



**AUDITOR GENERAL**  
**WILLIAM O. MONROE, CPA**



**OKALOOSA COUNTY**  
**DISTRICT SCHOOL BOARD**  
Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended June 30, 2006

Okaloosa County District School Board members and the Superintendent of Schools who served during the 2005-06 fiscal year are shown in the following tabulation:

|                                    | <i><u>District<br/>No.</u></i> |
|------------------------------------|--------------------------------|
| <i>Cindy Frakes</i>                | <i>1</i>                       |
| <i>Charles R. Kelley, Jr.</i>      | <i>2</i>                       |
| <i>Rodney L. Walker</i>            | <i>3</i>                       |
| <i>Catherine S. Thigpen, Chair</i> | <i>4</i>                       |
| <i>Howard Hill, Vice-Chair</i>     | <i>5</i>                       |

*Don Gaetz, Superintendent*

#### AUDITOR GENERAL

The Auditor General provides independent, unbiased, timely, and relevant information to the Legislature, entity management, and the citizens of the State of Florida which can be used to improve the operations and accountability of public entities.

## OKALOOSA COUNTY DISTRICT SCHOOL BOARD

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**EXECUTIVE SUMMARY**

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**Summary of Report on Financial Statements**

The Okaloosa County District School Board prepared its basic financial statements for the fiscal year ended June 30, 2006, in accordance with prescribed financial reporting standards.

**Summary of Report on Internal Control and Compliance**

The District has established and implemented procedures that generally provide for internal control of District operations. The District generally complied with significant provisions of laws, administrative rules, regulations, contracts, and grant agreements. However, we did note internal control and compliance findings that are summarized below.

**Summary of Audit Findings****Finding No. 1: Relocatable Building Inspections**

The District did not provide for the required inspections for its new relocatable buildings prior to occupancy. Failure to provide for the required inspections of relocatable buildings could increase the risk that students are exposed to unsafe building conditions.

**Finding No. 2: Food Service Operations**

The District's food service program has incurred operating deficits for the past four fiscal years and the District transferred General Fund moneys during the 2004-05 and 2005-06 fiscal years to the food service program. Continued use of unrestricted General Fund resources to subsidize the school food service program reduces moneys available for the District's other educational programs.

**Summary of Report on Federal Awards**

We audited the District's Federal awards for compliance with applicable Federal requirements. The Title I Grants to Local Educational Agencies, Special Education Cluster (Special Education – Grants to States and the Special Education – Preschool Grants), Federal Pell Grant Program, and the Hurricane Education Recovery programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that were applicable to the major Federal programs tested, with the exception of the Federal Pell Grant program. We noted compliance and internal control findings that are summarized below.

**Federal Awards Finding No. 1: Special Tests and Provisions – Identifying Schools Needing Improvement**

Federal regulations require school districts to directly notify the parents of students enrolled in schools identified as needing improvement and provide specific information about the identification and the parents' options regarding their child's education. Our review disclosed several deficiencies in the District's notification to parents that may have limited the ability of the parents to make informed decisions regarding the educational choices available to the children.

**Federal Awards Finding No. 2: Matching, Level of Effort, Earmarking – Targeting Funds for Choice Related Transportation**

Although required by Federal regulations, the District did not offer students at four elementary schools identified as needing improvement the choice of being transported to other qualifying District schools.

**Federal Awards Finding No. 3: Allowable Costs/Cost Principles (Documentation of Employee Time and Effort)**

The District paid salaries and benefits to employees from its Title I, Part A, grant program, and from its Special Education cluster programs. Our tests disclosed that the required semi-annual time certifications were not obtained until June 2006 from those employees dedicating 100 percent of their time to grant activities during the first six months of the fiscal year. In addition, \$2,671 in salary and benefits for one employee was charged to the Title I, Part A, grant program in excess of the allowed

costs for the time dedicated to grant activities. These costs are considered questioned costs subject to disallowance by the grantor.

#### Federal Awards Finding No. 4: Federal Program Review

The United States Department of Education (USDOE) conducted a focused program review of the Title IV, Pell Grant program, for the 2003-04 and 2004-05 fiscal years at the Okaloosa Applied Technology Center (OATC) in August 2005. OATC was attempting to correct the findings noted in this review and was in the process of training new personnel, revising procedures, and remediating its records for the 2005-06 fiscal year. Since OATC was in a transition period, several deficiencies had not been corrected and the results of our audit were similar to those noted by the USDOE review team.

#### **Audit Objectives and Scope**

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

- Presented the District's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements or on a major Federal program;
- Established management controls that promote and encourage: 1) compliance with applicable laws, administrative rules, and other guidelines; 2) the economic, effective, and efficient operation of the District; 3) the reliability of records and reports; and 4) the safeguarding of District assets;
- Complied with the various provisions of laws, administrative rules, regulations, and contracts and grant agreements that are material to the financial statements, and those applicable to the District's major Federal programs; and
- Corrected, or are in the process of correcting, all deficiencies disclosed in our report Nos. 2004-068 and 2004-191.

The scope of this audit included an examination of the District's basic financial statements and the Schedule of Expenditures of Federal Awards as of and for the fiscal year ended June 30, 2006. We obtained an understanding of internal control and assessed control risk necessary to plan the audit of the basic financial statements and Federal awards. We also examined various transactions to determine whether they were executed, both in manner and substance, in accordance with governing provisions of laws, administrative rules, regulations, contracts, and grant agreements.

#### **Audit Methodology**

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

This audit was conducted by Joan E. Valle, CPA, and supervised by James W. Kiedinger, Jr., CPA. Please address inquiries regarding this report to David W. Martin, CPA, Audit Manager, via e-mail at [davidmartin@aud.state.fl.us](mailto:davidmartin@aud.state.fl.us) or by telephone at (850) 487-9039.

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

## FINDINGS AND RECOMMENDATIONS

### Additional Matters

#### Finding No. 1: Relocatable Building Inspections

Section 1013.37(2)(c), Florida Statutes, requires the District to obtain facility inspections prior to occupancy to verify compliance with statutes, rules, and codes affecting the health and safety of occupants. During the 2005-06 fiscal year, the District did not obtain facility inspections prior to student occupancy for 15 new relocatable classroom buildings. Subsequent to our inquiry, the District performed inspections at 11 of the 15 relocatable buildings. Although the inspections revealed no deficiencies, failure to obtain the required inspections of relocatable buildings prior to occupancy increases the risk that students could be exposed to unsafe building conditions.

**Recommendation:** The District should provide for the required inspections of relocatable buildings prior to occupancy.

#### Finding No. 2: Food Service Operations

The District operates a school food service program at each District school that provides meals to participating students and staff. The food service program, accounted for in the District's Special Revenue – Food Service Fund, generates revenue from the sale of food and from Federal reimbursements and State supplements. The Fund's operating expenditures include salaries and benefits, purchased food, and operating supplies. The financial condition of the food service program is significantly impacted by the prices charged for meals, salary and benefits costs, and purchased food costs.

The food service program has had operating losses for the past four years, which has required the District to transfer unrestricted General Fund resources to the school food service program. The food service program's financial activities, including transfers from the General Fund, for the 2002-03 through 2005-06 fiscal years, are summarized in the table below:

| Summary of Food Service Program Activities - 2002-03 through 2005-06 Fiscal Years |              |                             |               |                     |                            |
|---|--------------|-----------------------------|---------------|---------------------|----------------------------|
| Fiscal Year Ended June 30   | Revenues     | Transfers from General Fund | Expenditures  | Ending Fund Balance | Ending Fund Balance Change |
| 2002  | \$           | \$                          | \$            | 1,602,039.88        | \$                         |
| 2003  | 7,997,889.36 |                             | 8,261,691.19  | 1,338,238.05        | (263,801.83)               |
| 2004  | 8,978,791.06 |                             | 9,338,116.17  | 978,912.94          | (359,325.11)               |
| 2005  | 9,754,289.66 | 200,000.00                  | 10,468,875.89 | 464,326.71          | (514,586.23)               |
| 2006  | 9,648,725.93 | 634,000.00                  | 10,328,298.41 | 418,754.23          | (45,572.48)                |

As shown above, food service program expenditures have exceeded revenues in each of the past four fiscal years and the District transferred unrestricted General Fund moneys during the 2004-05 and 2005-06 fiscal years to the food service program. For the 2005-06 fiscal year, the Board approved the transfer of \$634,000 at the end of the fiscal year based on the excess of expenditures over revenues. The District's continued use of unrestricted

General Fund resources to subsidize the school food service program reduces funds available for the District's other educational programs.

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**Recommendation:** The District should continue to monitor school food service operations with a view toward improving its financial condition while also considering the Board's intent regarding the level of transfers to be made from the General Fund.

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#### **PRIOR AUDIT FINDINGS**

The District corrected the deficiencies and exceptions cited in our report Nos. 2004-068 and 2004-191.

#### **MANAGEMENT RESPONSE**

In accordance with the provisions of Section 11.45(4)(d), Florida Statutes, a list of audit findings and recommendations was submitted to members of the Okaloosa County District School Board and the Superintendent. The Superintendent's written response to the audit findings and recommendations included in this report is shown on pages 60 through 62.

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**FINANCIAL SECTION**

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***INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS******MANAGEMENT'S DISCUSSION AND ANALYSIS******BASIC FINANCIAL STATEMENTS***

***EXHIBIT – A    Statement of Net Assets.***

***EXHIBIT – B    Statement of Activities.***

***EXHIBIT – C    Balance Sheet – Governmental Funds.***

***EXHIBIT – D    Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets.***

***EXHIBIT – E    Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.***

***EXHIBIT – F    Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities.***

***EXHIBIT – G    Statement of Fiduciary Assets and Liabilities – Fiduciary Funds.***

***EXHIBIT – H    Notes to Financial Statements.***

***OTHER REQUIRED SUPPLEMENTARY INFORMATION***

***EXHIBIT – I    Budgetary Comparison Schedule – General Fund.***





WILLIAM O. MONROE, CPA  
AUDITOR GENERAL

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

## INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Okaloosa County District School Board as of and for the fiscal year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed on page 3. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the school internal funds, which represent 41 percent of the assets and 81 percent of the liabilities of the aggregate remaining fund information. In addition, we did not audit the financial statements of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports have been provided to us, and our opinion, insofar as it relates to the amounts included for the school internal funds and the aggregate discretely presented component units, 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. The financial statements of the school internal funds were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

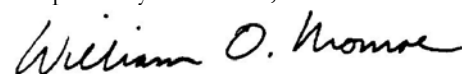
In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information for the Okaloosa County District School Board as of June 30, 2006, and the respective changes in financial position thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

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

The Management's Discussion and Analysis (pages 6 through 13) and the Budgetary Comparison Schedule (shown as exhibit I) 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 thereon.

