

Okaloosa County District  
School Board

Financial Statements and  
Supplementary Information

June 30, 2005

	<u>PAGE</u>
<b>INDEPENDENT AUDITOR'S REPORT</b>	1 - 2
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b> (required supplementary information)	3 - 11
<b>GOVERNMENT-WIDE FINANCIAL STATEMENTS</b>	
Statement of Net Assets	12
Statement of Activities	13 - 14
<b>FUND FINANCIAL STATEMENTS</b>	
Governmental Fund Financial Statements	
Balance Sheet	15 - 16
Reconciliation of the Balance Sheet to the Statement of Net Assets	17
Statement of Revenues, Expenditures and Changes in Fund Balances	18 - 19
Reconciliation of the Statement of Revenues, Expenditures And Changes in Fund Balances of Governmental Funds to the Statement of Activities	20
Fiduciary Fund Financial Statements	
Statement of Fiduciary Net Assets	21
Component Unit Financial Statements	
Statement of Net Assets	22
Statement of Activities	23
<b>NOTES TO FINANCIAL STATEMENTS</b>	24 - 46
<b>REQUIRED SUPPLEMENTARY INFORMATION</b> (other than MD&A)	
Budgetary Comparison Schedules	
General Fund	47
Special Revenue – Other Fund	48

Okaloosa County District School Board  
Table of Contents  
June 30, 2005

---

	<u>Page</u>
<b>SINGLE AUDIT SECTION</b>	
Schedule of Expenditures of Federal Awards	49 - 50
Schedule of Findings and Questioned Costs	51 - 52
Summary Schedule of Prior Audit Findings	53
Report on Internal Control Over Financial Reporting and on Compliance And Other Matters Based on and Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	54 - 55
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with <i>OMB Circular A-133</i>	56 - 57
<b>MANAGEMENT LETTER</b>	58 - 59



CARR, RIGGS & INGRAM, LLC

4460 Legendary Drive  
Suite 100  
Destin, FL 32541

P | 850 837 3141

F | 850 654 4619  
www.cricpa.com

## 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, 2005, 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. 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, 2005, 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

AICPA Alliance for CPA Firms

Center for Public  
Company Audit Firms

In accordance with *Government Auditing Standards*, we have also issued a report dated November 7, 2005 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 12 and 48 through 49, 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.

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

Destin, Florida  
November 7, 2005

## 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, 2005. 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 2004-2005 fiscal year are as follows:

- The District's total net assets increased by \$937,107, or 0.50 percent.
- General revenues totaled \$221,720,967, or 91 percent of all revenues in fiscal year 2004-2005, as compared to \$200,286,702, or 89 percent for fiscal year 2003-2004. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions totaled \$22,924,694, or 9 percent as compared to \$23,857,172, or 11 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 \$5,555,048, at June 30, 2005, or 3 percent of General Fund expenditures as compared to \$4,634,776, or 3 percent at June 30, 2004.
- The District's total long-term liabilities decreased by \$3,167,293, or approximately 6 percent, as compared to an increase of \$13,397,111, or approximately 33 percent in the prior year. Within long-term liabilities, the long-term liability for compensated absences decreased \$2,172,257, or 9 percent as compared to an increase of \$497,445, or 2 percent in fiscal year 2003-2004; the long-term liability for estimated insurance claims increased \$617,000, or 18 percent; and the long-term liability for debt decreased \$1,612,036, or 6 percent as compared to an increase of \$12,387,666, or 84 percent in fiscal year 2003-2004.
- During the current year, General Fund expenditures exceeded revenues by \$5,117,550. This may be compared to last year's results in which General Fund revenues exceeded expenditures by \$1,391,165.

### **NON-FINANCIAL HIGHLIGHTS**

Key non-financial highlights for the 2004-2005 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 2004-2005 school year.
- The District's student enrollment increased by 186.95 students or less than 1 percent as compared to the preceding year in which the District's enrollment increased 57 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 three separate legal entities in this report including the Okaloosa Academy, Inc. - Charter School; the Liza Jackson Preparatory School – Charter School; and the Okaloosa Public School Foundation, Inc. Although legally separate organizations, the component units are included in this report because they meet the criteria for inclusion provided by generally accepted accounting principles.

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

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

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

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

## **Notes to Financial Statements**

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The following is a summary of the District's net assets as of June 30, 2005, as compared to June 30, 2004:

### Net Assets, End of Year

	<b>Governmental Activities</b>		
	6/30/2004	6/30/2005	Increase (Decrease)
Current Assets	\$ 76,717,332	\$ 73,141,887	\$ (3,575,445)
Other Assets	167,609,899	168,683,095	1,073,196
Total Assets	244,327,231	241,824,982	(2,502,249)
Long-term Liabilities	53,825,415	50,658,122	(3,167,293)
Other Liabilities	3,812,230	3,540,167	(272,063)
Total Liabilities	57,637,645	54,198,289	(3,439,356)
Invested in Capital Assets - Net of Debt	140,492,863	143,178,095	2,685,232
Restricted	40,389,137	32,310,145	(8,078,992)
Unrestricted	5,807,586	12,138,453	6,330,867
Total Net Assets	\$ 186,689,586	\$ 187,626,693	\$ 937,107

The largest portion of the District's net assets (76% in fiscal year 2004-2005 and 75% in fiscal year 2003-2004) 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 increased \$2,685,232 or 2%. The increase in investment in capital assets net of debt is primarily related to the decrease in long-term debt. 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 asset increased \$6,330,867, in fiscal year 2004-2005.

Operating results for the ended June 30, 2005, as compared to June 30, 2004, are as follows:

