor Component Units
ASSETS	
Cash and cash equivalents	\$ 576,760
Investments	26,014
Accounts receivable	33,487
Deposits receivable	45,000
Due from other agencies	25,696
Prepaid items	53,714
Capital assets, net	<u>1,309,140</u>
TOTAL ASSETS	<u><u>\$ 2,069,811</u></u>
LIABILITIES AND NET ASSETS	
Payroll deductions and withholdings	\$ 28,727
Accounts payable	28,255
Accrued interest payable	1,170
Non-current liabilities:	
Portion due within one year	37,971
Portion due after one year	<u>65,458</u>
TOTAL LIABILITIES	<u>161,581</u>
Net assets	
Invested in capital assets, net of related debt	1,205,711
Restricted	188,532
Unrestricted	<u>513,987</u>
TOTAL NET ASSETS	<u>1,908,230</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 2,069,811</u></u>

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, 2004**

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Total Nonmajor Component Units					
Current - education:					
Instruction	\$ 2,474,709	\$ -	\$ -	\$ -	(2,474,709)
Pupil personnel services	118,302	-	84,999	-	(33,303)
Instructional media services	20,763	-	-	-	(20,763)
Instruction and curriculum development	154,730	-	-	-	(154,730)
Instructional staff training services	25,808	-	-	-	(25,808)
Board	22,138	-	-	-	(22,138)
General administration	133,480	-	1,237	-	(132,243)
School administration	444,172	-	-	-	(444,172)
Facilities acquisition and construction	225,080	-	-	126,000	(99,080)
Fiscal services	153,987	-	-	-	(153,987)
Food services	211,623	109,808	59,253	-	(42,562)
Central services	135,417	-	-	-	(135,417)
Pupil transportation services	308,674	-	-	-	(308,674)
Operation of plant	878,495	-	-	278,304	(600,191)
Maintenance of plant	4,246	-	-	-	(4,246)
Community services	391,039	-	332,582	-	(58,457)
Interest on long-term debt	11,444	-	-	-	(11,444)
Total component units	\$ 5,714,107	\$ 109,808	\$ 478,071	\$ 404,304	(4,721,924)

General revenues	
Grants and contributions not restricted to specific programs	4,241,695
Investment earnings	7,174
Miscellaneous	303,539
Total general revenues	4,552,408
Change in net assets	(169,516)
Net assets - July 1, 2003	2,077,746
Net assets - June 30, 2004	\$ 1,908,230

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

OKALOOSA COUNTY DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The District School Board of Okaloosa County has direct responsibility for operation, control, and supervision of Okaloosa County District schools and is considered a primary government for financial reporting. The Okaloosa County School District is considered part of the Florida system of public education. The governing body of the school district is the Okaloosa County District School Board, which is composed of five elected members. The elected Superintendent of Schools is the executive officer of the School Board. Geographic boundaries of the District correspond with those of Okaloosa County.

Criteria for determining if other entities are potential component units which should be reported within the District's basic financial statements are identified and described in the Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards, Sections 2100 and 2600*. The application of these criteria provides for identification of any entities for which the District School Board is financially accountable and other organizations for which the nature and significance of their relationships with the School Board are such that exclusion would cause the District's basic financial statements to be misleading or incomplete.

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

Blended Component Units. The Okaloosa School Board Leasing Corporation was formed to facilitate financing for the acquisition of facilities and equipment as further discussed in Note 9. Due to the substantive economic relationship between the Okaloosa County District School Board and the Leasing Corporation, the financial activities of the Leasing Corporation are included in the accompanying basic financial statements. Separate financial statements for the Leasing Corporation are not published.

Discretely Presented Component Units. The component units column in the basic financial statements include the aggregate financial data of the District's other component units as follows:

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 1001.453, Florida Statutes, to receive, hold, invest, and administer property and to make expenditures to or for the benefit of the District. Financial information related to these direct-support organizations is filed in the District's administrative offices. An audit of each of the Foundations for the fiscal year ended June 30, 2004, was conducted, and the audit reports are on file at the District's administrative office.

Charter schools are separate not-for-profit corporations organized pursuant to Chapter 617, Florida Statutes, the Florida Not For Profit Corporation Act. The District is the sponsor for each of the following charter schools and is responsible for monitoring and reviewing their progress toward meeting the goals established in the charters. The District entered into a charter with the following schools pursuant to Section 1002.33, Florida Statutes:

- The Okaloosa Academy, Inc., was established to provide an alternative educational system for "at risk" students. The Academy is a separate not-for-profit entity with a separate board of directors. An audit of the Charter School for the fiscal year ended June 30, 2004, was conducted and is on file at the District's administrative office.

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- The Liza Jackson Preparatory School, Inc., was established to provide a preparatory program of education for students. The School is a separate not-for-profit entity with a separate board of directors. An audit of the Charter School for the fiscal year ended June 30, 2004, was conducted and is on file at the District's administrative office.