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

Respectfully submitted,



William O. Monroe, CPA  
October 17, 2006

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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The Management of the Okaloosa County District School Board has prepared the following discussion and analysis of financial activities for the fiscal year ended June 30, 2006. 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 found on pages 14 through 43.

### FINANCIAL HIGHLIGHTS

Key financial highlights for the 2005-06 fiscal year are as follows:

- The District's total net assets increased by \$5,473,740, or 3 percent.
- General revenues total \$240,756,660, or 91 percent of all revenues in the 2005-06 fiscal year, as compared to \$221,720,967, or 91 percent for the 2004-05 fiscal year. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total \$23,598,757, or 9 percent as compared to \$22,924,694, or 9 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, totals \$8,253,869 at June 30, 2006, or 4 percent of General Fund expenditures as compared to \$5,555,048, or 3 percent at June 30, 2005.
- The District's total long-term liabilities increased by \$2,503,188, or 5 percent, as compared to a decrease of \$3,167,293, or approximately 6 percent in the prior year. Within long-term liabilities, the long-term liability for compensated absences increased \$3,915,188, or 18 percent, as compared to a decrease of \$2,172,257, or 9 percent in the 2004-05 fiscal year; the long-term liability for estimated insurance claims increased \$703,000, or 18 percent; and the long-term liability for debt decreased \$2,115,000, or 8 percent, as compared to a decrease of \$1,612,036, or 6 percent, in the 2004-05 fiscal year.
- During the current year, General Fund expenditures exceed revenues by \$5,675,905. This may be compared to last year's results in which General Fund expenditures exceeded revenues by \$5,117,550.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements consist of three components:

- Government-wide financial statements.
- Fund financial statements.
- Notes to financial statements.

#### Government-Wide Financial Statements

The government-wide financial statements provide both short-term and long-term information about the District's overall financial condition in a manner similar to those of a private-sector business. The statements include a statement of net assets and a statement of activities that are designed to provide consolidated financial information about the governmental activities of the District presented on the accrual basis of accounting. The statement of net assets provides information about the 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 two categories:

- **Governmental activities** – This represents most of the District's services, including its educational programs: basic, vocational, adult, and exceptional education. Support functions such as transportation and administration are also included. Local property taxes and the State's education finance program provide most of the resources that support these activities.
- **Component units** – The District presents three separate legal entities in this report including the Okaloosa Academy, Inc., the Liza Jackson Preparatory School, Inc., and Okaloosa Public Schools Foundation, Inc. Although legally separate organizations, the component units are included in this report because they meet the criteria for inclusion provided by generally accepted accounting principles.

The Okaloosa School Board Leasing Corporation was formed to facilitate 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 nonfinancial 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 as discussed below.

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

The governmental fund statements provide a detailed short-term view that may be used to evaluate the District's near-term financing requirements. This short-term view is useful when compared to the long-term view

presented as governmental activities in the government-wide financial statements. To facilitate this comparison, both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation of governmental funds to governmental activities.

The governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances provide detailed information about the District's most significant funds, not the District as a whole. The District's major funds are the General Fund, Capital Projects – Local Capital Improvement 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 schedule has been provided for the General Fund to demonstrate compliance with the budget.

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

The District uses agency funds to account for resources held for student activities and groups and for resources held for the 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, 2006, compared to net assets as of June 30, 2005:

|  | Net Assets, End of Year |                       |                       |
|--|-------------------------|-----------------------|-----------------------|
|  | Governmental Activities |                       |                       |
|  | 6-30-06                 | 6-30-05               | Increase/<br>Decrease |
| Current and Other Assets                 | \$ 81,272,150           | \$ 73,141,887         | \$ 8,130,263          |
| Capital Assets                           | 169,134,368             | 168,683,095           | 451,273               |
| <b>Total Assets</b>                      | <b>250,406,518</b>      | <b>241,824,982</b>    | <b>8,581,536</b>      |
| Long-Term Liabilities                    | 53,161,310              | 50,658,122            | 2,503,188             |
| Other Liabilities                        | 4,144,775               | 3,540,167             | 604,608               |
| <b>Total Liabilities</b>                 | <b>57,306,085</b>       | <b>54,198,289</b>     | <b>3,107,796</b>      |
| Invested in Capital Assets - Net of Debt | 145,744,368             | 143,178,095           | 2,566,273             |
| Restricted                               | 37,486,556              | 32,310,145            | 5,176,411             |
| Unrestricted                             | 9,869,509               | 12,138,453            | (2,268,944)           |
| <b>Total Net Assets</b>                  | <b>\$ 193,100,433</b>   | <b>\$ 187,626,693</b> | <b>\$ 5,473,740</b>   |

The largest portion of the District's net assets (75 percent in the 2005-06 fiscal year and 76 percent in the 2004-05 fiscal year) 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 \$2,566,273, or 2 percent. 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 assets decreased \$2,268,944 in the 2005-06 fiscal year.

Operating results for the fiscal year ended June 30, 2006, as compared to June 30, 2005, are as follows:

| Operating Results for the Year                               |                         |                    |                       |
|--|-------------------------|--------------------|-----------------------|
|  | Governmental Activities |                    |                       |
|  | 6-30-06                 | 6-30-05            | Increase/<br>Decrease |
| Program Revenues:  |                         |                    |                       |
| Charges for Services   | \$ 7,890,362            | \$ 7,381,146       | \$ 509,216            |
| Operating Grants and Contributions                           | 10,500,427              | 10,911,087         | (410,660)             |
| Capital Grants and Contributions                             | 5,207,967               | 4,632,461          | 575,506               |
| General Revenues:  |                         |                    |                       |
| Property Taxes, Levied for Operational Purposes              | 80,581,211              | 66,373,756         | 14,207,455            |
| Property Taxes, Levied for Capital Projects                  | 25,505,346              | 20,234,292         | 5,271,054             |
| Grants and Contributions Not Restricted to Specific Programs | 124,058,677             | 129,035,165        | (4,976,488)           |
| Unrestricted Investment Earnings                             | 3,657,799               | 1,729,333          | 1,928,466             |
| Miscellaneous  | 6,953,629               | 4,348,421          | 2,605,208             |
| <b>Total Revenues</b>  | <b>264,355,418</b>      | <b>244,645,661</b> | <b>19,709,757</b>     |
| Functions/Program Expenses:                                  |                         |                    |                       |
| Instruction  | 150,467,765             | 135,892,140        | 14,575,625            |
| Pupil Personnel Services                                     | 7,459,653               | 7,022,196          | 437,457               |
| Instructional Media Services                                 | 3,060,406               | 2,947,011          | 113,395               |
| Instruction and Curriculum Development Services              | 7,315,656               | 6,946,130          | 369,526               |
| Instructional Staff Training                                 | 811,981                 | 860,754            | (48,773)              |
| Instruction Related Technology                               | 1,161,863               |                    | 1,161,863             |
| Board of Education   | 880,205                 | 2,853,275          | (1,973,070)           |
| General Administration                                       | 671,524                 | 854,986            | (183,462)             |
| School Administration  | 15,051,747              | 13,291,030         | 1,760,717             |
| Facilities Acquisition and Construction                      | 11,919,695              | 16,565,982         | (4,646,287)           |
| Fiscal Services  | 1,418,975               | 1,288,763          | 130,212               |
| Food Services  | 10,479,336              | 10,346,264         | 133,072               |
| Central Services   | 3,209,722               | 5,718,317          | (2,508,595)           |
| Pupil Transportation Services                                | 10,361,128              | 9,141,639          | 1,219,489             |
| Operation of Plant   | 15,440,985              | 12,078,124         | 3,362,861             |
| Maintenance of Plant   | 6,530,667               | 6,038,061          | 492,606               |
| Administrative Technology Services                           | 2,790,971               |                    | 2,790,971             |
| Community Services   | 1,451,119               | 1,171,835          | 279,284               |
| Interest on Long-Term Debt                                   | 903,995                 | 1,093,902          | (189,907)             |
| Unallocated Depreciation Expenses                            | 7,494,285               | 9,598,145          | (2,103,860)           |
| <b>Total Functions/Program Expenses</b>                      | <b>258,881,678</b>      | <b>243,708,554</b> | <b>15,173,124</b>     |
| <b>Increase in Net Assets</b>                                | <b>\$ 5,473,740</b>     | <b>\$ 937,107</b>  | <b>\$ 4,536,633</b>   |

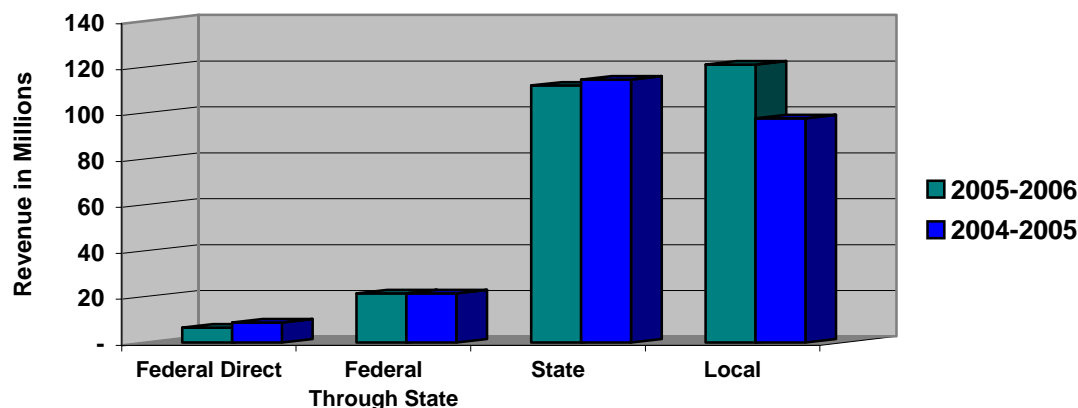
Instructional expenses represent 58 percent of total governmental expenses in the 2005-06 fiscal year, as compared to 56 percent in the 2004-05 fiscal year. Instructional expenses increased by approximately \$14,575,625, or 11 percent, versus an increase of \$12,104,203, or 10 percent, in the 2004-05 fiscal year. The increase in instructional expenditures is due mainly to an increase in salaries for instructional staff, an increase in the number of classroom teachers as a result of Class Size Reduction, and an increase in the liability for compensated absences.