### Operating Results for the Year

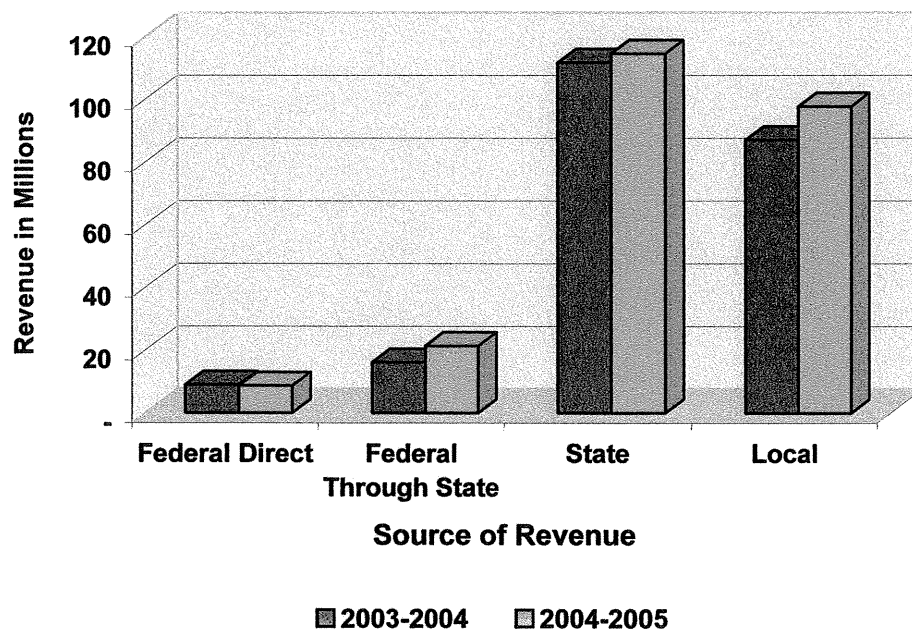
	<b>Governmental Activities</b>		
	6/30/2004	6/30/2005	Increase (Decrease)
<b>Program Revenues:</b>			
Charges for Services	\$ 6,904,567	\$ 7,381,146	\$ 476,579
Operating Grants and Contributions	9,857,334	10,911,087	1,053,753
Capital Grants and Contributions	7,095,271	4,632,461	(2,462,810)
<b>General Revenues:</b>			
Property Tax Levied for Operational Purposes	61,462,682	66,373,756	4,911,074
Property Tax Levied for Capital Projects	15,729,320	20,234,292	4,504,972
Local Sales Taxes	-	-	-
Grants and Contributions not Restricted to Specific Purposes	119,832,924	129,035,165	9,202,241
Investment Earnings	687,851	1,729,333	1,041,482
Miscellaneous	2,573,925	4,348,421	1,774,496
<b>Total Revenues</b>	<b>224,143,874</b>	<b>244,645,661</b>	<b>20,501,787</b>
<b>Functions/Program Expenses:</b>			
Instruction	123,787,937	135,892,140	12,104,203
Instructional Support Services	7,148,582	7,022,196	(126,386)
Instructional Media Services	2,927,070	2,947,011	19,941
Instruction and Curriculum Development Services	6,290,385	6,946,130	655,745
Instructional Staff Training	619,085	860,754	241,669
Board of Education	3,129,022	2,853,275	(275,747)
General Administration	1,003,450	854,986	(148,464)
School Administration	12,674,699	13,291,030	616,331
Facilities Acquisition and Construction	8,318,377	16,565,982	8,247,605
Fiscal Services	1,200,560	1,288,763	88,203
Food Services	9,246,774	10,346,264	1,099,490
Central Services	6,112,700	5,718,317	(394,383)
Pupil Transportation Services	8,338,551	9,141,639	803,088
Operation of Plant	12,025,694	12,078,124	52,430
Maintenance of Plant	4,912,078	6,038,061	1,125,983
Community Services	1,122,446	1,171,835	49,389
Interest on Long-term Debt	1,441,542	1,093,902	(347,640)
Unallocated Depreciation Expense	7,982,427	9,598,145	1,615,718
<b>Total Functions/Program Expenses</b>	<b>218,281,379</b>	<b>243,708,554</b>	<b>25,427,175</b>
<b>Increase in Net Assets</b>	<b>\$ 5,862,495</b>	<b>\$ 937,107</b>	<b>\$ (4,925,388)</b>

Instructional expenses represent 56 percent of total governmental expenses in the 2004-2005 fiscal year as compared to 57 percent in fiscal year 2003-2004. Instructional expenses increased by approximately \$12,104,203, or 10 percent versus an increase of \$10,215,297, or 9 percent, in fiscal year 2003-2004. 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 Class Size Reduction.

Facilities Acquisition and Construction expenses increased \$8,247,605, or 99 percent as a result of the renovations, repairs, and maintenance of facilities.

The largest revenue source is the State of Florida (48 percent). These revenues increased approximately by \$2,837,936, or 3 percent primarily due to Class Size Reduction 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 school 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 \$5,555,048, while the total fund balance was \$41,429,050. For fiscal year 2003-2004, unreserved fund balance \$4,634,776, while the total fund balance was \$35,279,241. The unreserved fund balance increased by \$920,272, in fiscal year 2004-2005 while the total fund balance increased by \$6,149,809, as compared to an increase in fiscal year 2003-2004 in unreserved fund balance of \$694,307, and an increase in total fund balance of \$7,615,610.

Key factors in this growth are as follows:

- State revenues increased approximately \$5,050,009, in the current fiscal year primarily due to an increase in student enrollment and additional state funding for Class Size Reduction. In fiscal year 2003-2004, state revenues increased by approximately \$5,701,856, primarily due to state funding for Class Size Reduction.
- Local revenues increased approximately \$5,807,247, in the current year as compared to an increase of \$4,235,761, in fiscal year 2003-2004. The increase is primarily due to the increase in local property values.

The Capital Projects – Public Education Capital Outlay Fund has a total fund balance of \$3,241,146, all of which is restricted for the construction, repairs and maintenance of facilities. This is a decrease of \$1,486,694, as compared to total fund balance for fiscal year 2003-2004 of \$4,727,840. The fund balance decreased in the current year due to capital projects being completed during the fiscal year.

The Capital Projects – Capital Improvement Tax Construction Tax Fund has a total fund balance of \$7,615,550, all of which is restricted for the acquisition, construction, and maintenance of capital assets. This is a decrease of \$3,525,226, as compared to total fund balance for fiscal year 2003-2004 of \$11,140,776. The fund balance decreased in the current year due to capital projects being completed during the fiscal year.

The Capital Projects – Other Fund has a total fund balance of \$12,360,101, 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 Funds – Other Federal Programs revenues and expenditures increased by approximately \$1,870,478, as compared to an increase of \$1,698,721, in fiscal year 2003-2004. The increase in revenues and expenditures in fiscal year 2004-2005 is primarily due to an increase in Individuals with Disabilities Education Act and Title II funding while in fiscal year 2003-2004 the increase was due to an increase in Individuals with Disabilities Education Act and Eisenhower Math and Science (Title II) 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 2004-2005 fiscal year, the District amended its General Fund budget several times, which resulted in an increase in total appropriations, excluding reserves, amounting to \$10,669,838, or 5 percent. At the same time, final budgeted revenues, excluding beginning fund balance, were more than the original budgeted amounts by \$5,642,915, or 3 percent. This resulted in a final budgeted ending fund balance of \$3,940,519, or 12 percent less than the ending fund balance included in the original budget. The decrease in budgeted ending fund balance is primarily a result of the appropriation of project reserves for Lottery-School Recognition and Supplemental Academic Instruction during the fiscal year.

Actual revenues were \$565,157, or less than 1 percent more than the final budgeted amounts, whereas actual expenditures were \$12,691,714, 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 \$13,256,871.

## 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, 2005, amount to \$168,683,095 (net of accumulated depreciation), as compared to \$167,609,899, in fiscal year 2003-2004. The increase is primarily due to an increase in the capital assets completed and purchased during the fiscal year. The investment in capital assets includes land, improvements other than buildings, buildings and fixed equipment, furniture, fixtures and equipment, motor vehicles, property under capital lease, construction in progress, and computer software.

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

- Construction in progress at June 30, 2005, includes Antioch Elementary School – classroom addition, Cook Chill Facility – roof replacement, Crestview High School – roof replacement, Florosa Elementary School – roof replacement, and Fort Walton Beach – Athletic Complex Design Services.
- Major capital projects were as follows:
  - ◆ Baker School – ESE Suites Addition
  - ◆ Lewis Middle School - Band Classrooms and ESE Suites Addition
  - ◆ Richbourg Middle School - ESE Suites Addition
  - ◆ Crestview High School – CHOICE Addition
  - ◆ Choctawhatchee High School – CHOICE Addition
  - ◆ Niceville High School – CHOICE Addition
  - ◆ Okaloosa Applied Technology Center – CHOICE Addition
  - ◆ Silver Sands School – ESE Suites Addition
  - ◆ Northwood Elementary School – Classroom Addition
  - ◆ Destin Elementary - Classroom Addition
  - ◆ Numerous roofing projects

Additional information on the District's capital assets can be found in notes 1, 4 and 17 to the financial statements.