Basis of Presentation

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

Government-wide financial statements are prepared using the economic resources measurement focus. The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are thereby clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function or business segment is self-financing or draws from the general revenues of the District.

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

Fund Financial Statements – Fund financial statements report detailed information about the District in the governmental and fiduciary funds. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is reported in a separate column. Nonmajor funds are aggregated and reported in a single column. Because the focus of governmental funds financial statements differ 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 District's pre-tax flexible benefits plan and the resources of the school internal funds, which are used to administer monies collected at the schools in connection with school, athletic, class and club activities.

OKALOOSA COUNTY DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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.

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 \$750. 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.

OKALOOSA COUNTY DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long-Term Liabilities

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

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

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

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

State Revenue Sources

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

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

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

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

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 2003 tax levy on September 8, 2003. Taxes become an enforceable lien on property as of January 1; tax bills are mailed in October; and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to 4 percent for early payment.

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

Property tax revenue is recognized when taxes are received by the District except that revenue is accrued for taxes collected by the Okaloosa County Tax Collector at fiscal year-end but not yet remitted to the District. 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.

Reclassifications

Certain reclassifications have been made to the 2003 amounts to conform to the 2004 presentation.

NOTE 2 – BUDGETARY COMPLIANCE AND ACCOUNTABILITY

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

- Budgets are prepared, public hearings are held, and original budgets are adopted annually for all governmental fund types in accordance with procedures and time intervals prescribed by law and State Board of Education rules.
- 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 has been adjusted for legally authorized revisions of the annual budgets during the year).

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 2 – BUDGETARY COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

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

NOTE 3 – INVESTMENTS

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.

Certain investments, such as investment pools managed by other governments, cannot be categorized because the District's investments are not evidenced by specific, identifiable investment securities.

Section 218.415(17), Florida Statutes, authorizes the District to invest in the Local Government Surplus Funds Trust Fund, any intergovernmental investment pool, money market funds registered with the Securities and Exchange Commission, interest-bearing time deposits or savings accounts, and direct obligations of the U. S. Treasury.

Investments at June 30, 2004, are shown below:

	Risk Category			Fair Value
	1	2	3	
Obligations of United States government agencies and instrumentalities (1)	\$ -	\$ 15,613,050	\$ -	\$ 15,613,050
Investment in State Board of Administration pool				50,446,604
Total investments, primary government				66,059,654
Discretely presented component units:				
Okaloosa Communications Foundation, Inc.				13,851
Okaloosa Public Schools Foundation, Inc.				12,163
Total investments, reporting entity				\$ 66,085,668

Notes: (1) These investments are held under trust agreement in connection with the Certificates of Participation, Series 2003, financing arrangement.

OKALOOSA COUNTY DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 4 – CHANGES IN CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2004 are shown below:

	Balance 7-1-03	Additions	Transfers	Deletions	Balance 6-30-04
Governmental Activities					
<i>Capital assets not being depreciated:</i>					
Land	\$ 6,249,572	\$ 58,982	\$ -	\$ -	\$ 6,308,554
Construction in progress	380,760	-	793,552	-	1,174,312
Total capital assets not being depreciated	6,630,332	58,982	793,552	-	7,482,866
<i>Capital assets being depreciated:</i>					
Improvements other than buildings	9,546,949	281,187	-	-	9,828,136
Buildings and fixed equipment	193,969,137	3,134,235	(793,552)	-	196,309,820
Furniture, fixtures and equipment	36,915,440	1,455,538	206,994	(15,513,459)	23,064,513
Motor vehicles	11,970,411	1,062,475	-	(9,025)	13,023,861
Property under capital leases	643,093	-	(374,959)	-	268,134
Computer software	3,346,920	230,097	167,965	(287,206)	3,457,776
Audio-visual materials	33,944	-	-	(3,750)	30,194
Total capital assets being depreciated	256,425,894	6,163,532	(793,552)	(15,813,440)	245,982,434
<i>Less accumulated depreciation for:</i>					
Improvements other than buildings	4,968,955	488,454	-	-	5,457,409
Buildings and fixed equipment	47,633,920	4,583,267	-	-	52,217,187
Furniture, fixtures and equipment	23,846,775	3,864,624	153,367	(11,292,446)	16,572,320
Motor vehicles	8,027,093	844,253	-	(9,025)	8,862,321
Property under capital leases	428,586	-	(321,332)	-	107,254
Computer software	2,296,744	431,213	167,965	(287,206)	2,608,716
Audio-visual materials	33,944	-	-	(3,750)	30,194
Total accumulated depreciation	87,236,017	10,211,811	-	(11,592,427)	85,855,401
Total capital assets being depreciated, net	169,189,877	(4,048,279)	(793,552)	(4,221,013)	160,127,033
Governmental activities - capital assets, net	\$ 175,820,209	\$ (3,989,297)	\$ -	\$ (4,221,013)	\$ 167,609,899

The classes of property under capital leases are presented in Note 8.