Facilities Acquisition and Construction expenses decreased \$4,646,287, or 28 percent, as a result of fewer repairs and renovating projects as compared to the 2004-05 fiscal year.

The District received 46 percent of total revenues from local sources, including funds received from property tax levies and interest revenues. State funds accounted for 43 percent of total funds received, while Federal funds contributed 11 percent. Governmental fund revenues totaled \$260,920,510, an increase of approximately

\$18,613,554, or 8 percent. Funds received from local sources were \$23,425,195 more than those received during the 2004-05 fiscal year, while funds received from State and Federal sources decreased by \$2,571,064 and \$2,240,577, respectively.

### Source of Revenue



### 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 is \$8,253,869, while the total fund balance is \$44,181,421. For the 2004-05 fiscal year, unreserved fund balance was \$5,555,048, while the total fund balance was \$41,429,050. The unreserved fund balance increased by \$2,698,821 in the 2005-06 fiscal year, while the total fund balance increased by \$2,752,371, as compared to an increase in the 2004-05 fiscal year in unreserved fund balance of \$920,272, and an increase in total fund balance of \$6,149,809. Key factors in this growth are as follows:

- State revenues decreased approximately \$2,726,498 in the current fiscal year primarily due to the impact of the increase in the local property tax base on the Florida Education Finance Program (FEFP). 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. As property values increase, the required local effort contribution in the FEFP generally increases the amount which local property taxes must generate.
- Local revenues increased approximately \$17,112,499 in the current year, as compared to an increase of \$5,807,247 in the 2004-05 fiscal year. The increase is primarily due to the increase in local property values.

The Capital Projects – Local Capital Improvement Fund has a total fund balance of \$13,967,271, all of which is restricted for the acquisition, construction, and maintenance of capital assets. This is an increase of \$6,351,271, as compared to total fund balance for the 2004-05 fiscal year of \$7,615,550. The fund balance increased in the current year due to an increase in local capital improvement tax revenues of \$5,210,457.



The Capital Projects – Other Fund has a total fund balance of \$11,438,384, 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.

### **GENERAL FUND BUDGETARY HIGHLIGHTS**

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

During the course of the 2005-06 fiscal year, the District amended its General Fund budget several times, which resulted in an increase in total appropriations, excluding reserves, amounting to \$9,411,180, or 4 percent. At the same time, final budgeted revenues, excluding beginning fund balance, were more than the original budgeted amount by \$6,719,384, or 3 percent. This resulted in a change in the final budgeted ending fund balance of \$4,285,854, or 13 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 School Recognition and Supplemental Academic Instruction during the fiscal year.

Actual revenues were \$1,122,168, or less than 1 percent more than the final budgeted amounts, whereas actual expenditures were \$14,349,861, 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 \$15,472,029.

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

#### **Capital Assets**

The District's investment in capital assets for its governmental activities as of June 30, 2006, amounts to \$169,134,368 (net of accumulated depreciation), as compared to \$168,683,095 in the 2004-05 fiscal year. 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; construction in progress; and audio visual materials and computer software.

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

- Construction in progress at June 30, 2006:
  - Shalimar Elementary School – Classroom Addition
  - Fort Walton Beach High School – Athletic Complex
  - Baker School – Roof Replacement and Repairs
  - Crestview High School – Roof Replacement
  - Bruner Middle School – Roof Replacement
  - P. E. Pavilions – Various Elementary Schools

- Major capital projects were as follows:
- Antioch Elementary School – Classroom Addition
  - Crestview High School – Roof Replacement
  - Florosa Elementary School – Roof Replacement
  - Cook Chill Facility – Roof Replacement

Additional information on the District's capital assets can be found in Note 5 to the financial statements.

### **Long-term Debt**

At June 30, 2006, the District has total long-term debt outstanding of \$23,390,000, as compared to \$25,505,000, in the 2004-05 fiscal year. At June 30, 2006, long-term debt was comprised of \$8,230,000 of bonds payable and \$15,160,000 of certificates of participation payable. During the fiscal year, the decrease in debt amounted to \$2,115,000.

Additional information on the District's long-term debt can be found in Notes 6 through 9 to the financial statements.

### **REQUESTS FOR INFORMATION**

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the Okaloosa County District School Board'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 at Okaloosa County School District, 120 Lowery Place S.E., Ft. Walton Beach, FL 32548 or by telephone 850-833-5840.

**EXHIBIT - A**  
**OKALOOSA COUNTY**  
**DISTRICT SCHOOL BOARD**  
**STATEMENT OF NET ASSETS**  
**June 30, 2006**

|   | Primary Government<br>Governmental<br>Activities | Component<br>Units     |
|---|--|------------------------|
| <b>ASSETS</b>                                     |  |                        |
| Cash  | \$ 5,727,053.03                                  | \$ 590,550.00          |
| Investments                                       | 67,737,044.35                                    | 27,315.00              |
| Accounts Receivable                               | 2,355,130.89                                     | 36,362.00              |
| Deposits Receivable                               |  | 45,075.00              |
| Internal Balances                                 | 114,072.97                                       |                        |
| Due from Other Agencies                           | 3,458,421.73                                     | 37,060.00              |
| Due from Insurer                                  | 1,367,000.00                                     |                        |
| Inventories                                       | 513,427.22                                       |                        |
| Prepaid Items                                     |  | 72,450.00              |
| Capital Assets:                                   |  |                        |
| Land  | 6,484,791.99                                     | 487,339.00             |
| Construction in Progress                          | 3,231,380.77                                     |                        |
| Improvements Other Than Buildings, Net            | 4,412,395.20                                     | 363,208.00             |
| Buildings and Fixed Equipment, Net                | 145,044,450.02                                   | 124,475.00             |
| Furniture, Fixtures, and Equipment, Net           | 5,603,116.91                                     | 261,293.00             |
| Motor Vehicles, Net                               | 3,587,272.52                                     | 26,769.00              |
| Audio Visual Materials and Computer Software, Net | 770,960.29                                       | 36,364.00              |
| <b>TOTAL ASSETS</b>                               | <b>\$ 250,406,517.89</b>                         | <b>\$ 2,108,260.00</b> |
| <b>LIABILITIES</b>                                |  |                        |
| Salaries and Benefits Payable                     | \$ 1,158,494.91                                  | \$ 27,645.00           |
| Accounts Payable                                  | 837,139.71                                       | 25,261.00              |
| Construction Contracts Payable                    | 1,466,674.47                                     |                        |
| Due to Other Agencies                             | 282,078.88                                       |                        |
| Deferred Revenue                                  | 400,386.50                                       | 19,050.00              |
| Long-Term Liabilities:                            |  |                        |
| Portion Due Within One Year:                      |  |                        |
| Obligations Under Capital Lease                   |  | 27,554.00              |
| Bonds Payable                                     | 635,000.00                                       |                        |
| Certificates of Participation Payable             | 965,000.00                                       |                        |
| Estimated Insurance Claims Payable                | 1,907,000.00                                     |                        |
| Compensated Absences Payable                      | 1,964,972.00                                     |                        |
| Portion Due After One Year:                       |  |                        |
| Obligations Under Capital Lease                   |  | 38,227.00              |
| Bonds Payable                                     | 7,595,000.00                                     |                        |
| Certificates of Participation Payable             | 14,195,000.00                                    |                        |
| Estimated Insurance Claims Payable                | 2,782,000.00                                     |                        |
| Compensated Absences Payable                      | 23,117,338.04                                    |                        |
| <b>Total Liabilities</b>                          | <b>57,306,084.51</b>                             | <b>137,737.00</b>      |
| <b>NET ASSETS</b>                                 |  |                        |
| Invested in Capital Assets, Net of Related Debt   | 145,744,367.70                                   | 1,220,194.00           |
| Restricted for:                                   |  |                        |
| State Categorical Programs                        | 6,885,758.45                                     | 2,642.00               |
| Debt Service                                      | 1,364,585.07                                     |                        |
| Capital Projects                                  | 28,817,459.20                                    | 28,970.00              |
| School Food Service                               | 418,754.23                                       | 162,351.00             |
| Unrestricted                                      | 9,869,508.73                                     | 556,366.00             |
| <b>Total Net Assets</b>                           | <b>193,100,433.38</b>                            | <b>1,970,523.00</b>    |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>           | <b>\$ 250,406,517.89</b>                         | <b>\$ 2,108,260.00</b> |