Debt Administration

At June 30, 2005 the District had total long-term debt outstanding of \$25,505,000, as compared to \$27,117,036, in fiscal year 2003-2004. At June 30, 2005, long-term debt was comprised of \$9,395,000, of bonds, and \$16,110,000, of certificates of participation. During the fiscal year, issuance of debt amounted to \$20,000, through State Board of Education bonds and retirement of debt amounted to \$1,632,036.

Additional information on the District's long-term debt can be found in notes 8-10 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 850-833-7652.

# Basic Financial Statements



## Okaloosa County District School Board

## Statement of Net Assets

June 30,

2005

	<b>Primary Government Governmental Activities</b>	<b>Component Units</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 311,653	\$ 522,260
Investments	62,029,642	193,143
Receivable from Titan Corporation	3,249,035	-
Accounts receivable	2,552	5,075
Deposits receivable	-	45,000
Due from other agencies	7,123,958	147,440
Inventories	425,047	-
Prepaid items	-	53,907
Capital assets, net	168,683,095	1,349,005
<b>Total Assets</b>	<b>\$ 241,824,982</b>	<b>\$ 2,315,830</b>
<b>Liabilities and Net assets</b>		
Salaries and wages payable	\$ 453,906	\$ -
Payroll deductions and withholdings	13,433	42,348
Accounts payable and accrued expenses	1,096,890	134,982
Construction contracts payable	1,220,437	-
Due to other governmental agencies	14,952	-
Deferred revenues	740,549	-
Long-term liabilities:		
Portion due within one year	5,391,702	33,083
Portion due after one year	45,266,420	34,468
<b>Total liabilities</b>	<b>54,198,289</b>	<b>244,881</b>
<b>Net assets</b>		
Invested in capital assets, net of related debt	143,178,095	1,296,171
Restricted for:		
State categorical programs	7,386,507	-
Capital projects	23,235,416	114,943
Debt Service	1,166,818	-
Other projects	521,404	144,562
Unrestricted	12,138,453	515,273
<b>Total net assets</b>	<b>187,626,693</b>	<b>2,070,949</b>
<b>Total liabilities and net assets</b>	<b>\$ 241,824,982</b>	<b>\$ 2,315,830</b>

See accompanying notes to financial statements.

Functions/Programs	Expenses	Program Revenue	
		Charges for Services	Operating Grants and Contributions
<b>Primary government</b>			
Governmental Activities			
Instruction	\$ 135,892,140	\$ 597,272	\$ -
Pupil personnel services	7,022,196	-	-
Instructional media services	2,947,011	-	-
Instruction and curriculum development	6,946,130	-	-
Instructional staff training	860,754	-	-
Board of education	2,853,275	-	-
General administration	854,986	-	-
School administration	13,291,030	-	-
Facilities acquisition and construction	16,565,982	-	-
Fiscal services	1,288,763	-	-
Food services	10,346,264	4,781,014	4,968,074
Central services	5,718,317	-	-
Pupil transportation services	9,141,639	461,854	5,943,013
Operation of plant	12,078,124	-	-
Maintenance of plant	6,038,061	-	-
Community services	1,171,835	1,541,006	-
Interest on Long-term debt	1,093,902	-	-
Unallocated depreciation/amortization expense	9,598,145	-	-
<b>Total governmental activities</b>	<b>\$ 243,708,554</b>	<b>\$ 7,381,146</b>	<b>\$ 10,911,087</b>
<b>Component Units</b>			
Charter schools/foundations	5,116,064	-	-
<b>Total component units</b>	<b>\$ 5,116,064</b>	<b>\$ -</b>	<b>\$ -</b>

**General revenues:**

## Taxes:

Property taxes, levied for general purposes

Property taxes, levied for capital projects

Grants and contributions not restricted to specific programs

Investment earnings

Miscellaneous

Total general revenues, special items, and transfers

Change in net assets

Net assets - beginning

Net assets - ending

Okaloosa County District School Board  
Statement of Activities

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Capital Grants and Contributions	Governmental Activities	Component Units	
\$	-	\$ (135,294,868)	\$ -
	-	(7,022,196)	-
	-	(2,947,011)	-
	-	(6,946,130)	-
	-	(860,754)	-
	-	(2,853,275)	-
	-	(854,986)	-
	-	(13,291,030)	-
3,480,341	-	(13,085,641)	-
	-	(1,288,763)	-
	-	(597,176)	-
	-	(5,718,317)	-
	-	(2,736,772)	-
	-	(12,078,124)	-
	-	(6,038,061)	-
	-	369,171	-
1,152,120	-	58,218	-
	-	(9,598,145)	-
\$ 4,632,461	-	(220,783,860)	-
	-	-	(5,116,064)
\$	-	-	(5,116,064)

66,373,756	-
20,234,292	-
129,035,165	4,974,656
1,729,333	8,902
4,348,421	295,222
221,720,967	5,278,780
937,107	162,716
186,689,586	1,908,233
\$ 187,626,693	\$ 2,070,949

See accompanying notes to financial statements.

June 30,

	General Fund	Special Revenue - Other Fund	Capital Projects - Public Education Capital Outlay Fund
<b>Assets</b>			
Cash and cash equivalents	\$ 272,238	\$ -	\$ -
Investments	40,552,752	140,476	1,941,818
Accounts receivable, net	1,469	-	-
Due from other funds	633,718	-	-
Due from other agencies	1,083,147	717,455	2,426,280
Inventory	48,623	-	-
<b>Total assets</b>	<b>\$ 42,591,947</b>	<b>\$ 857,931</b>	<b>\$ 4,368,098</b>
<b>Liabilities and fund balances</b>			
Liabilities:			
Salaries, benefits and payroll taxes payable	\$ 453,906	\$ -	\$ -
Payroll deductions and withholdings	13,433	-	-
Accounts payable	685,558	259,575	134,698
Construction contracts payable	-	-	369,005
Due to other agencies	10,000	4,952	-
Due to other funds	-	419,028	-
Deferred revenue	-	117,300	623,249
<b>Total liabilities</b>	<b>1,162,897</b>	<b>800,855</b>	<b>1,126,952</b>
Fund balances:			
Reserved for:			
State required carryover programs	7,386,507	-	-
Encumbrances	1,382,458	-	557,840
Inventories	48,623	-	-
Other purposes	27,056,414	57,076	2,639,069
Unreserved, reported in:			
General fund	5,555,048	-	-
Special revenue funds	-	-	-
Capital projects funds	-	-	44,237
<b>Total fund balances</b>	<b>41,429,050</b>	<b>57,076</b>	<b>3,241,146</b>
<b>Total liabilities and fund balances</b>	<b>\$ 42,591,947</b>	<b>\$ 857,931</b>	<b>\$ 4,368,098</b>

Okaloosa County District School Board  
Balance Sheet  
Governmental Funds

**2005**

<b>Capital Projects - Local Capital Improvement Tax Fund</b>	<b>Capital Projects - Other Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 1,332	\$ -	\$ 38,083	\$ 311,653
8,472,309	9,751,228	1,171,059	62,029,642
-	-	1,083	2,552
-	-	-	633,718
2,035	2,610,945	284,096	7,123,958
-	-	376,424	425,047
<b>\$ 8,475,676</b>	<b>\$ 12,362,173</b>	<b>\$ 1,870,745</b>	<b>\$ 70,526,570</b>
\$ -	\$ -	\$ -	\$ 453,906
-	-	-	13,433
11,024	-	6,035	1,096,890
849,102	2,072	258	1,220,437
-	-	-	14,952
-	-	214,690	633,718
-	-	-	740,549
860,126	2,072	220,983	4,173,885
-	-	-	7,386,507
158,326	260,631	46,100	2,405,355
-	-	376,424	425,047
7,286,646	9,408,744	1,191,886	47,639,835
-	-	-	5,555,048
-	-	20,606	20,606
170,578	2,690,726	14,746	2,920,287
7,615,550	12,360,101	1,649,762	66,352,685
<b>\$ 8,475,676</b>	<b>\$ 12,362,173</b>	<b>\$ 1,870,745</b>	<b>\$ 70,526,570</b>

See accompanying notes to financial statements.