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 4 – CHANGES IN CAPITAL ASSETS (CONTINUED)

Depreciation/amortization expense was charged to functions as follows:

Function	Amount
Instruction	\$ 1,524,677
Pupil transportation services	627,163
Maintenance of plant	77,544
Unallocated	<u>7,982,427</u>
Total	<u>\$ 10,211,811</u>

NOTE 5 – RECEIVABLE FROM TITAN CORPORATION

The "Receivable from Titan Corporation" totals \$4,221,013 and represents the remaining uncollected balance of the proceeds on the sale of the District's computer hardware assets to Titan Corporation during the fiscal year ended June 30, 2004. The computer hardware assets were sold at net book value to Titan Corporation, and the District is leasing them back. The proceeds are being paid to the District in monthly installments of approximately \$78,167 as a reduction of the District's monthly lease payment over a period of five years through December 31, 2008.

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 – COMMITMENTS AND CONTINGENCIES

The District leases their computer hardware assets from Titan Corporation. The lease expires December 31, 2008, and contains an option to extend for one additional five year term. Total expense under this operating lease for the fiscal year ended June 30, 2004, was \$3,044,216.

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 7 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

The following table represents future minimum lease payments for the next five years:

Fiscal Year Ending June 30	Amount
2005	\$ 7,025,896
2006	7,133,358
2007	7,133,132
2008	6,346,577
2009	2,807,345
	<u>\$ 30,446,308</u>

NOTE 8 – OBLIGATIONS UNDER CAPITAL LEASES

The classes and amounts of property and the related accumulated amortization acquired under capital leases are as follows:

	Balance 6/30/04
Computer equipment	\$ 268,134
Accumulated amortization	<u>\$ 107,254</u>

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

Fiscal Year Ending June 30	Amount
2005	\$ 89,690
Total minimum lease payments	89,690
Less: amount representing interest	<u>(2,654)</u>
Present value of minimum lease payments	<u>\$ 87,036</u>

NOTE 9 – CERTIFICATES OF PARTICIPATION PAYABLE

The District entered into a financing arrangement on November 1, 2003, which was characterized as a lease-purchase agreement, with the Okaloosa School Board Leasing Corporation (the Corporation) whereby the District issued \$17,040,000 of Certificates of Participation, Series 2003, with interest rates ranging from 2.00 percent to 4.25 percent to finance various educational facilities and to accomplish the current refunding of \$3,850,000 in outstanding Certificates of Participation, Series 1992, with an interest rate of 6.25 percent.

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 9 – CERTIFICATES OF PARTICIPATION PAYABLE (CONTINUED)

As a condition of the financing arrangements, the District has given ground leases on District property to the Okaloosa School Board Leasing Corporation, with a rental fee of \$10 per year. The initial term of the lease for the Series 2003 Certificates commenced on November 1, 2003, and ends on the earlier of the date on which the 2003 Certificates have been paid in full or provision for their payment has been made, or July 1, 2029. The properties covered by the ground leases are, together with the improvements constructed thereon from the financing proceeds, leased back to the District. If the District fails to renew the leases and to provide for the rent payments through to term, the District may be required to surrender the sites included under the ground leases for the benefit of the securers of the Certificates for a period of time specified by the arrangements, which may be up through the last day of the ground lease terms.

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

Series 2003 (Amendment to the Series 1992) - 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.

Series 2003

- Baker School – Portions of Land, Improvements, and Additions
- Choctawhatchee High School – Portions of Land, Improvements, and Additions
- Crestview High School – Portions of Land, Improvements, and Additions
- Lewis Middle School – Portions of Land, Improvements, and Additions
- Niceville High School – Portions of Land, Improvements, and Additions
- Richbourg Middle School – Portions of Land, Improvements, and Additions

The lease payments are payable by the District, semiannually, on January 1 and July 1 at an interest rate ranging from 2.00 percent to 4.25 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
2005	\$ 1,503,630
2006	1,505,030
2007	1,501,030
2008	1,501,730
2009	1,503,090
2010-2014	7,511,915
2015-2019	<u>7,517,640</u>
Total minimum lease payments	22,544,065
Less, amount representing interest	<u>(5,504,065)</u>
Present value of minimum lease payments	<u>\$ 17,040,000</u>

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 10 – BONDS PAYABLE

Bonds payable at June 30, 2004, are as follows:

Bond Type	Interest Rates (Percent)	Annual Maturity To	Amount Outstanding
<i>State School Bonds:</i>			
Series 1996-A	4.60-6.00	2016	\$ 6,915,000
Series 1998-A	4.50-5.50	2018	1,390,000
Series 1999-A	4.00-4.75	2019	500,000
<i>District Revenue Bonds:</i>			
Series 1994-A	5.40-6.10	2015	<u>1,185,000</u>
Total bonds payable			<u><u>\$ 9,990,000</u></u>