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

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**EXHIBIT - B**  
**OKALOOSA COUNTY**  
**DISTRICT SCHOOL BOARD**  
**STATEMENT OF ACTIVITIES**  
**For the Fiscal Year Ended June 30, 2006**

| Functions/Programs   | Expenses          | Program Revenues           |  |  |
|--|-------------------|----------------------------|--|--|
|  |                   | Charges<br>for<br>Services | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions |
| Primary Government   |                   |                            |  |  |
| Governmental Activities:                                     |                   |                            |  |  |
| Instruction  | \$ 150,467,764.96 | \$ 424,906.64              | \$                                       | \$                                     |
| Pupil Personnel Services                                     | 7,459,653.23      |                            |  |  |
| Instructional Media Services                                 | 3,060,406.36      |                            |  |  |
| Instruction and Curriculum Development Services              | 7,315,655.40      |                            |  |  |
| Instructional Staff Training                                 | 811,980.96        |                            |  |  |
| Instruction Related Technology                               | 1,161,862.81      |                            |  |  |
| Board of Education   | 880,204.89        |                            |  |  |
| General Administration                                       | 671,524.36        |                            |  |  |
| School Administration  | 15,051,746.84     |                            |  |  |
| Facilities Acquisition and Construction                      | 11,919,695.21     |                            |  | 4,052,466.50                           |
| Fiscal Services  | 1,418,974.78      |                            |  |  |
| Food Services  | 10,479,335.60     | 5,190,824.26               | 4,445,909.33                             |  |
| Central Services   | 3,209,722.28      |                            |  |  |
| Pupil Transportation Services                                | 10,361,127.42     | 590,184.89                 | 6,054,518.00                             |  |
| Operation of Plant   | 15,440,985.24     |                            |  |  |
| Maintenance of Plant   | 6,530,667.31      |                            |  |  |
| Administrative Technology Services                           | 2,790,970.93      |                            |  |  |
| Community Services   | 1,451,118.98      | 1,684,446.45               |  |  |
| Interest on Long-Term Debt                                   | 903,994.57        |                            |  | 1,155,500.58                           |
| Unallocated Depreciation Expenses                            | 7,494,285.32      |                            |  |  |
| Total Primary Government                                     | \$ 258,881,677.45 | \$ 7,890,362.24            | \$ 10,500,427.33                         | \$ 5,207,967.08                        |
| Component Units  |                   |                            |  |  |
| Educational Foundation                                       | \$ 243,852.00     | \$                         | \$ 264,306.00                            | \$                                     |
| Charter Schools  | 6,620,707.00      | 523,069.00                 | 440,377.00                               | 418,302.00                             |
| Total Component Units  | \$ 6,864,559.00   | \$ 523,069.00              | \$ 704,683.00                            | \$ 418,302.00                          |
| General Revenues:  |                   |                            |  |  |
| Taxes:   |                   |                            |  |  |
| Property Taxes, Levied for Operational Purposes              |                   |                            |  |  |
| Property Taxes, Levied for Capital Projects                  |                   |                            |  |  |
| Grants and Contributions Not Restricted to Specific Programs |                   |                            |  |  |
| Unrestricted Investment Earnings                             |                   |                            |  |  |
| Miscellaneous  |                   |                            |  |  |
| Total General Revenues                                       |                   |                            |  |  |
| Change in Net Assets   |                   |                            |  |  |
| Net Assets - July 1, 2005                                    |                   |                            |  |  |
| Net Assets - June 30, 2006                                   |                   |                            |  |  |

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

**EXHIBIT - B**

| Net (Expense) Revenue and Changes in Net Assets |                  |                    |
|---|------------------|--------------------|
| Primary Government                              |                  | Component<br>Units |
| Governmental                                    |                  |                    |
| Activities                                      |                  |                    |
|   |                  |                    |
| \$  | (150,042,858.32) | \$                 |
|   | (7,459,653.23)   |                    |
|   | (3,060,406.36)   |                    |
|   | (7,315,655.40)   |                    |
|   | (811,980.96)     |                    |
|   | (1,161,862.81)   |                    |
|   | (880,204.89)     |                    |
|   | (671,524.36)     |                    |
|   | (15,051,746.84)  |                    |
|   | (7,867,228.71)   |                    |
|   | (1,418,974.78)   |                    |
|   | (842,602.01)     |                    |
|   | (3,209,722.28)   |                    |
|   | (3,716,424.53)   |                    |
|   | (15,440,985.24)  |                    |
|   | (6,530,667.31)   |                    |
|   | (2,790,970.93)   |                    |
|   | 233,327.47       |                    |
|   | 251,506.01       |                    |
|   | (7,494,285.32)   |                    |
|   |                  |                    |
|   | (235,282,920.80) |                    |
|   |                  |                    |
|   |                  | 20,454.00          |
|   |                  | (5,238,959.00)     |
|   |                  |                    |
|   |                  | (5,218,505.00)     |
|   |                  |                    |
|   | 80,581,210.57    |                    |
|   | 25,505,345.67    |                    |
|   | 124,058,676.51   | 5,059,163.00       |
|   | 3,657,798.90     | 12,440.00          |
|   | 6,953,628.74     | 40,465.00          |
|   |                  |                    |
|   | 240,756,660.39   | 5,112,068.00       |
|   |                  |                    |
|   | 5,473,739.59     | (106,437.00)       |
|   |                  |                    |
|   | 187,626,693.79   | 2,076,960.00       |
|   |                  |                    |
| \$  | 193,100,433.38   | \$ 1,970,523.00    |

**EXHIBIT - C**  
**OKALOOSA COUNTY**  
**DISTRICT SCHOOL BOARD**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**June 30, 2006**

|  | General<br>Fund             | Capital<br>Projects -<br>Local Capital<br>Improvement Fund |
|--|-----------------------------|--|
|  | <u>                    </u> | <u>                    </u>                                |
| <b>ASSETS</b>                              |                             |  |
| Cash                                       | \$ 5,663,237.10             | \$   |
| Investments                                | 38,586,183.07               | 14,912,703.76  |
| Accounts Receivable, Net                   | 8,674.60                    |  |
| Due from Other Funds                       | 338,307.13                  |  |
| Due from Other Agencies                    | 1,469,512.18                | 14,036.50  |
| Due from Insurer                           |                             |  |
| Inventories                                | 136,429.17                  |  |
|  | <u>                    </u> | <u>                    </u>                                |
| <b>TOTAL ASSETS</b>                        | <u>\$ 46,202,343.25</u>     | <u>\$ 14,926,740.26</u>                                    |
| <br><b>LIABILITIES AND FUND BALANCES</b>   |                             |  |
| Liabilities:                               |                             |  |
| Salaries and Benefits Payable              | \$ 1,158,494.91             | \$   |
| Accounts Payable                           | 582,290.16                  | 60,188.21  |
| Construction Contracts Payable             |                             | 899,281.31   |
| Due to Other Funds                         |                             |  |
| Due to Other Agencies                      | 280,137.00                  |  |
| Deferred Revenue                           |                             |  |
|  | <u>                    </u> | <u>                    </u>                                |
| <b>Total Liabilities</b>                   | <u>2,020,922.07</u>         | <u>959,469.52</u>  |
| Fund Balances:                             |                             |  |
| Reserved for State Categorical Programs    | 6,885,758.45                |  |
| Reserved for Encumbrances                  | 1,593,019.04                | 835,264.85   |
| Reserved for Inventories                   | 136,429.17                  |  |
| Reserved for Self Insurance                | 4,689,000.00                |  |
| Reserved for Debt Service                  |                             |  |
| Unreserved:                                |                             |  |
| Designated, reported in General Fund:      |                             |  |
| Designated for Local Carryover Projects    | 11,695,117.78               |  |
| Designated for Terminal Pay                | 1,400,000.00                |  |
| Designated for Contingencies               | 1,367,483.06                |  |
| Designated for Schools/Departments         | 8,160,744.23                |  |
| Undesignated, reported in:                 |                             |  |
| General Fund                               | 8,253,869.45                |  |
| Special Revenue Funds                      |                             |  |
| Capital Projects Funds                     |                             | 13,132,005.89  |
|  | <u>                    </u> | <u>                    </u>                                |
| <b>Total Fund Balances</b>                 | <u>44,181,421.18</u>        | <u>13,967,270.74</u>                                       |
| <b>TOTAL LIABILITIES AND FUND BALANCES</b> | <u>\$ 46,202,343.25</u>     | <u>\$ 14,926,740.26</u>                                    |

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

**EXHIBIT - C**

| Capital<br>Projects -<br>Other<br>Fund | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|--------------------------------|--------------------------------|
| <hr/>                                  | <hr/>                          | <hr/>                          |
| \$                                     | \$                             | \$                             |
| 10,633,436.50                          | 63,815.93                      | 5,727,053.03                   |
|  | 3,604,721.02                   | 67,737,044.35                  |
|  | 1,300.25                       | 9,974.85                       |
|  |                                | 338,307.13                     |
|  | 1,974,873.05                   | 3,458,421.73                   |
| 1,367,000.00                           |                                | 1,367,000.00                   |
| <hr/>                                  | 376,998.05                     | 513,427.22                     |
| <hr/>                                  | <hr/>                          | <hr/>                          |
| \$ 12,000,436.50                       | \$ 6,021,708.30                | \$ 79,151,228.31               |
| <hr/>                                  | <hr/>                          | <hr/>                          |
| <br>                                   | <br>                           | <br>                           |
| \$                                     | \$                             | \$                             |
| 562,052.45                             | 194,661.34                     | 1,158,494.91                   |
|  | 5,340.71                       | 837,139.71                     |
|  | 224,234.16                     | 1,466,674.47                   |
|  | 1,941.88                       | 224,234.16                     |
|  | 400,386.50                     | 282,078.88                     |
| <hr/>                                  | <hr/>                          | 400,386.50                     |
| <hr/>                                  | <hr/>                          | <hr/>                          |
| 562,052.45                             | 826,564.59                     | 4,369,008.63                   |
| <hr/>                                  | <hr/>                          | <hr/>                          |
| <br>                                   | <br>                           | <br>                           |
| 697,613.30                             | 271,871.00                     | 6,885,758.45                   |
|  | 376,998.05                     | 3,397,768.19                   |
|  |                                | 513,427.22                     |
|  | 1,364,585.07                   | 4,689,000.00                   |
|  |                                | 1,364,585.07                   |
|  |                                | 11,695,117.78                  |
|  |                                | 1,400,000.00                   |
|  |                                | 1,367,483.06                   |
|  |                                | 8,160,744.23                   |
|  |                                | 8,253,869.45                   |
|  | 41,148.62                      | 41,148.62                      |
| 10,740,770.75                          | 3,140,540.97                   | 27,013,317.61                  |
| <hr/>                                  | <hr/>                          | <hr/>                          |
| 11,438,384.05                          | 5,195,143.71                   | 74,782,219.68                  |
| <hr/>                                  | <hr/>                          | <hr/>                          |
| \$ 12,000,436.50                       | \$ 6,021,708.30                | \$ 79,151,228.31               |
| <hr/>                                  | <hr/>                          | <hr/>                          |