Okaloosa County District School Board  
 Reconciliation of the Governmental Funds Balance Sheet to the  
 Statement of Net Assets

<i>June 30,</i>	<b>2005</b>
Total fund balance, governmental funds	\$ 66,352,685
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.	3,249,035
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	168,683,095
Long term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(50,658,122)
Net Assets of Governmental Activities in the Statement of Net Assets	\$ 187,626,693

See accompanying notes to financial statements.

Year ended June 30,

	General Fund	Special Revenue - Other Fund	Capital Projects - Public Education Capital Outlay Fund
<b>Revenues</b>			
Intergovernmental:			
Federal direct	\$ 8,384,310	\$ 263,842	\$ -
Federal through state	926,209	13,129,503	-
State sources	109,938,464	305,978	2,769,012
Local sources	72,095,675	-	28,872
<b>Total revenues</b>	<b>191,344,658</b>	<b>13,699,323</b>	<b>2,797,884</b>
<b>Expenditures</b>			
Current:			
Instruction	128,779,919	8,157,098	-
Pupil personnel services	6,393,663	723,895	-
Instructional media services	2,775,023	206,527	-
Instructional and curriculum development	3,670,481	3,352,112	-
Instructional staff training	726,882	135,827	-
Board of education	2,856,751	-	-
General administration	328,161	530,518	-
School administration	13,458,676	3,745	-
Facilities acquisition and construction	1,773,306	-	1,735,321
Fiscal services	1,305,489	-	-
Food services	59,968	-	-
Central services	5,044,084	100,244	-
Pupil transportation services	8,566,413	69,160	-
Operation of plant	12,139,965	5,933	-
Maintenance of plant	6,004,362	-	-
Community services	1,181,610	-	-
Fixed capital outlay:			
Facilities acquisition and construction	309,692	50,500	2,549,258
Other capital outlay	1,087,763	306,688	-
Debt Service:			
Retirement of principal	-	-	-
Interest and fiscal charges	-	-	-
Dues, fees, and issuance costs	-	-	-
<b>Total expenditures</b>	<b>196,462,208</b>	<b>13,642,247</b>	<b>4,284,579</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>(5,117,550)</b>	<b>57,076</b>	<b>(1,486,695)</b>
<b>Other financing sources (uses)</b>			
Long term bonds issued	-	-	-
Proceeds from sale of capital assets	971,978	-	-
Loss recoveries	2,144,308	-	-
Transfers in	9,142,915	-	-
Transfers out	(991,842)	-	-
<b>Total other financing sources and (uses)</b>	<b>11,267,359</b>	<b>-</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>6,149,809</b>	<b>57,076</b>	<b>(1,486,695)</b>
<b>Fund balances, July 1, 2004</b>	<b>35,279,241</b>	<b>-</b>	<b>4,727,841</b>
<b>Fund balances, June 30, 2005</b>	<b>\$ 41,429,050</b>	<b>\$ 57,076</b>	<b>\$ 3,241,146</b>

Okaloosa County District School Board  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds

2005			
Capital Projects - Local Capital Improvement Tax Fund	Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 8,648,152
-	2,477,917	4,844,453	21,378,082
-	133,028	1,405,996	114,552,478
20,519,110	275,480	4,809,107	97,728,244
20,519,110	2,886,425	11,059,556	242,306,956
-	-	-	136,937,017
-	-	-	7,117,558
-	-	-	2,981,550
-	-	-	7,022,593
-	-	-	862,709
-	-	-	2,856,751
-	-	-	858,679
-	-	-	13,462,421
4,914,573	7,456,002	124,485	16,003,687
-	-	-	1,305,489
-	-	10,341,037	10,401,005
-	-	-	5,144,328
-	-	-	8,635,573
-	-	-	12,145,898
-	-	-	6,004,362
-	-	-	1,181,610
1,345,967	4,511,373	40,478	8,807,268
1,323,503	564,132	38,149	3,320,235
-	-	1,632,036	1,632,036
-	-	1,086,880	1,086,880
-	-	7,022	7,022
7,584,043	12,531,507	13,270,087	247,774,671
12,935,067	(9,645,082)	(2,210,531)	(5,467,715)
-	-	20,025	20,025
-	-	-	971,978
-	-	-	2,144,308
-	7,064,448	1,708,029	17,915,392
(16,460,293)	(463,257)	-	(17,915,392)
(16,460,293)	6,601,191	1,728,054	3,136,311
(3,525,226)	(3,043,891)	(482,477)	(2,331,404)
11,140,776	15,403,992	2,132,239	68,684,089
\$ 7,615,550	\$ 12,360,101	\$ 1,649,762	\$ 66,352,685

See accompanying notes to financial statements.



# Okaloosa County District School Board

## Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

<i>Year ended June 30,</i>	<b>2005</b>
Net change in fund balances - total governmental funds:	\$ (2,331,404)
Amounts reported for Governmental Activities in the Statement of Activities are different because:	
Capital outlays are reported in governmental funds as an expenditure. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay <i>exceeds</i> depreciation expense in the current period.	878,824
The net effect of miscellaneous transactions involving capital assets (i.e., donations and disposals) is to increase capital assets.	194,372
Revenue for the sale of assets to Titan corporation provides current financial resources to governmental funds, but reduces long-term receivable in the statement of net assets.	(971,978)
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of principal on notes, bonds, and certificates of participation are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which the debt repayments exceeded the proceeds in the current period.	1,612,036
In the statement of activities, certain operating expenses - compensated absences and special termination benefits - are measured by the amounts earned during the year. However, expenditures for these items are measured by the amount of financial resources used (essentially, the amount paid). This is the amount which accrued special termination benefits decreased.	2,172,257
In the statement of activities, certain operating expenses - insurance claims - include additional amounts for increases in long-term insurance claims liabilities. However, expenditures for these items are measured by the amount of financial resources used (essentially, the amount paid). This is the amount which estimated insurance claims liability increased.	(617,000)
Change in net assets of governmental activities	\$ 937,107

See accompanying notes to financial statements.

Okaloosa County District School Board

Statement of Fiduciary Net Assets

<i>June 30,</i>	<b>2005</b>	
	<b>Agency Fund</b>	
<b>Assets</b>		
Cash and cash equivalents	\$	1,354,917
Investments		4,194,240
<b>Total assets</b>	<b>\$</b>	<b>5,549,157</b>
<b>Liabilities and Net assets</b>		
Due to other funds	\$	5,386,752
Refunds payable and others		162,405
<b>Total liabilities</b>		<b>5,549,157</b>
Net assets		
Invested in capital assets, net of related debt		-
Unrestricted		-
<b>Total net assets</b>		<b>-</b>
<b>Total liabilities and net assets</b>	<b>\$</b>	<b>5,549,157</b>

See accompanying notes to financial statements.