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

State School Bonds

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

District Revenue Bonds

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

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 10 – BONDS PAYABLE (CONTINUED)

Amounts payable for the planned extended repayment of bonds payable at June 30, 2004 are as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2005	\$ 970,275	\$ 530,000	\$ 440,275
2006	969,650	560,000	409,650
2007	972,225	595,000	377,225
2008	972,300	625,000	347,300
2009	973,850	655,000	318,850
2010-2014	4,874,357	3,790,000	1,084,357
2015-2019	2,227,962	2,050,000	177,962
Total State School Bonds	\$ 11,960,619	\$ 8,805,000	\$ 3,155,619
District Revenue Bonds:			
2005	\$ 150,044	\$ 80,000	\$ 70,044
2006	150,644	85,000	65,644
2007	150,884	90,000	60,884
2008	150,754	95,000	55,754
2009	150,244	100,000	50,244
2010-2014	750,343	595,000	155,343
2015-2019	148,538	140,000	8,538
Total District Revenue Bonds	1,651,451	1,185,000	466,451
Total	\$ 13,612,070	\$ 9,990,000	\$ 3,622,070

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 11 – CHANGES IN LONG-TERM LIABILITIES

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

Description	Balance 7-1-03	Additions	Deductions	Balance 6-30-04	Due in One Year
Bonds payable	\$ 10,570,000	\$ -	\$ (580,000)	\$ 9,990,000	\$ 610,000
Certificates of participation payable	3,850,000	17,040,000	(3,850,000)	17,040,000	930,000
Obligations under capital leases	309,370	-	(222,334)	87,036	87,036
Estimated insurance claims payable	2,857,000	2,523,145	(2,011,145)	3,369,000	2,100,000
Compensated absences payable	22,841,934	497,445	-	23,339,379	1,884,902
Total	\$ 40,428,304	\$ 20,060,590	\$ (6,663,479)	\$ 53,825,415	\$ 5,611,938

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 12 – 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 2004-2005 fiscal year budget as a result of purchase orders outstanding at June 30, 2004.

Because revenues of grants accounted for in the Special Revenue – Other Federal Programs Fund are not recognized until expenditures are incurred, these grant funds generally do not accumulate fund balances. Accordingly, no reserve for encumbrances is reported for grant funds. However, purchase orders outstanding for grants accounted for in the Special Revenue – Other Federal Programs Fund totaled \$460,804 at June 30, 2004.

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 13 – 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	\$ 611,390	\$ -
Special revenue - other federal programs	-	372,844
Capital projects - other capital projects	-	238,546
TOTAL	\$ 611,390	\$ 611,390

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

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

Funds	Interfund	
	Transfers In	Transfers Out
Major funds:		
General	\$ 5,749,036	\$ -
Capital improvement tax (1) (2)	-	7,708,083
Other capital projects (3) (4)	29,720	31,325
Nonmajor governmental funds (4) (5)	1,990,372	29,720
TOTAL	\$ 7,769,128	\$ 7,769,128

NOTES:

- (1) Transfers made from the Capital Improvement Tax Fund to the General Fund were for maintenance and repair of school facilities and for lease of computers for instructional purposes.
- (2) Transfers made from the Capital Improvement Tax Fund to Debt Service Funds were made to fund the current payment on Certificates of Participation.
- (3) Transfers made to Other Capital Projects from Debt Service Funds were made to transfer the residual funds from the refunding of the 1992 Certificates of Participation.
- (4) Transfers made to Debt Service Funds from Capital Improvement Tax Fund were made to fund the current payment on Certificates of Participation.
- (5) Transfers made from Debt Service Funds to Other Capital Projects were made to transfer the residual funds from the refunding of the 1992 Certificates of Participation.

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 14 – SCHEDULE OF STATE REVENUE SOURCES

The following is a schedule of the District's State revenue for the 2003-2004 fiscal year:

Sources	Amount
Florida education finance program	\$ 81,991,143
Categorical educational programs:	
Class size reduction	5,109,411
Discretionary lottery funds	1,424,919
Other	12,846,013
Gross receipts tax (Public Education Capital Outlay)	2,488,792
Discretionary lottery funds	2,762,334
Workforce development funds	2,414,532
Motor vehicles license tax (capital outlay and debt service)	1,098,047
Charter school capital outlay	555,348
Racing commission funds	190,750
Food service supplement	113,838
State forest funds	46,312
Mobile home license tax	60,313
Miscellaneous	612,790
Total	<u>\$ 111,714,542</u>

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

NOTE 15 – PROPERTY TAXES

The following is a summary of millages and taxes levied on the 2003 tax roll for the 2003-2004 fiscal year:

	Millages	Taxes Levied
General Fund		
Nonvoted School Tax:		
Required local effort	5.915	\$ 57,171,296
Basic discretionary local effort	0.510	4,929,931
Supplemental discretionary local effort	0.168	1,623,382
Capital Projects Funds		
Nonvoted Tax:		
Local capital improvements	1.701	16,440,770
Total	8.294	\$ 80,165,379

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 16 – STATE RETIREMENT PROGRAM

Defined Benefit Plan

All regular employees of the District are covered by the Florida Retirement System (FRS), a State-administered cost-sharing, multiple-employer, defined benefit retirement plan (Plan). Plan provisions are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code, wherein Plan eligibility, contributions, and benefits are defined and described in detail. Essentially all regular employees of participating employers are eligible and must enroll as members of FRS. Benefits in the defined benefit plan vest at six years of service. The defined benefit plan also includes an early retirement provision but imposes a penalty for each year a member retires before the specified retirement age. The defined benefit 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), subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with a Florida Retirement System employer. An employee may participate in the DROP for a period not to exceed 60 months after electing to participate. During the period of DROP participation, deferred monthly benefits are held in the Florida Retirement System Trust Fund and accrue interest.

Funding Policy

The contribution rates for Plan members are established, and may be amended, by the State of Florida. During the 2003-2004 fiscal year, contribution rates were as follows:

Class or Plan	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	-	7.39
Florida Retirement System, Elected County Officers	-	15.23
Teachers Retirement System, Plan E	6.25	11.35
Deferred Retirement Option Program - Applicable to Members From All of the Above Classes or Plans	-	9.11
Florida Retirement System, Reemployed Retiree	(B)	(B)

(A) Employer rates include 1.11 percent for the post-employment health insurance supplement and 0.10 percent for administrative costs of the Public Employee Optional Retirement Program.

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

The District's liability for participation in the Plan is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the District.

The District's contributions to the Plan (including employee contributions) for the fiscal years ended June 30, 2004, June 30, 2003, and June 30, 2002, totaled \$9,062,865, \$6,817,326, and \$8,505,602, respectively, which were equal to the required contributions for each fiscal year.

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 16 – STATE RETIREMENT PROGRAM (CONTINUED)

Defined Contribution Plan

Effective July 1, 2002, the Public Employee Optional Retirement Program (PEORP) was implemented as a defined contribution plan alternative available to all FRS members in lieu of the defined benefit plan. Employee contributions are defined by law, but ultimate benefit depends in part on the performance of investment funds. The PEORP is funded by employer contributions that are based on salary and membership class (Regular Class, Special Risk Class, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Required employer contributions made to the program for the fiscal year ended June 30, 2004, totaled \$289,569.

Pension Reporting

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

NOTE 17 – SPECIAL TERMINATION BENEFITS

District School Board policy provides for the payment of retirement incentive bonuses to employees who are eligible to retire under an existing State retirement system and have 10 years of creditable service earned in the District, if they retire no later than June 30 of their first year of normal retirement eligibility. The total paid by the District pursuant to this retirement incentive during the 2003-2004 fiscal year was \$256,999.

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
JUNE 30, 2004

NOTE 18 – 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
Antioch Elementary School - site drainage project	\$ 55,664	\$ 6,758	\$ 48,906
Baker School ESE - addition project	1,578,777	190,096	1,388,681
Choctawhatchee High School - CHOICE project	1,950,599	585,803	1,364,796
Choctawhatchee High School - cooling tower project	426,818	342,349	84,469
Choctawhatchee High School - roofing project	459,748	217,607	242,141
Crestview High School - CHOICE project	1,036,472	215,184	821,288
Crestview High School - new driveway project	128,952	48,475	80,477
Davidson Middle School - new driveway project	128,951	48,475	80,476
Destin Elementary School - classroom addition project	2,310,399	291,923	2,018,476
Florosa Elementary School - HVAC project	746,682	168,567	578,115
Lewis Middle School - ESE/band room projects	2,167,494	252,174	1,915,320
Niceville High School - CHOICE project	1,577,539	349,846	1,227,693
Niceville High School - roofing project	302,661	133,764	168,897
Niceville High School - site drainage project	88,439	7,935	80,504
Northwood Elementary School - classroom addition project	709,685	167,181	542,504
Northwood Elementary School - drop-off parking area project	222,316	23,684	198,632
Okaloosa Applied Technology Center - CHOICE project	1,399,580	339,973	1,059,607
Pryor Middle School - hallway renovation project	563,277	157,224	406,053
Richbourg Middle School - ESE classrooms project	427,967	105,741	322,226
Ruckel Middle School - restroom renovation project	107,110	40,737	66,373
Silver Sands School - ESE addition project	1,933,243	242,035	1,691,208
	<u>\$ 18,322,373</u>	<u>\$ 3,935,531</u>	<u>\$ 14,386,842</u>

NOTE 19 – 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.