**EXHIBIT - D  
OKALOOSA COUNTY  
DISTRICT SCHOOL BOARD  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2006**

|   |                         |
|---|-------------------------|
| <b>Total Fund Balances - Governmental Funds</b> | <b>\$ 74,782,219.68</b> |
|---|-------------------------|

Amounts reported for governmental activities in the statement of net assets are different because:

|   |              |
|---|--------------|
| Certain receivables are not due and payable in the current period and, therefore, are not reported in the governmental funds. | 2,345,156.04 |
|---|--------------|

|  |                |
|--|----------------|
| 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. | 169,134,367.70 |
|--|----------------|

Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consist of:

|                                       |                      |                        |
|---------------------------------------|----------------------|------------------------|
| Bonds Payable                         | \$ 8,230,000.00      |                        |
| Certificates of Participation Payable | 15,160,000.00        |                        |
| Estimated Insurance Claims Payable    | 4,689,000.00         |                        |
| Compensated Absences Payable          | <u>25,082,310.04</u> | <u>(53,161,310.04)</u> |

|   |                                 |
|---|---------------------------------|
| <b>Total Net Assets - Governmental Activities</b> | <b><u>\$ 193,100,433.38</u></b> |
|---|---------------------------------|

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

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**EXHIBIT - E**  
**OKALOOSA COUNTY**  
**DISTRICT SCHOOL BOARD**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES -**  
**GOVERNMENTAL FUNDS**  
**For the Fiscal Year Ended June 30, 2006**

|  | General<br>Fund         | Capital<br>Projects -<br>Local Capital<br>Improvement Fund |
|--|-------------------------|--|
| <b>Revenues</b>  |                         |  |
| Intergovernmental:                                       |                         |  |
| Federal Direct   | \$ 6,213,107.33         | \$   |
| Federal Through State                                    | 1,888,756.35            |  |
| State  | 107,211,966.46          |  |
| Local  | 89,208,174.17           | 26,153,513.26  |
| <b>Total Revenues</b>                                    | <b>204,522,004.31</b>   | <b>26,153,513.26</b>                                       |
| <b>Expenditures</b>                                      |                         |  |
| Current - Education:                                     |                         |  |
| Instruction  | 138,723,408.98          |  |
| Pupil Personnel Services                                 | 6,610,723.25            |  |
| Instructional Media Services                             | 2,867,156.54            |  |
| Instruction and Curriculum Development Services          | 3,821,539.27            |  |
| Instructional Staff Training                             | 597,770.41              |  |
| Instruction Related Technology                           | 1,001,509.37            |  |
| Board of Education                                       | 874,331.89              |  |
| General Administration                                   | 351,816.55              |  |
| School Administration                                    | 14,716,061.16           |  |
| Facilities Acquisition and Construction                  | 392,657.41              | 3,549,664.28   |
| Fiscal Services  | 1,388,827.78            |  |
| Food Services  | 91,479.27               |  |
| Central Services   | 2,465,058.31            |  |
| Pupil Transportation Services                            | 9,570,713.04            |  |
| Operation of Plant                                       | 15,320,633.76           |  |
| Maintenance of Plant                                     | 6,387,220.05            |  |
| Administrative Technology Services                       | 2,755,733.93            |  |
| Community Services                                       | 1,430,759.98            |  |
| Fixed Capital Outlay:                                    |                         |  |
| Facilities Acquisition and Construction                  | 75,984.39               | 4,293,287.86   |
| Other Capital Outlay                                     | 754,523.57              | 560,759.47   |
| Debt Service:  |                         |  |
| Principal  |                         |  |
| Interest and Fiscal Charges                              |                         |  |
| <b>Total Expenditures</b>                                | <b>210,197,908.91</b>   | <b>8,403,711.61</b>  |
| <b>Excess (Deficiency) of Revenues Over Expenditures</b> | <b>(5,675,904.60)</b>   | <b>17,749,801.65</b>                                       |
| <b>Other Financing Sources (Uses)</b>                    |                         |  |
| Transfers In   | 10,168,043.00           |  |
| Proceeds from Sale of Capital Assets                     | 937,928.28              |  |
| Proceeds from Refunding Bonds Issued                     |                         |  |
| Premium on Refunding Bonds                               |                         |  |
| Loss Recoveries  |                         |  |
| Payments to Escrow Agent for Refunded Bonds              |                         |  |
| Transfers Out  | (2,677,695.97)          | (11,398,080.70)  |
| <b>Total Other Financing Sources (Uses)</b>              | <b>8,428,275.31</b>     | <b>(11,398,080.70)</b>                                     |
| <b>Net Change in Fund Balances</b>                       | <b>2,752,370.71</b>     | <b>6,351,720.95</b>  |
| Fund Balances, July 1, 2005                              | 41,429,050.47           | 7,615,549.79   |
| <b>Fund Balances, June 30, 2006</b>                      | <b>\$ 44,181,421.18</b> | <b>\$ 13,967,270.74</b>                                    |

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

**EXHIBIT - E**

| Capital<br>Projects -<br>Other<br>Fund | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|--------------------------------|--------------------------------|
| <u>\$</u>                              | <u>\$</u>                      | <u>\$</u>                      |
| 935,261.57                             | 221,118.55                     | 6,434,225.88                   |
| 72,315.10                              | 18,527,413.35                  | 21,351,431.27                  |
| 450,715.65                             | 4,697,132.21                   | 111,981,413.77                 |
| <u>1,458,292.32</u>                    | <u>5,341,036.22</u>            | <u>121,153,439.30</u>          |
|  |                                |                                |
|  | 8,983,875.92                   | 147,707,284.90                 |
|  | 705,242.98                     | 7,315,966.23                   |
|  | 134,913.82                     | 3,002,070.36                   |
|  | 3,364,523.13                   | 7,186,062.40                   |
|  | 209,512.55                     | 807,282.96                     |
|  | 149,782.44                     | 1,151,291.81                   |
|  |                                | 874,331.89                     |
|  | 313,443.81                     | 665,260.36                     |
|  | 29,126.68                      | 14,745,187.84                  |
| 4,995,990.00                           | 2,445,139.52                   | 11,383,451.21                  |
|  |                                | 1,388,827.78                   |
|  | 10,292,717.33                  | 10,384,196.60                  |
|  | 3,294.97                       | 2,468,353.28                   |
|  | 109,282.29                     | 9,679,995.33                   |
|  | 1,329.48                       | 15,321,963.24                  |
|  |                                | 6,387,220.05                   |
|  |                                | 2,755,733.93                   |
|  |                                | 1,430,759.98                   |
| 1,683,117.78                           | 1,004,243.25                   | 7,056,633.28                   |
| 5,892.80                               | 422,396.88                     | 1,743,572.72                   |
|  | 1,605,000.00                   | 1,605,000.00                   |
|  | <u>903,994.57</u>              | <u>903,994.57</u>              |
| <u>6,685,000.58</u>                    | <u>30,677,819.62</u>           | <u>255,964,440.72</u>          |
| <u>(5,226,708.26)</u>                  | <u>(1,891,119.29)</u>          | <u>4,956,069.50</u>            |
|  |                                |                                |
| 2,434,639.07                           | 2,141,172.44                   | 14,743,854.51                  |
|  |                                | 937,928.28                     |
|  | 810,000.00                     | 810,000.00                     |
|  | 78,845.23                      | 78,845.23                      |
| 2,532,487.46                           |                                | 2,532,487.46                   |
|  | (885,797.66)                   | (885,797.66)                   |
| <u>(662,134.74)</u>                    | <u>(5,943.10)</u>              | <u>(14,743,854.51)</u>         |
| <u>4,304,991.79</u>                    | <u>2,138,276.91</u>            | <u>3,473,463.31</u>            |
|  |                                |                                |
| (921,716.47)                           | 247,157.62                     | 8,429,532.81                   |
| <u>12,360,100.52</u>                   | <u>4,947,986.09</u>            | <u>66,352,686.87</u>           |
| <u>\$ 11,438,384.05</u>                | <u>\$ 5,195,143.71</u>         | <u>\$ 74,782,219.68</u>        |

**EXHIBIT - F**  
**OKALOOSA COUNTY**  
**DISTRICT SCHOOL BOARD**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF**  
**REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**TO THE STATEMENT OF ACTIVITIES**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**Net Change in Fund Balances - Governmental Funds** **\$ 8,429,532.81**

Amounts reported for governmental activities in the statement of activities are different because:

|  |                       |
|--|-----------------------|
| Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital outlays in excess of depreciation expense in the current period.   | 95,951.71             |
| The net effect of miscellaneous transactions involving capital assets (i.e., donations and disposals) is to increase capital assets.   | 355,321.79            |
| Revenue for the transfer of assets relating to the leaseback arrangement described in Note 4 provides current financial resources to governmental funds, but reduces long-term receivables in the statement of net assets.   | (903,878.28)          |
| Long-term debt proceeds provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which repayments exceeded proceeds in the current period. | 2,115,000.00          |
| Certain operating expenses for insurance claims reported in the statement of activities 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. This is the amount by which the estimated insurance claims liability increased.  | (703,000.00)          |
| In the statement of activities, the cost of compensated absences is measured by the amounts earned during the year, while in the governmental funds expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences earned in excess of the amount paid in the current period.   | <u>(3,915,188.44)</u> |

**Change in Net Assets - Governmental Activities** **\$ 5,473,739.59**

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

**EXHIBIT - G**  
**OKALOOSA COUNTY**  
**DISTRICT SCHOOL BOARD**  
**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES -**  
**FIDUCIARY FUNDS**  
**June 30, 2006**

|                                     | Agency<br>Funds               |
|-------------------------------------|-------------------------------|
|                                     | <hr/>                         |
| <b>ASSETS</b>                       |                               |
| Cash and Cash Equivalents           | \$ 1,333,866.58               |
| Investments                         | <u>3,219,437.50</u>           |
| <b>TOTAL ASSETS</b>                 | <u><u>\$ 4,553,304.08</u></u> |
| <b>LIABILITIES</b>                  |                               |
| Payroll Deductions and Withholdings | \$ 175,766.58                 |
| Due to Other Funds                  | 114,072.97                    |
| Internal Accounts Payable           | <u>4,263,464.53</u>           |
| <b>TOTAL LIABILITIES</b>            | <u><u>\$ 4,553,304.08</u></u> |

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

**EXHIBIT – H**  
**OKALOOSA COUNTY**  
**DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

➤ **Reporting Entity**

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

Criteria for determining if other entities are potential component units 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 relationship with the School Board are such that exclusion would cause the District's basic financial statements to be misleading or incomplete. Based on the application of these criteria, the following component units are included within the District School Board's reporting entity:

- **Blended Component Unit.** The Okaloosa School Board Leasing Corporation was formed to facilitate financing for the acquisition of facilities and equipment as further discussed in Note 6. Due to the substantive economic relationship between the Okaloosa County District School Board and the Leasing Corporation, the financial activities of the Leasing Corporation are included in the accompanying basic financial statements. Separate financial statements for the Leasing Corporation are not published.
- **Discretely Presented Component Units.** The component units columns in the basic financial statements, Exhibits A and B, include the financial data of the District's other component units.