Okaloosa County District School Board  
Statement of Net Assets  
Component Units

June 30,

		2005
		Total Nonmajor Component Units
<b>Assets</b>		
Cash and cash equivalents	\$	522,260
Accounts receivable		5,075
Deposits receivable		45,000
Due from other agencies		147,440
Investments		193,143
Prepaid items		53,907
Capital assets, net		1,349,005
<hr/>		
Total assets	\$	2,315,830
<hr/>		
<b>Liabilities and Net assets</b>		
Payroll deductions and withholdings	\$	42,348
Accounts payable and accrued expenses		134,982
Long-term liabilities:		
Portion due within one year		33,083
Portion due after one year		34,468
<hr/>		
Total liabilities		244,881
<hr/>		
Net assets		
Invested in capital assets, net of related debt		1,296,171
Restricted for:		
Capital projects		114,943
Other projects		144,562
Unrestricted		515,273
<hr/>		
Total net assets		2,070,949
<hr/>		
Total liabilities and net assets	\$	2,315,830
<hr/>		

See accompanying notes to financial statements.

Okaloosa County District School Board  
Statement of Activities  
Component Units

For the Year Ended June 30,

2005

	Program Revenue			Net (Expense) Revenue and Changes in Net Assets
	Charges for Services	Operating and Contributions	Grants and Contributions	Primary Government
	Expenses			Component Unit Activities
<b>Total nonmajor component units</b>				
Current - education:				
Instruction	\$ 2,759,346	\$ -	\$ -	\$ (2,759,346)
Pupil personnel services	110,229	-	80,000	(30,229)
Instructional media services	18,519	-	-	(18,519)
Instruction and curriculum development	161,295	-	-	(161,295)
Instructional staff training	18,687	-	-	(18,687)
Board of education	37,452	-	-	(37,452)
General administration	210,894	-	-	(210,894)
School administration	419,750	-	-	(419,750)
Facilities acquisition and construction	223,751	20,160	-	149,171
Fiscal services	198,867	-	-	(198,867)
Food services	264,423	240,983	68,773	45,333
Central services	148,701	-	-	(148,701)
Pupil transportation services	345,356	-	-	(345,356)
Operation of plant	905,529	-	-	270,102
Maintenance of plant	8,682	-	-	(8,682)
Community services	418,958	6,540	308,691	(103,727)
Interest on Long-term debt	10,045	-	-	(10,045)
Total governmental activities	\$ 6,260,484	\$ 267,683	\$ 457,464	\$ 419,273
				(5,116,064)

**General revenues:**

Grants and contributions not restricted to specific programs	4,974,656
Investment earnings	8,902
Miscellaneous	295,222
Total general revenues	5,278,780
Change in net assets	162,716
Net assets - beginning	1,908,233
Net assets - ending	\$ 2,070,949

See accompanying notes to financial statements.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Reporting Entity***

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

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

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

Blended Component Units. The Okaloosa School Board Leasing Corporation was formed to facilitate financing for the acquisition of facilities and equipment as further discussed in Note 8. 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., were 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. On July 21, 2004, the Board of the Okaloosa Communications Foundation, Inc., voted to dissolve the foundation and merge with Okaloosa Public Schools Foundation, Inc., with the assets of the Okaloosa Communications Foundation, Inc., being transferred to the Okaloosa Public Schools Foundation, Inc. Financial information related to these direct-support organizations is filed in the District's administrative offices. An audit of each of the Okaloosa Public Schools Foundation, Inc. for the fiscal year ended June 30, 2005, was conducted, and the audit report is on file at the District's administrative office.

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

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

- The Okaloosa Academy, Inc., was established to provide an alternative educational system for “at risk” students. The Academy is a separate not-for-profit entity with a separate board of directors. An audit of the Charter School for the fiscal year ended June 30, 2005, was conducted and is on file at the District’s administrative office.
- The Liza Jackson Preparatory School, Inc., was established to provide a preparatory program of education for students. The School is a separate not-for-profit entity with a separate board of directors. An audit of the Charter School for the fiscal year ended June 30, 2005, 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.

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

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 – to account for certain Federal grant program resources.
- Capital Projects – Public Education Capital Outlay Fund – to account for the financial resources allocated by the Public Education Capital Outlay and Debt Service Trust Fund to be used for capital outlay needs, including new construction and renovation and remodeling projects.
- 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.
- Capital Projects – Other Fund – to account for various financial resources generated by the issuance of certificates of participation and other moneys set aside by the Board for educational capital outlay needs, including new construction and renovation and remodeling projects.

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.

***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.

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

Governmental fund financial statements are prepared using the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers revenues to be available if they are collected within 30 days of the end of the fiscal year. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made. Under the modified accrual basis of accounting, expenditures are generally recognized when the related fund liability is incurred. 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., shown as a discretely presented component unit, uses the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred. The Okaloosa Academy, Inc., and Liza Jackson Preparatory School, shown as discretely-presented component units, are accounted for using the modified accrual basis of accounting.

***Deposits and Investments***

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

Investments consist of amounts placed with the State Board of Administration for participation in the Local Government Surplus Funds Trust Fund investment pool created by Section 218.405, Florida Statutes, and those made locally. The investment pool operates under investment guidelines established by Section 215.47, Florida Statutes. The District's investment in the external pool, a Securities and Exchange Commission Rule 2a7-like external investment pool, is reported at amortized cost, which approximates fair market value. Investments made locally are held by the trustee for the District's Certificates of Participation pursuant to a trust agreement and are reported at fair value.

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



**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*****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 \$1,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at fair value at the date of donation.

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

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

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

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

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

***Estimates***

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

***Long-Term Liabilities***

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

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

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.

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

The Department may also adjust subsequent fiscal period allocations based upon an audit of the District's compliance in determining and reporting FTE and related data. Normally, such adjustments are treated as reductions or additions of revenue in the year when the adjustments are made.

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

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

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

***District Property Taxes***

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

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

The School Board adopted the 2004 tax levy on September 13, 2004. 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.

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

Property tax revenue is recognized when taxes are received by the District except that revenue is accrued for taxes collected by the Okaloosa County Tax Collector at fiscal year-end but not yet remitted to the District. Because any delinquent taxes collected after June 30 would not be material, delinquent taxes receivable are not accrued, and no delinquent tax revenue deferral is recorded.

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

***Federal Revenue Sources***

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

**NOTE 2 – 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).
- 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.

## Notes to Financial Statements

**NOTE 3 – INVESTMENTS**

Investments at June 30, 2005, are shown below:

Investment	Maturities	Fair Value
Investment in State Board of Administration Local Governmental Surplus Funds - Trust Funds (1)	54 Day Avg	\$ 61,283,465
Investment in State Board of Administration Debt Service Accounts	6 months	206,177
<b>Total investments, primary government</b>		<b>\$ 61,489,642</b>

Notes:

- (1) State Board of Administration Local Government Surplus Funds, totaling \$5,820,081 are held under trust agreements for the Certificates of Participation, Series 2003.

#### Interest Rate Risk

- Section 218.415(17), Florida Statutes, limits investment maturities to provide sufficient liquidity to pay obligations as they come due. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses from increasing interest rates.

#### Credit Risk

- Section 218.415(17), Florida Statutes, limits investments in money market funds to Securities and Exchange Commission registered money market funds with the highest credit rating from a nationally recognized rating agency, and investments in interest-bearing time deposits to qualified public depositories, as defined in Section 280.02, Florida Statutes. The District's investments policy limits investments to those prescribed by Florida Statutes and State Board of Education rules.
- The investments in the State Board of Administration Debt Service Accounts and State Board of Administration Local Government Surplus Funds Trust Fund investment pool were unrated.