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, 1001.41, 1001.42, and Chapter 163, Florida Statutes. Section 1001.42, Florida Statutes, provides the authority for the District to enter into such a risk management program.

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 19 – RISK MANAGEMENT PROGRAMS (CONTINUED)

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 \$3,369,000, assuming an investment rate of return of 4% per annum, is reported as estimated insurance claims payable in long-term liabilities. As of June 30, 2004, \$3,369,000 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
2002 - 2003	\$ 2,700,000	\$ 2,123,168	\$ (1,966,168)	\$ 2,857,000
2003 - 2004	\$ 2,857,000	\$ 2,523,145	\$ (2,011,145)	\$ 3,369,000

NOTE 20 – LITIGATION

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

REQUIRED SUPPLEMENTARY INFORMATION (Other Than MD&A)

OKALOOSA COUNTY DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/(Negative)
	Original	Final		
REVENUES				
Intergovernmental:				
Federal direct	\$ 4,007,951	\$ 8,608,759	\$ 8,608,759	\$ -
Federal through state	150,000	492,150	492,150	-
State sources	106,009,453	104,888,455	104,888,455	-
Local sources	63,513,119	66,006,199	66,288,428	282,229
Total revenues	173,680,523	179,995,563	180,277,792	282,229
EXPENDITURES				
Current - education:				
Instruction	114,590,668	121,776,317	116,513,520	5,262,797
Pupil personnel services	6,417,074	6,720,128	6,339,197	380,931
Instructional media services	2,605,556	2,859,370	2,741,343	118,027
Instructional and curriculum development	2,782,801	3,511,082	2,931,328	579,754
Instructional staff training	886,876	1,089,738	545,155	544,583
Board	3,194,992	3,662,089	3,128,176	533,913
General administration	321,908	330,299	327,326	2,973
School administration	12,846,344	13,014,477	12,628,028	386,449
Facilities acquisition and construction	276,366	246,957	225,877	21,080
Fiscal services	1,213,528	1,225,833	1,196,829	29,004
Food services	-	49,533	49,514	19
Central services	6,057,253	6,996,911	5,472,317	1,524,594
Pupil transportation services	7,390,501	7,889,856	7,670,203	219,653
Operation of plant	12,358,856	12,415,473	12,009,589	405,884
Maintenance of plant	5,912,546	5,876,611	4,824,336	1,052,275
Community services	1,741,427	1,892,617	1,120,307	772,310
Fixed capital outlay:				
Facilities acquisition and construction	121,013	229,716	179,833	49,883
Other capital outlay	703,834	1,401,912	888,749	513,163
Debt service:				
Retirement of principal	-	79,701	79,701	-
Interest and fiscal charges	-	15,299	15,299	-
Total expenditures	179,421,543	191,283,919	178,886,627	12,397,292
Excess (deficiency) of revenues over expenditures	(5,741,020)	(11,288,356)	1,391,165	12,679,521
Other financing sources				
Proceeds from sale of capital assets	-	461,868	461,868	-
Loss recoveries	-	13,541	13,541	-
Transfers in	3,336,645	5,749,036	5,749,036	-
Total other financing sources	3,336,645	6,224,445	6,224,445	-
Net change in fund balance	(2,404,375)	(5,063,911)	7,615,610	12,679,521
Fund balance, July 1, 2003	27,663,631	27,663,631	27,663,631	-
Fund balance, June 30, 2004	\$ 25,259,256	\$ 22,599,720	\$ 35,279,241	\$ 12,679,521

OKALOOSA COUNTY DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE
MAJOR SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/(Negative)
	Original	Final		
REVENUES				
Intergovernmental:				
Federal direct	\$ -	\$ 338,202	\$ 337,805	\$ (397)
Federal through state	13,964,667	15,055,251	11,302,429	(3,752,822)
State sources	-	244,335	188,611	(55,724)
Local sources	-	-	-	-
Total revenues	<u>13,964,667</u>	<u>15,637,788</u>	<u>11,828,845</u>	<u>(3,808,943)</u>
EXPENDITURES				
Current - education:				
Instruction	6,900,351	8,055,532	6,431,533	1,623,999
Pupil personnel services	999,353	1,032,591	786,751	245,840
Instructional media services	27,798	206,499	177,569	28,930
Instructional and curriculum development	4,705,047	4,483,058	3,343,834	1,139,224
Instructional staff training	473,242	343,656	73,482	270,174
Board	-	-	-	-
General administration	369,019	749,146	675,278	73,868
School administration	453	15,351	8,119	7,232
Facilities acquisition and construction	-	-	-	-
Fiscal services	-	-	-	-
Food services	-	-	-	-
Central services	41,626	186,266	117,986	68,280
Pupil transportation services	22,997	63,395	20,989	42,406
Operation of plant	161,275	4,206	38	4,168
Maintenance of plant	-	-	-	-
Community services	1,507	-	-	-
Fixed capital outlay:				
Facilities acquisition and construction	-	-	-	-
Other capital outlay	261,999	498,088	193,266	304,822
Debt service:				
Retirement of principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	<u>13,964,667</u>	<u>15,637,788</u>	<u>11,828,845</u>	<u>3,808,943</u>
Excess of revenues over expenditures	-	-	-	-
Other financing sources (uses)				
Loss recoveries	-	-	-	-
Transfers in	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balance	-	-	-	-
Fund balance, July 1, 2003	-	-	-	-
Fund balance, June 30, 2004	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