The Okaloosa Public Schools Foundation, Inc., is a separate not-for-profit corporation organized and operated as a direct-support organization 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. An annual audit of the Foundation's financial statements is conducted by independent certified public accountants and is available at the District's administrative offices.

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 charters with the following schools pursuant to Section 1002.33, Florida Statutes:

The Okaloosa Academy, Inc., was established to provide an alternative education system for "at risk" students. The Academy is a separate not-for-profit entity with a separate board of directors.

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.

**EXHIBIT - H (Continued)**  
**OKALOOSA COUNTY**  
**DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**

Annual audits of the charter schools' financial statements are conducted by independent certified public accountants and are available at the District's administrative offices.

➤ **Basis of Presentation**

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

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

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

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

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

The District reports the following major governmental funds:

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



**EXHIBIT - H (Continued)**  
**OKALOOSA COUNTY**  
**DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**

- Agency Funds – to account for the financial resources of the District’s pre-tax flexible benefits plan and the school internal funds which are used to administer moneys collected at the several schools in connection with school, student athletic, class, and club activities.

➤ **Basis of Accounting**

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

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

Governmental fund financial statements are prepared using the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers revenues to be available if they are collected within 30 days of the end of the current fiscal year. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made. Under the modified accrual basis of accounting, expenditures are generally recognized when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, and compensated absences, which are recognized when due. Allocations of cost, such as depreciation, are not recognized in governmental funds.

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

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

The Okaloosa Public Schools Foundation, Inc., shown as a discretely presented component unit, is accounted for under the not-for-profit basis of accounting and uses the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred.

➤ **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 in State Board of Administration Debt Service accounts for investment of debt service moneys and 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. This investment pool operates under investment guidelines established by Section 215.47, Florida Statutes. The District’s investments in the Local Government Surplus Funds Trust Fund, a Securities and Exchange Commission Rule 2a7-like external investment pool, are reported at fair value, which is amortized cost.

**EXHIBIT - H (Continued)**  
**OKALOOSA COUNTY**  
**DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**

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

➤ **Inventories**

Inventories consist of expendable supplies held for consumption in the course of District operations. Inventories are stated at cost on the first-in, first-out basis, except that United States Department of Agriculture surplus commodities are stated at their fair value as determined at the time of donation to the District's food service program by the Florida Department of Agriculture and Consumer Services, Bureau of Food Distribution. Although the costs of inventories are recorded as expenditures when used rather than purchased, a fund balance reserve is established at fiscal year-end to indicate that inventories do not constitute available expendable resources even though inventories are a component of current assets.

➤ **Capital Assets**

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

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

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

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

➤ **Long-Term Liabilities**

Long-term obligations that will be financed from resources to be received in the future by governmental funds are reported as liabilities in the government-wide statement of net assets.

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

**EXHIBIT - H (Continued)**  
**OKALOOSA COUNTY**  
**DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**

In the government-wide financial statements, compensated absences (i.e., paid absences for employee vacation leave and sick leave) are accrued as liabilities to the extent that it is probable that the benefits will result in termination payments.

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

➤ **State Revenue Sources**

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

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

The State allocates gross receipts taxes, generally known as Public Education Capital Outlay money, to the District on an annual basis. The District is authorized to expend these funds only upon applying for and receiving an encumbrance authorization from the Department. Accordingly, the District recognizes the allocation of Public Education Capital Outlay and Classrooms for Kids funds as deferred revenue until such time as an encumbrance authorization is received.

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

➤ **District Property Taxes**

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

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

The School Board adopted the 2005 tax levy on September 12, 2005. 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. 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

**EXHIBIT - H (Continued)**  
**OKALOOSA COUNTY**  
**DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**

certificates to satisfy unpaid taxes. The procedures result in the collection of essentially all taxes prior to June 30 of the year following the year of assessment.

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

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

➤ **Federal Revenue Sources**

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

**2. BUDGETARY COMPLIANCE AND ACCOUNTABILITY**

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

- Budgets are prepared, public hearings are held, and original budgets are adopted annually for all governmental fund types in accordance with procedures and time intervals prescribed by law and State Board of Education rules.
- Appropriations are controlled at the object level (e.g., salaries, purchased services, and capital outlay) within each activity (e.g., instruction, pupil personnel services, and school administration) and may be amended by resolution at any School Board meeting prior to the due date for the annual financial report.
- Budgets are prepared using the same modified accrual basis as is used to account for governmental funds.
- Budgetary information is integrated into the accounting system and, to facilitate budget control, budget balances are encumbered when purchase orders are issued. Appropriations lapse at fiscal year-end and encumbrances outstanding are honored from the subsequent year's appropriations.

**3. INVESTMENTS**

As of June 30, 2006, the District has the following investments and maturities:

**EXHIBIT - H (Continued)**  
**OKALOOSA COUNTY**  
**DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**

| Investment   | Maturities     | Fair Value                     |
|--|----------------|--------------------------------|
| State Board of Administration Local Government<br>Surplus Funds Trust Fund Investment Pool (1) | 27 Day Average | \$ 70,626,858.97               |
| State Board of Administration<br>Debt Service Accounts   | 6 Months       | <u>329,622.88</u>              |
| Total Investments, Primary Government  |                | 70,956,481.85                  |
| Component Units:   |                |                                |
| Certificates of Deposit  |                | <u>27,315.00</u>               |
| Total Investments, Reporting Entity  |                | <u><u>\$ 70,983,796.85</u></u> |

Note: (1) State Board of Administration Local Government Surplus Funds, totaling \$5,884,683.73, are held under trust agreements pursuant to financing arrangements 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 quality 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 investment policy limits investments to those prescribed by Florida Statutes and State Board of Education rules.
- The District's investments in the State Board of Administration Debt Service Accounts are to provide for debt service payments on bond debt issued by the State Board of Education for the benefit of the District. The District relies on policies developed by the State Board of Administration for managing credit risk for this account.
- As of June 30, 2006, the District's investment in the Local Government Surplus Funds Trust Fund investment pool is unrated.

#### 4. ACCOUNTS RECEIVABLE

Accounts receivable represent amounts for repayments due to the District and \$2,345,156.04 in uncollected proceeds on the sale of the District's computer hardware assets during the fiscal year ended June 30, 2004. The computer hardware assets were sold at net book value and the District is leasing them back. The proceeds are being paid to the District in monthly installments of \$78,160.69 as a reduction of the District's monthly lease payment over a period of five years through December 31, 2008. See Note 17 for more information.

**EXHIBIT - H (Continued)**  
**OKALOOSA COUNTY**  
**DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**

**5. CHANGES IN CAPITAL ASSETS**

Changes in capital assets are presented in the table below.

|   | Balance<br>7-1-05        | Additions              | Deletions            | Balance<br>6-30-06       |
|---|--------------------------|------------------------|----------------------|--------------------------|
| <b>GOVERNMENTAL ACTIVITIES</b>                  |                          |                        |                      |                          |
| Capital Assets Not Being Depreciated:           |                          |                        |                      |                          |
| Land  | \$ 6,444,859.46          | \$ 39,932.53           | \$                   | \$ 6,484,791.99          |
| Construction in Progress                        | 871,598.80               | 3,208,060.79           | 848,278.82           | 3,231,380.77             |
| Total Capital Assets Not Being Depreciated      | 7,316,458.26             | 3,247,993.32           | 848,278.82           | 9,716,172.76             |
| Capital Assets Being Depreciated:               |                          |                        |                      |                          |
| Improvements Other Than Buildings               | 10,731,714.16            | 477,844.81             |                      | 11,209,558.97            |
| Buildings and Fixed Equipment                   | 204,638,293.54           | 4,334,270.73           |                      | 208,972,564.27           |
| Furniture, Fixtures, and Equipment              | 19,616,105.42            | 1,603,342.06           | 1,208,656.11         | 20,010,791.37            |
| Motor Vehicles                                  | 13,111,231.69            | 42,642.00              |                      | 13,153,873.69            |
| Audio Visual Materials and<br>Computer Software | 3,494,587.21             | 297,713.69             | 76,008.42            | 3,716,292.48             |
| Total Capital Assets Being Depreciated          | 251,591,932.02           | 6,755,813.29           | 1,284,664.53         | 257,063,080.78           |
| Less Accumulated Depreciation for:              |                          |                        |                      |                          |
| Improvements Other Than Buildings               | 6,112,180.81             | 684,982.96             |                      | 6,797,163.77             |
| Buildings and Fixed Equipment                   | 58,933,222.25            | 4,994,892.00           |                      | 63,928,114.25            |
| Furniture, Fixtures, and Equipment              | 13,765,146.07            | 1,851,184.50           | 1,208,656.11         | 14,407,674.46            |
| Motor Vehicles                                  | 8,760,622.45             | 805,978.72             |                      | 9,566,601.17             |
| Audio Visual Materials and<br>Computer Software | 2,654,124.50             | 367,216.11             | 76,008.42            | 2,945,332.19             |
| Total Accumulated Depreciation                  | 90,225,296.08            | 8,704,254.29           | 1,284,664.53         | 97,644,885.84            |
| Total Capital Assets Being Depreciated, Net     | 161,366,635.94           | (1,948,441.00)         |                      | 159,418,194.94           |
| Governmental Activities Capital Assets, Net     | <u>\$ 168,683,094.20</u> | <u>\$ 1,299,552.32</u> | <u>\$ 848,278.82</u> | <u>\$ 169,134,367.70</u> |

Depreciation expense was charged to functions as follows:

| Function   | Amount                 |
|--|------------------------|
| <b>GOVERNMENTAL ACTIVITIES</b>                       |                        |
| Instruction  | \$ 633,612.62          |
| Pupil Transportation Services                        | 514,736.09             |
| Maintenance of Plant                                 | 61,620.26              |
| Unallocated  | 7,494,285.32           |
| Total Depreciation Expense - Governmental Activities | <u>\$ 8,704,254.29</u> |

**EXHIBIT - H (Continued)**  
**OKALOOSA COUNTY**  
**DISTRICT SCHOOL BOARD**  
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**6. CERTIFICATES OF PARTICIPATION**

The District entered into a financing arrangement, which arrangement was characterized as a lease-purchase agreement, with the Okaloosa School Board Leasing Corporation whereby the District secured financing of various educational facilities in the total amount of \$17,040,000. The financing was accomplished through the issuance of Certificates of Participation, Series 2003, to be repaid from the proceeds of rents paid by the District.