## Okaloosa County District School Board

## Notes to Financial Statements

**NOTE 4 – CHANGES IN CAPITAL ASSETS**

Changes in capital assets for the year ended June 30, 2005 are shown below:

	Balance 7/1/2004	Additions and Reclassifications	Deletions	Balance 6/30/2005
<b>Governmental Activities</b>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 6,308,554	\$ 136,306	\$ -	\$ 6,444,860
Construction in progress	1,174,312	(302,714)	-	871,598
Total capital assets not being depreciated	7,482,866	(166,408)	-	7,316,458
<i>Capital assets being depreciated:</i>				
Improvements other than buildings	9,828,136	903,579	-	10,731,715
Buildings and fixed equipment	196,309,820	8,354,474	(26,000)	204,638,294
Furniture, fixtures and equipment	23,064,513	2,041,713	(5,490,120)	19,616,106
Motor vehicles	13,023,861	1,037,937	(950,567)	13,111,231
Property under capital leases	268,134	(268,134)	-	-
Computer software	3,457,776	418,714	(403,678)	3,472,812
Audio-visual materials	30,194	-	(8,419)	21,775
Total capital assets being depreciated	245,982,434	12,488,283	(6,878,784)	251,591,933
<i>Less accumulated depreciation for:</i>				
Improvements other than buildings	5,457,409	654,772	-	6,112,181
Buildings and fixed equipment	52,217,187	6,742,035	(26,000)	58,933,222
Furniture, fixtures and equipment	16,572,320	2,682,947	(5,490,120)	13,765,147
Motor vehicles	8,862,321	848,868	(950,567)	8,760,622
Property under capital leases	107,254	(107,254)	-	-
Computer software	2,608,716	427,311	(403,678)	2,632,349
Audio-visual materials	30,194	-	(8,419)	21,775
Total accumulated depreciation	85,855,401	11,248,679	(6,878,784)	90,225,296
Total capital assets being depreciated, net	160,127,033	1,239,604	-	161,366,637
<b>Governmental activities - capital assets, net</b>	<b>\$ 167,609,899</b>	<b>\$ 1,073,196</b>	<b>\$ -</b>	<b>\$ 168,683,095</b>

**NOTE 4 – CHANGES IN CAPITAL ASSETS (CONTINUED)**

Depreciation/amortization expense was charged to functions as follows:

<b>Function</b>	<b>Amount</b>
Instruction	\$ 977,175
Pupil transportation services	596,214
Maintenance of plant	77,144
Unallocated	9,598,146
	<u>\$ 11,248,679</u>

**NOTE 5 – RECEIVABLE FROM TITAN CORPORATION**

The "Receivable from Titan Corporation" totals \$3,249,035 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 \$77,358 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, 2005, was \$6,910,310.

**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
2006	\$ 7,453,950
2007	7,453,070
2008	6,661,765
2009	2,963,565
Thereafter	-
	<b>\$ 24,532,350</b>

**NOTE 8 – 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.

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 Elementary School.



## Notes to Financial Statements

**NOTE 8 – CERTIFICATES OF PARTICIPATION PAYABLE (CONTINUED)**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
- Okaloosa Applied Technology Center – Portions of Land, Improvements and Additions
- Niceville High School – Portions of Land, Improvements, and Additions
- Richbourg Middle School – Portions of Land, Improvements, and Additions
- Silver Sands School – Portions of Land, Improvements, and Additions

On February 28, 2005, the Board approved an amendment to the 2003 Certificates of Participation master lease-purchase agreement to add the following properties to the ground lease:

- Bluewater Elementary School – Portion of Land, Improvements, and Additions
- Bob Sikes Elementary 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
2006	\$ 1,505,030
2007	1,501,030
2008	1,501,730
2009	1,503,090
2010	1,500,315
2011-2015	7,514,670
2016-2019	6,014,570
Total minimum lease payments	21,040,435
Less, amount representing interest	(4,930,435)
Present value of minimum lease payments	\$ 16,110,000

## Notes to Financial Statements

**NOTE 9 – BONDS PAYABLE**

Bonds payable at June 30, 2005, are as follows:

Bond Type	Interest Rates (Percent)	Annual Maturity To	Amount Outstanding
State School Bonds:			
Series 1996-A	4.60 - 6.00	2016	\$ 6,530,000
Series 1998-A	4.50 - 5.50	2018	1,275,000
Series 1999-A	4.00 - 4.75	2019	470,000
Series 2004-A	3.00 - 4.625	2008	15,000
District Revenue Bonds:			
Series 1994-A	5.40 - 6.10	2015	1,105,000
Total bonds payable			\$ 9,395,000

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

***State School Bonds***

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

***District Revenue Bonds***

These bonds 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

**NOTE 9 – BONDS PAYABLE (CONTINUED)**

Amounts payable for the planned extended repayment of bonds payable at June 30, 2005 are as follows:

Year Ending June 30,	Total	Principal	Interest
State School Bonds:			
2006	\$ 975,100	\$ 565,000	\$ 410,100
2007	977,525	600,000	377,525
2008	977,450	630,000	347,450
2009	973,850	655,000	318,850
2010	972,578	685,000	287,578
2011-2015	4,876,766	3,980,000	896,766
2016-2019	1,252,975	1,175,000	77,975
<b>Total State School Bonds</b>	<b>11,006,244</b>	<b>8,290,000</b>	<b>2,716,244</b>
District Revenue Bonds:			
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	149,369	105,000	44,369
2011-2015	749,514	630,000	119,514
2016-2019	-	-	-
<b>Total District Revenue Bonds</b>	<b>1,501,409</b>	<b>1,105,000</b>	<b>396,409</b>
<b>Total</b>	<b>\$ 12,507,653</b>	<b>\$ 9,395,000</b>	<b>\$ 3,112,653</b>

Okaloosa County District School Board

Notes to Financial Statements

**NOTE 10 – CHANGES IN LONG-TERM LIABILITIES**

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

Description	Balance 7/1/2004	Additions	Deductions	Balance 6/30/2005	Due in One Year
Bonds payable	\$ 9,990,000	\$ 20,000	\$ (615,000)	\$ 9,395,000	\$ 650,000
Certificates of participation payable	17,040,000	-	(930,000)	16,110,000	950,000
Obligations under capital leases	87,036	-	(87,036)	-	-
Estimated insurance claims payable	3,369,000	2,843,337	(2,226,337)	3,986,000	1,907,000
Compensated absences payable	23,339,379	-	(2,172,257)	21,167,122	1,884,702
<b>Total</b>	<b>\$ 53,825,415</b>	<b>\$ 2,863,337</b>	<b>\$ (6,030,630)</b>	<b>\$ 50,658,122</b>	<b>\$ 5,391,702</b>

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

**NOTE 11 – RESERVE FOR ENCUMBRANCES**

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

The Florida Department of Education requires that fund balances be reserved at fiscal year-end to report an amount likely to be expended from the 2005-2006 fiscal year budget as a result of purchase orders outstanding at June 30, 2005.

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 \$508,308 at June 30, 2005.