SINGLE AUDIT SECTION

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004**

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass- Through Grantor Number	Amount of Expenditures (Note 1)	Amount Provided to Subrecipients
United States Department of Agriculture				
Indirect:				
Florida Department of Agriculture and Consumer Services:				
Food Distribution (Note 2)	10.550	None	\$ 663,915	\$ -
Florida Department of Education:				
Child Nutrition Cluster:				
School Breakfast Program	10.553	321	675,124	-
National School Lunch Program	10.555	300	2,798,797	-
Summer Food Service Program	10.559	323	192,008	-
Total Child Nutrition Cluster			<u>3,665,929</u>	-
Florida Department of Financial Services:				
Schools and Roads - Grants to States	10.665	None	356	-
Total United States Department of Agriculture			<u>4,330,200</u>	-
United States Department of Education				
Direct:				
Impact Aid	84.041	N/A	7,452,615	132,561
Federal Pell Grant Program	84.063	N/A	289,162	-
Improvement of Education Smaller Learning Communities	84.215	N/A	49,603	-
Total Direct			<u>7,791,380</u>	<u>132,561</u>
Indirect:				
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027	262, 263	5,072,217	-
Special Education - Preschool Grants	84.173	267	91,072	-
Santa Rosa County District School Board:				
Special Education - Grants to States	84.027	None	1,115	-
University of West Florida:				
Special Education - Grants to States	84.027	None	5,000	-
Total Special Education Cluster			<u>5,169,404</u>	-
Florida Department of Education:				
Title I Grants to Local Educational Agencies	84.010	212, 223	3,510,742	-
Vocational Education - Basic Grants to States	84.048	151	255,864	-
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	125,385	-
Even Start Family Literacy	84.231	219	71,807	-
Innovative Education Program Strategies	84.298	113	175,621	-

(continued)

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2004**

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass- Through Grantor Number	Amount of Expenditures (Note 1)	Amount Provided to Subrecipients
United States Department of Education (continued)				
Indirect (continued):				
Florida Department of Education (continued):				
Educational Technology State Grants	84.318	121, 122	350,963	-
Comprehensive School Reform Demonstration	84.332A	128	145,734	-
Voluntary Public School Choice	84.361	299	42,460	-
English Language Acquisition Grants	84.365A	102	47,870	-
Improving Teacher Quality State Grants	84.367	224	1,314,063	-
Total Indirect			11,209,913	-
Total United States Department of Education			19,001,293	132,561
Corporation for National and Community Service				
Indirect:				
Florida Department of Education:				
Learn and Serve America - School and Community Based Programs	94.004	234	11,419	-
United States Department of Defense				
Direct:				
Public Law 102-484	None	N/A	835,794	-
Air Force Junior Reserve Officers Training Corps	None	N/A	205,780	-
Army Junior Reserve Officers Training Corps	None	N/A	113,611	-
Total United States Department of Defense			1,155,185	-
Total Expenditures of Federal Awards			\$ 24,498,097	\$ 132,561

Notes:

- 1) Basis of Presentation. The Schedule of Expenditures of Federal Awards represents amounts expended from Federal Programs during the 2003-2004 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) Noncash Assistance:
Food Distribution - Represents the amount of donated food used during the 2003-2004 fiscal year. Commodities are valued at fair value as determined at the time of donation.

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004**

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, 2004:

- 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 Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
- No instances of noncompliance material to the basic financial statements of the Okaloosa County District School Board which would be required to be reported in accordance with *Government Auditing Standards* were disclosed during the audit.
- No reportable conditions relating to the audit of the major federal award programs are reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with *OMB Circular A-133*.
- The auditor's report on compliance for the major federal award programs for the Okaloosa County District School Board is unqualified.
- There were no audit findings relative to the major federal award programs for Okaloosa County District School Board.
- The programs tested as major programs included: Child Nutrition Cluster [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); Improving Teacher Quality State Grants (CFDA 84.367); and Public Law 102-484.
- The threshold for distinguishing between Types A and B programs was \$734,943.
- The Okaloosa County District School Board was determined to be a low-risk auditee, as defined in *OMB Circular A-133*.