As a condition of the financing arrangement, the District has given a ground lease on District property to the Okaloosa School Board Leasing Corporation with a rental fee of \$10 per year. The ground lease on the property associated with the 2003 Certificates, which refunded Series 1992, 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 lease are, together with the improvements constructed thereon from the financing proceeds, leased back to the District. If the District fails to renew the lease and to provide for the rent payments through to term, the District may be required to surrender the sites included under the ground lease for the benefit of the securers of the Certificates for a period of time specified by the arrangement which may be through the last day of the ground lease terms.

The District properties included in the ground lease under this arrangement include:

Certificates of Participation, Series 2003 (Refunding Series 1992)

- Baker School Additions, ESE Suites
- Bluewater Bay Elementary School
- Bob Sikes Elementary School – Classroom Addition
- Choctawhatchee Senior High School Additions
- Crestview Senior High School Additions
- Fort Walton Beach Senior High School Additions
- Lewis Middle School – New Band Room and ESE Suites
- Niceville Senior High School Additions
- Okaloosa Applied Technology Center – CHOICE Classroom & School Entrance Construction & Renovation
- Richbourg Middle School – ESE Suites

**EXHIBIT - H (Continued)**  
**OKALOOSA COUNTY**  
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- Silver Sands School – ESE Classroom
- Walker Elementary School

The lease payments are payable by the District, semiannually, on July 1 and January 1 at interest rates ranging from 2.00 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:

| <u>Fiscal Year Ending June 30</u> | <u>Total</u>            | <u>Principal</u>        | <u>Interest</u>        |
|-----------------------------------|-------------------------|-------------------------|------------------------|
| 2007                              | \$ 1,501,030.00         | \$ 965,000.00           | \$ 536,030.00          |
| 2008                              | 1,501,730.00            | 985,000.00              | 516,730.00             |
| 2009                              | 1,503,090.00            | 1,010,000.00            | 493,090.00             |
| 2010                              | 1,500,315.00            | 1,035,000.00            | 465,315.00             |
| 2011                              | 1,504,265.00            | 1,070,000.00            | 434,265.00             |
| 2012-2016                         | 7,515,505.00            | 5,940,000.00            | 1,575,505.00           |
| 2017-2020                         | 4,509,470.00            | 4,155,000.00            | 354,470.00             |
| Total Minimum Lease Payments      | <u>\$ 19,535,405.00</u> | <u>\$ 15,160,000.00</u> | <u>\$ 4,375,405.00</u> |

**7. BONDS PAYABLE**

Bonds payable at June 30, 2006, are as follows:

| <u>Bond Type</u>        | <u>Amount<br/>Outstanding</u> | <u>Interest<br/>Rates<br/>(Percent)</u> | <u>Annual<br/>Maturity<br/>To</u> |
|-------------------------|-------------------------------|---|-----------------------------------|
| State School Bonds:     |                               |   |                                   |
| Series 1998A            | \$ 245,000                    | 4.50                                    | 2008                              |
| Series 1999A            | 440,000                       | 4.00 - 4.75                             | 2019                              |
| Series 2004A            | 10,000                        | 3.00                                    | 2008                              |
| Series 2005A            | 5,710,000                     | 5.00                                    | 2016                              |
| Series 2005B, Refunding | 805,000                       | 5.00                                    | 2018                              |
| District Revenue Bonds: |                               |   |                                   |
| Series 1994             | <u>1,020,000</u>              | 5.70 - 6.10                             | 2015                              |
| Total Bonds Payable     | <u>\$ 8,230,000</u>           |   |                                   |

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

➤ **State School Bonds**

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



**EXHIBIT - H (Continued)**  
**OKALOOSA COUNTY**  
**DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**

requirements are administered by the State Board of Education and the State Board of Administration.

➤ **District Revenue Bonds**

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

Annual requirements to amortize all bonded debt outstanding as of June 30, 2006, are as follows:

| <u>Fiscal Year Ending June 30</u> | <u>Total</u>            | <u>Principal</u>       | <u>Interest</u>        |
|-----------------------------------|-------------------------|------------------------|------------------------|
| State School Bonds:               |                         |                        |                        |
| 2007                              | \$ 901,987.50           | \$ 545,000.00          | \$ 356,987.50          |
| 2008                              | 925,762.50              | 595,000.00             | 330,762.50             |
| 2009                              | 897,012.50              | 595,000.00             | 302,012.50             |
| 2010                              | 907,525.00              | 635,000.00             | 272,525.00             |
| 2011                              | 910,962.50              | 670,000.00             | 240,962.50             |
| 2012-2016                         | 4,592,906.25            | 3,925,000.00           | 667,906.25             |
| 2017-2019                         | <u>265,900.00</u>       | <u>245,000.00</u>      | <u>20,900.00</u>       |
| Total State School Bonds          | <u>9,402,056.25</u>     | <u>7,210,000.00</u>    | <u>2,192,056.25</u>    |
| District Revenue Bonds:           |                         |                        |                        |
| 2007                              | 150,883.76              | 90,000.00              | 60,883.76              |
| 2008                              | 150,753.76              | 95,000.00              | 55,753.76              |
| 2009                              | 150,243.76              | 100,000.00             | 50,243.76              |
| 2010                              | 149,368.76              | 105,000.00             | 44,368.76              |
| 2011                              | 148,200.00              | 110,000.00             | 38,200.00              |
| 2012-2015                         | <u>601,313.74</u>       | <u>520,000.00</u>      | <u>81,313.74</u>       |
| Total District Revenue Bonds      | <u>1,350,763.78</u>     | <u>1,020,000.00</u>    | <u>330,763.78</u>      |
| Total                             | <u>\$ 10,752,820.03</u> | <u>\$ 8,230,000.00</u> | <u>\$ 2,522,820.03</u> |

**8. DEFEASED DEBT**

The Florida Department of Education issued Capital Outlay Refunding Bonds, Series 2005B, dated July 1, 2005, with an average interest rate of 4.99 percent, to advance-refund callable portions of the District's State School Bonds, Series 1998A. The District's portion of the Refunding Bonds, totaling \$810,000, are being issued to advance-refund the \$915,000 principal amount of the District's State School Bonds, Series 1998A,

**EXHIBIT - H (Continued)**  
**OKALOOSA COUNTY**  
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that mature on or after January 1, 2009. The District's pro rata share of net proceeds totaling \$885,797.66 (after deduction of \$3,047.57 by the Florida Department of Education for the District's pro rata share of underwriting fees, insurance, and other issuance costs) were placed in an irrevocable trust to provide for future debt service payments. As a result, \$915,000 of the State School Bonds, Series 1998A, is considered to be in-substance defeased and the liability for these bonds has been removed from the government-wide financial statements.

The Series 2005B bonds were issued to reduce the total debt service payments over the next 13 years by approximately \$149,863 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$48,090.

**9. CHANGES IN LONG-TERM LIABILITIES**

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

| Description                           | Balance<br>7-1-05      | Additions               | Deductions              | Balance<br>6-30-06     | Due in<br>One Year     |
|---------------------------------------|------------------------|-------------------------|-------------------------|------------------------|------------------------|
| GOVERNMENTAL ACTIVITIES               |                        |                         |                         |                        |                        |
| Estimated Insurance Claims Payable    | \$ 3,986,000.00        | \$ 2,925,982.91         | \$ 2,222,982.91         | \$ 4,689,000.00        | \$ 1,907,000.00        |
| Bonds Payable                         | 9,395,000.00           | 6,520,000.00            | 7,685,000.00            | 8,230,000.00           | 635,000.00             |
| Certificates of Participation Payable | 16,110,000.00          |                         | 950,000.00              | 15,160,000.00          | 965,000.00             |
| Compensated Absences Payable          | 21,167,121.60          | 6,361,778.79            | 2,446,590.35            | 25,082,310.04          | 1,964,972.00           |
| Total Governmental Activities         | <u>\$50,658,121.60</u> | <u>\$ 15,807,761.70</u> | <u>\$ 13,304,573.26</u> | <u>\$53,161,310.04</u> | <u>\$ 5,471,972.00</u> |

For the governmental activities, compensated absences are generally liquidated with resources of the General Fund.

**10. RESERVE FOR ENCUMBRANCES**

Appropriations in governmental funds are encumbered upon issuance of purchase orders for goods and services. Even though appropriations lapse at the end of the fiscal year, unfilled purchase orders of the current 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 2006-07 fiscal year budget as a result of purchase orders outstanding at June 30, 2006.