Okaloosa County District School Board

Notes to Financial Statements

**NOTE 12 – 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	\$ 633,718	\$ -
Special revenue:		
Other	-	419,028
Nonmajor governmental funds	-	214,690
<b>TOTAL</b>	<b>\$ 633,718</b>	<b>\$ 633,718</b>

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 (1) (3) (4)	\$ 9,142,915	\$ 991,842
Capital projects:		
Capital improvement tax (1) (2) (5)	-	16,460,293
Other capital projects (4) (5)	7,064,448	463,257
Nonmajor governmental funds (2) (3)	1,708,029	-
<b>TOTAL</b>	<b>\$ 17,915,392</b>	<b>\$ 17,915,392</b>

Notes:

- (1) Transfers made from the Capital Improvement Tax Fund to the General Fund were for maintenance and repair of school facilities and for the lease of computers for instructional purposes.
- (2) Transfers made from the Capital Improvement Tax Fund to Debt Service Funds were made to fund the current payment on Certificates of Participation.
- (3) Transfers made to Special Revenue Fund – Food Services from the General Fund were made to cover losses of revenue as a result of Hurricane Ivan.
- (4) Transfers made to Other Capital Projects from the General Fund to fund repairs to facilities damaged in Hurricane Ivan.
- (5) Transfers made to Other Capital Projects from the Capital Improvement Tax Fund to fund repairs to facilities damaged in Hurricane Ivan.

Okaloosa County District School Board

Notes to Financial Statements

**NOTE 13 – SCHEDULE OF STATE REVENUE SOURCES**

The following is a schedule of the District's State revenue for the 2004-2005 fiscal year:

Sources	Amount
Florida education finance program	\$ 79,995,703
Categorical educational programs:	
Class size reduction	10,876,021
Discretionary lottery funds	1,641,517
Other	12,886,161
Gross receipts tax (Public Education Capital Outlay)	2,769,012
Workforce development funds	2,467,255
Motor vehicles license tax (capital outlay and debt service)	1,108,015
Charter school capital outlay	564,684
Elementary and middle school reading coach grant	939,341
Racing commission funds	190,750
Food service supplement	116,419
State forest funds	82,977
Mobile home license tax	61,491
Miscellaneous	853,132
<b>Total</b>	<b>\$ 114,552,478</b>

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

Okaloosa County District School Board

Notes to Financial Statements

**NOTE 14 – PROPERTY TAXES**

The following is a summary of millages and taxes levied on the 2004 tax roll for the 2004-2005 fiscal year:

	Millages	Taxes Levied
<u>General Fund</u>		
Nonvoted School Tax:		
Required local effort	5.695	\$ 61,656,378
Basic discretionary local effort	0.510	5,520,336
Supplemental discretionary local effort	0.151	1,634,717
<u>Capital Projects Funds</u>		
Nonvoted Tax:		
Local capital improvements	1.938	20,981,215
<b>Total</b>	<b>8.294</b>	<b>\$ 89,792,646</b>

**NOTE 15 – 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.

## Notes to Financial Statements

**NOTE 15 – STATE RETIREMENT PROGRAM (CONTINUED)*****Funding Policy***

The contribution rates for Plan members are established, and may be amended, by the State of Florida. During the 2004-2005 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)

**Notes:**

(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, 2005, June 30, 2004, and June 30, 2003, totaled \$9,689,995, \$9,062,865, and \$6,817,326, respectively, which were equal to the required contributions for each fiscal year.

***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, 2005, totaled \$437,016.



## Notes to Financial Statements

**NOTE 15 – STATE RETIREMENT PROGRAM (CONTINUED)*****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 16 – 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 2004-2005 fiscal year was \$293,949.

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.

**NOTE 17 – 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 - classroom addition project	\$ 4,087,358	\$ 848,279	\$ 3,239,079
Cook Chill Facility - roof replacement	1,939,795	712,551	1,227,244
Crestview High School - roof replacement	1,553,107	601,408	951,699
Florosa Elementary School - roof replacement	1,538,267	605,668	932,599
Fort Walton Beach High School-athletic complex design services	125,000	23,320	101,680
<b>Total</b>	<b>\$ 9,243,527</b>	<b>\$ 2,791,226</b>	<b>\$ 6,452,301</b>

**NOTE 18 – RISK MANAGEMENT PROGRAMS**

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

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 \$3,986,000, 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, 2005, \$3,986,000 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
2003 - 2004	\$ 2,857,000	\$ 2,523,145	\$ (2,011,145)	\$ 3,369,000
2004 - 2005	\$ 3,369,000	\$ 2,843,337	\$ (2,226,337)	\$ 3,986,000

**NOTE 19 – 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  
Budget and Actual (with Variances)  
General Fund

Year ended June 30,

2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Intergovernmental:				
Federal direct	\$ 5,329,609	\$ 8,199,310	\$ 8,384,310	\$ 185,000
Federal through state	153,912	911,898	926,209	14,311
State sources	111,368,500	109,923,732	109,938,464	14,732
Local sources	68,284,565	71,744,561	72,095,675	351,114
<b>Total revenues</b>	<b>185,136,586</b>	<b>190,779,501</b>	<b>191,344,658</b>	<b>565,157</b>
<b>Expenditures</b>				
Current:				
Instruction	129,629,391	133,682,640	128,779,919	4,902,721
Pupil personnel services	6,672,243	6,595,319	6,393,663	201,656
Instructional media services	2,776,951	2,884,929	2,775,023	109,906
Instructional and curriculum development	4,058,205	4,007,723	3,670,481	337,242
Instructional staff training	1,049,968	1,394,690	726,882	667,808
Board of education	3,562,370	3,404,531	2,856,751	547,780
General administration	304,089	333,588	328,161	5,427
School administration	13,785,072	13,683,738	13,458,676	225,062
Facilities acquisition and construction	206,424	1,931,198	1,773,306	157,892
Fiscal services	1,321,910	1,352,334	1,305,489	46,845
Food services	-	72,954	59,968	12,986
Central services	6,418,745	6,662,211	5,044,084	1,618,127
Pupil transportation services	7,960,856	8,715,128	8,566,413	148,715
Operation of plant	12,120,504	12,586,025	12,139,965	446,060
Maintenance of plant	5,946,461	7,952,149	6,004,362	1,947,787
Community services	1,713,937	2,008,694	1,181,610	827,084
Fixed capital outlay:				
Facilities acquisition and construction	73,403	384,512	309,692	74,820
Other capital outlay	883,553	1,501,559	1,087,763	413,796
<b>Total expenditures</b>	<b>198,484,082</b>	<b>209,153,922</b>	<b>196,462,208</b>	<b>12,691,714</b>
Excess (deficiency) of revenues over expenditures	(13,347,496)	(18,374,421)	(5,117,550)	13,256,871
<b>Other financing sources (uses)</b>				
Proceeds from sale of capital assets	-	971,978	971,978	-
Loss recoveries	144,308	2,144,308	2,144,308	-
Transfers in	10,036,645	9,142,915	9,142,915	-
Transfers out	-	(991,842)	(991,842)	-
<b>Total other financing sources and (uses)</b>	<b>10,180,953</b>	<b>11,267,359</b>	<b>11,267,359</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>(3,166,543)</b>	<b>(7,107,062)</b>	<b>6,149,809</b>	<b>13,256,871</b>
Fund balances - beginning	35,279,241	35,279,241	35,279,241	-
<b>Fund balances - ending</b>	<b>\$ 32,112,698</b>	<b>\$ 28,172,179</b>	<b>\$ 41,429,050</b>	<b>\$ 13,256,871</b>

Okaloosa County District School Board  
Budget and Actual (with Variances)  
Special Revenue - Other Fund