FINDINGS RELATED TO THE FINANCIAL STATEMENTS THAT ARE REQUIRED TO BE REPORTED UNDER GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS (GAGAS)

- The results of our audit of the Okaloosa County District School Board did not disclose any findings required to be reported in accordance with GAGAS.

FINDINGS AND QUESTIONED COSTS FOR MAJOR FEDERAL PROGRAMS

- The results of our audit of the Okaloosa County District School Board did not disclose any findings or questioned costs required to be reported under the provision of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. No corrective action plan is required because there were no findings required to be reported under the Federal Single Audit Act.

**OKALOOSA COUNTY DISTRICT SCHOOL BOARD
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2004**

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 03-1	School Breakfast Program (CFDA 10.553); National Lunch Program (CFDA 10.555) / Special Tests and Provisions	District did not document corrective action plans or follow- up reviews for schools found to have counting and claiming deficiencies.	Corrective action taken.	Program Director of Food Services will review workpapers. Senior management team instructed on documentation.
State of Florida Auditor General 03-2	Federal Pell Grant Program (CFDA 84.063) / Award Calculation	District overpaid vocational students who had unexcused absences.	Corrective action taken.	The District reviewed procedures and agreed to take all measures to prevent payment for unexcused absences in the future. The payment schedule will be altered from four payments to three payments during the 2004-2005 school year.
Carr, Riggs & Ingram, LLC 02-1	Class Size Reduction (CFDA 84.340) / Allowable Costs/ Cost Principles	Indirect costs charged to the grant exceeded the maximum of 3 percent administrative costs allowed under the terms of the grant.	Corrected.	The oversight agency corrected the indirect costs charged to the grant prior to disbursing final payment.

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

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

We have audited the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Okaloosa County District School Board (District) as of and for the fiscal year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 10, 2004. 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.

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 opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control 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 misstatements caused by error or fraud in amounts that would be material in relation to the 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Carly Riggs & Ingram, L.L.C.

Destin, Florida
November 10, 2004

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**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND 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 *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the fiscal year ended June 30, 2004. The District's major Federal programs are identified in the summary of auditor's results of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of District management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2004.

Internal Control over Compliance

District management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with 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 the internal control over compliance in accordance with OMB Circular A-133.

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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 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 noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error of fraud 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 is not intended to be and should not be used by anyone other than these specified parties.

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

Destin, Florida
November 10, 2004



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MANAGEMENT LETTER

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

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Okaloosa County District School Board (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 10, 2004.

We conducted our audit in accordance with United States generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We have issued our Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. Disclosures in this report, which are dated November 10, 2004, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.800, Rules of the Auditor General. Those rules (Section 10.804(1)(d)) require that we address in the management letter, if not already addressed in the auditor's report on internal controls and compliance, whether or not 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. Any inaccuracies, shortages, defalcations, fraud, and/or violations of laws, rules, regulations, and contractual provisions disclosed in the preceding annual financial audit report have been corrected.

The Rules of the Auditor General (Section 10.804(1)(d)1.) require that we address in the management letter, if not already addressed in the auditor's report on internal controls and compliance, whether or not recommendations made in the preceding annual financial audit report have been followed. Any recommendations made in the preceding annual financial audit report have been followed.

As required by the Rules of the Auditor General (Section 10.804(1)(d)4.), the scope of our audit included a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the District complied with Section 218.415, Florida Statutes.

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The Rules of the Auditor General (Section 10.804(1)(d)5.), require disclosure in the management letter of the following matters if not already addressed in the Auditor's report on compliance and internal controls: (1) violations of laws, rules, regulations, and contractual provisions or abuse that have occurred, or are likely to have occurred; (2) improper or illegal expenditures; (3) improper or inadequate accounting procedures (e. g., the omission of required disclosures from the financial statements); (4) failures to properly record financial transactions; and (5) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. Our audit disclosed none of the preceding matters.

As required by the Rules of the Auditor General (Section 10.804(1)(d)2.), the scope of our audit included a review of the provisions of Section 218.503(1), Florida Statutes, regarding financial emergencies. In connection with our audit, we determined that the District is not in a state of financial emergency as a consequence of the conditions described by Section 218.503(1), Florida Statutes.

As required by the Rules of the Auditor General (Section 10.554(1)(g)6.b.), we determined that the annual financial report for the District for the fiscal year ended June 30, 2004, filed with the Florida Department of Financial Services pursuant to Section 218.32, Florida Statutes, is in agreement with the annual financial audit report for the same.

As required by the Rules of the Auditor General (Section 10.554(1)(g)6c. and 10.556), we applied financial condition assessment procedures. It is management's responsibility to monitor the District's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same. Our audit disclosed no deteriorating conditions.

Current Year Recommendations

There are no current year recommendations.

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

Carly Riggs & Ingram, L.L.C.

Destin, Florida
November 10, 2004