Year ended June 30,

2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Intergovernmental:				
Federal direct	\$ 397	\$ 263,842	\$ 263,842	\$ -
Federal through state	15,519,309	17,368,730	13,129,503	(4,239,227)
State sources	123,005	308,138	305,978	(2,160)
<b>Total revenues</b>	<b>15,642,711</b>	<b>17,940,710</b>	<b>13,699,323</b>	<b>(4,241,387)</b>
<b>Expenditures</b>				
Current:				
Instruction	8,050,219	10,161,013	8,157,098	2,003,915
Pupil personnel services	1,048,614	822,296	723,895	98,401
Instructional media services	209,222	217,096	206,527	10,569
Instructional and curriculum development	4,853,338	4,560,393	3,352,112	1,208,281
Instructional staff training	432,414	323,941	135,827	188,114
General administration	383,130	692,471	530,518	161,953
School administration	4,085	24,762	3,745	21,017
Central services	68,280	127,957	100,244	27,713
Pupil transportation services	113,110	108,348	69,160	39,188
Operation of plant	74,870	11,290	5,933	5,357
Fixed capital outlay:				
Facilities acquisition and construction	50,500	118,137	50,500	67,637
Other capital outlay	354,929	718,846	306,688	412,158
<b>Total expenditures</b>	<b>15,642,711</b>	<b>17,886,550</b>	<b>13,642,247</b>	<b>4,244,303</b>
Excess (deficiency) of revenues over expenditures	-	54,160	57,076	2,916
Net change in fund balances	-	54,160	57,076	2,916
Fund balances - beginning	-	-	-	-
<b>Fund balances - ending</b>	<b>\$ -</b>	<b>\$ 54,160</b>	<b>\$ 57,076</b>	<b>\$ 2,916</b>

# Single Audit Section

Okaloosa County District School Board  
 Schedule Of Expenditures Of Federal Awards  
 For The Year Ended June 30, 2005

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
<b>United States Department of Agriculture</b>				
Indirect:				
Florida Department of Agriculture and Consumer Services:				
Food Distribution (Note 2)	10.550	None	\$ 976,661	\$ -
Florida Department of Education:				
Child Nutrition Cluster:				
School Breakfast Program	10.553	321	702,000	-
National School Lunch Program	10.555	300	2,899,343	-
Summer Food Service Program	10.559	323	266,449	-
Total Child Nutrition Cluster			3,867,792	-
Florida Department of Financial Services:				
Schools and Roads - Grants to States	10.665	None	361	-
<b>Total United States Department of Agriculture</b>			4,844,814	-
<b>United States Department of Homeland Security</b>				
Indirect:				
Florida Department of Community Affairs:				
Public Assistance Grants	97.036	56-03-632	3,009,635	-
<b>United States Department of Education</b>				
Direct:				
Impact Aid	84.041	N/A	7,228,431	166,887
Federal Pell Grant Program	84.063	N/A	264,732	-
Total Direct			7,493,163	166,887
Indirect:				
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027	262, 263	5,399,880	-
Special Education - Preschool Grants	84.173	267	220,697	-
Santa Rosa County District School Board:				
Special Education - Grants to States	84.027	None	875	-
University of West Florida:				
Special Education - Grants to States	84.027	None	1,115	-
Total Special Education Cluster			5,622,567	-
Florida Department of Education:				
Title I Grants to Local Educational Agencies	84.010	212, 223	4,346,586	-
Vocational Education - Basic Grants to States	84.048	151	419,461	-
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	105,293	-
Education for Homeless Children and Youth	84.196	127	169,755	-

(continued)



**Okaloosa County District School Board  
Schedule Of Expenditures Of Federal Awards (Continued)  
For The Year Ended June 30, 2005**

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
<b>United States Department of Education (continued)</b>				
Indirect (continued):				
Florida Department of Education (continued):				
Even Start Family Literacy	84.213	219	399,837	-
Charter Schools	84.282	298	97,388	97,388
Innovative Education Program Strategies	84.298	113	206,527	-
Educational Technology State Grants	84.318	121	171,693	-
Comprehensive School Reform Demonstration	84.332	128	135,264	-
Voluntary Public School Choice	84.361	299	6,681	-
English Language Acquisition Grants	84.365	102	48,664	-
Improving Teacher Quality State Grants	84.367	224	1,245,770	-
Santa Rosa County School Board:				
Educational Technology State Grants	84.318	122	79,128	-
<b>Total Indirect</b>			<b>13,054,614</b>	<b>267,143</b>
<b>Total United States Department of Education</b>			<b>20,547,777</b>	<b>434,030</b>
<b>Corporation for National and Community Service</b>				
Indirect:				
Florida Department of Education:				
Learn and Serve America - School and Community Based Programs	94.004	234	1,104	-
<b>United States Department of Defense</b>				
Direct:				
Public Law 102-484	None	N/A	824,075	-
Air Force Junior Reserve Officers Training Corps	None	N/A	207,516	-
Army Junior Reserve Officers Training Corps	None	N/A	123,398	-
<b>Total United States Department of Defense</b>			<b>1,154,989</b>	<b>-</b>
<b>Total Expenditures of Federal Awards</b>			<b>\$ 29,558,319</b>	<b>\$ 434,030</b>

Notes:

- 1) Basis of Presentation. The Schedule of Expenditures of Federal Awards represents amounts expended from Federal Programs during the 2004-2005 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 2004-2005 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  
For The Year Ended June 30, 2005

---

**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, 2005:

- 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: Food Distribution (CFDA 10.550); Public Assistance Grants (CFDA 97.036); and Impact Aid (CFDA 84.041).
- The threshold for distinguishing between Types A and B programs was \$811,983.
- The Okaloosa County District School Board was determined to be a low-risk auditee, as defined in *OMB Circular A-133*.

**Findings – Financial Statement Audit**

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

Okaloosa County District School Board  
Schedule Of Findings And Questioned Costs (Continued)  
For The Year Ended June 30, 2005

---

**Findings And Questioned Costs – Major Federal Award Programs Audit**

- 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, 2005

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

<b>Audit Report and Schedule Paragraph No.</b>	<b>Program/Area</b>	<b>Brief Description</b>	<b>Status</b>	<b>Comments</b>
--	---------------------	--------------------------	---------------	-----------------

There were no prior audit findings.

CARR, RIGGS & INGRAM, LLC

4460 Legendary Drive  
Suite 100  
Destin, FL 32541

P | 850 837 3141

F | 850 654 4619

www.cricpa.com

**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 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 (District) as of and for the fiscal year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 7, 2005. 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,

American Institute of  
Certified Public Accountants

Alabama Society of  
Certified Public Accountants

Florida Institute of  
Certified Public Accountants

Mississippi Society of  
Certified Public Accountants

AICPA Alliance for CPA Firms

Center for Public  
Company Audit Firms

and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

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

Destin, Florida  
November 7, 2005

CARR, RIGGS & INGRAM, LLC

4460 Legendary Drive  
Suite 100  
Destin, FL 32541

P | 850 837 3141

F | 850 654 4619

www.cricpa.com

**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, 2005. The District's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of District management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2005.

American Institute of  
Certified Public Accountants

Alabama Society of  
Certified Public Accountants

Florida Institute of  
Certified Public Accountants

Mississippi Society of  
Certified Public Accountants

AICPA Alliance for CPA Firms

Center for Public  
Company Audit Firms

### **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.

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.

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

Destin, Florida  
November 7, 2005



CARR, RIGGS & INGRAM, LLC

4460 Legendary Drive  
Suite 100  
Destin, FL 32541

P | 850 837 3141

F | 850 654 4619

www.cricpa.com

**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, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 7, 2005.

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 7, 2005, 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.

American Institute of  
Certified Public Accountants

Alabama Society of  
Certified Public Accountants

Florida Institute of  
Certified Public Accountants

Mississippi Society of  
Certified Public Accountants

AICPA Alliance for CPA Firms

Center for Public  
Company Audit Firms

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, 2005, 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.

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

Destin, Florida  
November 7, 2005