**EXHIBIT - H (Continued)**  
**OKALOOSA COUNTY**  
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**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**

**11. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

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

| Funds                       | Interfund            |                     |
|-----------------------------|----------------------|---------------------|
|                             | Receivables          | Payables            |
| Major Funds:                |                      |                     |
| General                     | \$ 338,307.13        | \$                  |
| Nonmajor Governmental Funds |                      | 224,234.16          |
| Fiduciary Funds             |                      | 114,072.97          |
| Total                       | <u>\$ 338,307.13</u> | <u>\$338,307.13</u> |

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

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

| Funds                          | Interfund              |                        |
|--------------------------------|------------------------|------------------------|
|                                | Transfers In           | Transfers Out          |
| Major Funds:                   |                        |                        |
| General                        | \$10,168,043.00        | \$ 2,677,695.97        |
| Capital Projects:              |                        |                        |
| Local Capital Improvement Fund |                        | 11,398,080.70          |
| Other                          | 2,434,639.07           | 662,134.74             |
| Nonmajor Governmental Funds    | 2,141,172.44           | 5,943.10               |
| Total                          | <u>\$14,743,854.51</u> | <u>\$14,743,854.51</u> |

Transfers made to the General Fund were for maintenance and repair of school facilities and for the lease of computers for instructional purposes. Transfers made to the Capital Projects – Other Fund were to fund facilities construction. Transfers made to the Nonmajor Governmental Funds were made to facilitate food service operations and to fund the current debt service payment on the Certificates of Participation.

**12. SCHEDULE OF STATE REVENUE SOURCES**

The following is a schedule of the District's State revenue for the 2005-06 fiscal year:

**EXHIBIT - H (Continued)**  
**OKALOOSA COUNTY**  
**DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
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| <u>Source</u>   | <u>Amount</u>                   |
|---|---------------------------------|
| Florida Education Finance Program                           | \$ 72,347,279.00                |
| Categorical Educational Programs:                           |                                 |
| Class Size Reduction  | 16,762,853.00                   |
| Transportation  | 6,054,518.00                    |
| Instructional Materials                                     | 2,787,637.00                    |
| School Recognition Funds                                    | 2,520,245.00                    |
| Discretionary Lottery Funds                                 | 1,434,317.00                    |
| Other   | 1,521,887.40                    |
| Gross Receipts Tax (Public Education Capital Outlay)        | 2,674,328.00                    |
| Workforce Development Program                               | 2,520,327.00                    |
| Motor Vehicle License Tax (Capital Outlay and Debt Service) | 1,113,429.98                    |
| Classrooms for Kids   | 623,249.00                      |
| Charter School Capital Outlay                               | 533,895.00                      |
| State Forest Funds  | 317,483.06                      |
| Racing Commission Funds                                     | 190,750.00                      |
| Food Service Supplement                                     | 104,930.00                      |
| Mobile Home License Tax                                     | 65,614.42                       |
| Miscellaneous   | 408,670.91                      |
| Total   | <u><u>\$ 111,981,413.77</u></u> |

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

**13. PROPERTY TAXES**

The following is a summary of millages and taxes levied on the 2005 tax roll for the 2005-06 fiscal year:

|   | <u>Millages</u>     | <u>Taxes Levied</u>            |
|---|---------------------|--------------------------------|
| <u>GENERAL FUND</u>                     |                     |                                |
| Nonvoted School Tax:                    |                     |                                |
| Required Local Effort                   | 5.375               | \$ 73,326,944.21               |
| Basic Discretionary Local Effort        | 0.510               | 6,956,331.57                   |
| Supplemental Discretionary Local Effort | 0.240               | 3,274,646.33                   |
| <u>CAPITAL PROJECTS FUNDS</u>           |                     |                                |
| Nonvoted Tax:                           |                     |                                |
| Local Capital Improvements              | 1.938               | 26,439,193.77                  |
| Total                                   | <u><u>8.063</u></u> | <u><u>\$109,997,115.88</u></u> |

**14. STATE RETIREMENT PROGRAM**

**Defined Benefit Plan.** All regular employees of the District are covered by the Florida Retirement System. The Florida Retirement System (FRS) is primarily a State-administered, cost-sharing, multiple-employer, defined benefit retirement plan (Plan). Plan provisions are established by Chapters 121 and 122, Florida

**EXHIBIT - H (Continued)**  
**OKALOOSA COUNTY**  
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**NOTES TO FINANCIAL STATEMENTS**  
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Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code, wherein eligibility, contributions, and benefits are defined and described in detail. Essentially all regular employees of participating employers are eligible and must enroll as members of the FRS.

Benefits in the Plan vest at six years of service. All members are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, which may include up to 4 years of credit for military service. The Plan also includes an early retirement provision, but imposes a penalty for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, and death benefits and annual cost-of-living adjustments.

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 an FRS employer. An employee may participate in the DROP for a period not to exceed 60 months after electing to participate, except that certain instructional personnel may participate for up to 96 months. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest.

**Funding Policy.** The contribution rates for members are established, and may be amended, by the State of Florida. During the 2005-06 fiscal year, contribution rates were as follows:

| Class or Plan  | Percent of Gross Salary |                 |
|--|-------------------------|-----------------|
|  | Employee                | Employer<br>(A) |
| Florida Retirement System, Regular   | 0.00                    | 7.83            |
| Florida Retirement System, Elected County Officers   | 0.00                    | 15.23           |
| Teachers' Retirement System, Plan E  | 6.25                    | 11.35           |
| Deferred Retirement Option Program - Applicable to<br>Members from All of the Above Classes or Plans | 0.00                    | 9.33            |
| Florida Retirement System, Reemployed Retiree  | (B)                     | (B)             |

Notes: (A) Employer rates include 1.11 percent for the post-employment health insurance supplement. Also, employer rates, other than for DROP participants, include 0.05 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 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, including

**EXHIBIT - H (Continued)**  
**OKALOOSA COUNTY**  
**DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**

employee contributions, for the fiscal years ending June 30, 2004, June 30, 2005, and June 30, 2006, totaled \$9,062,865, \$9,689,995, and \$10,921,064, 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. Employer contributions are defined by law, but the 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. There were 320 District participants in the PEORP during the 2005-06 fiscal year. Required employer contributions made to the program for the fiscal year ending June 30, 2006, totaled \$626,207.

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

**15. SPECIAL TERMINATION BENEFITS**

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 2005-06 fiscal year was \$237,842.77.

In addition, employees who are eligible for payment of 100 percent of their unused sick leave and who have more than 50 days of 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. The payments are deposited into the District's 401(a) Plan on behalf of the employees.

**16. CONSTRUCTION CONTRACT COMMITMENTS**

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

**EXHIBIT - H (Continued)**  
**OKALOOSA COUNTY**  
**DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
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| Project  | Contract<br>Amount      | Completed<br>to Date   | Balance<br>Committed   |
|--|-------------------------|------------------------|------------------------|
| Shalimar Elementary School:                          |                         |                        |                        |
| Renovations and Sitework                             | \$ 3,469,339.00         | \$ 1,956,971.29        | \$ 1,512,367.71        |
| Bluewater, Bob Sikes, and Walker Elementary Schools: |                         |                        |                        |
| Classroom Additions                                  | 450,000.00              | 148,221.13             | 301,778.87             |
| Baker, Bruner Middle, and Crestview High Schools:    |                         |                        |                        |
| Reroofing Projects                                   | 4,035,448.00            | 1,648,828.22           | 2,386,619.78           |
| Various Schools:                                     |                         |                        |                        |
| Physical Education Pavilions                         | 907,334.00              |                        | 907,334.00             |
| Fort Walton Beach High School Athletic Complex:      |                         |                        |                        |
| Architect  | 204,600.00              | 174,600.00             | 30,000.00              |
| Contractor   | 1,784,418.00            | 1,515,394.00           | 269,024.00             |
| Total  | <u>\$ 10,851,139.00</u> | <u>\$ 5,444,014.64</u> | <u>\$ 5,407,124.36</u> |

**17. OPERATING LEASE COMMITMENTS**

The District leases its computer hardware assets. 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, 2006, was \$7,362,630.12. The following table represents future minimum lease payments:

| Fiscal Year Ending              | Amount                  |
|---------------------------------|-------------------------|
| 2007                            | \$ 7,651,483.92         |
| 2008                            | 7,658,799.00            |
| 2009                            | <u>3,797,302.62</u>     |
| Total Minimum Payments Required | <u>\$ 19,107,585.54</u> |

**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. Coverage for these risks is provided for in a variety of ways. For most general liability claims, the District relies upon the sovereign immunity limits of Section 768.28, Florida Statutes, which limits the District's liability to \$100,000 for each claimant and \$200,000 in any one occurrence; however, the District did purchase a commercial general liability policy for certain special events. The District is also self-insured, to some extent, for property losses, workers' compensation, automobile liability, crime, and errors and omissions. To limit its exposure to property losses, the District purchased excess property insurance with varying deductibles, sublimits, and policy maximums through the Florida School Boards Insurance Trust (FSBIT). FSBIT is a self-insurance fund for Florida

**EXHIBIT - H (Continued)**  
**OKALOOSA COUNTY**  
**DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
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school boards established under the authority set forth in Section 1001.42, Florida Statutes. Likewise, the District limited its exposure for workers' compensation, automobile liability, crime, and errors and omissions by purchasing commercial insurance policies which cover losses exceeding specified limits up to certain policy maximums. Health, life, and dental coverage for District employees is also provided through commercially purchased 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. At June 30, 2006, an actuarially determined liability of \$4,689,000 (\$398,000 for the property program, undiscounted, and \$4,291,000 for the casualty program, discounted using a 4 percent rate of return) is reported as estimated claims payable on the District's statement of net assets. The District has reserved \$4,689,000 of the fund balance in the General Fund to fund future insurance claims.

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

| Fiscal Year | Beginning-of-Fiscal-Year Liability | Current-Year Claims and Changes in Estimates | Claims Payments   | Balance at Fiscal Year-End |
|-------------|------------------------------------|--|-------------------|----------------------------|
| 2004-05     | \$ 3,369,000.00                    | \$ 2,843,337.24                              | \$ (2,226,337.24) | \$ 3,986,000.00            |
| 2005-06     | 3,986,000.00                       | 2,925,982.91                                 | (2,222,982.91)    | 4,689,000.00               |

**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.



**EXHIBIT - I**  
**OKALOOSA COUNTY**  
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**REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE -**  
**GENERAL FUND**  
**For the Fiscal Year Ended June 30, 2006**

|  | General Fund            |                         |                         |   |
|--|-------------------------|-------------------------|-------------------------|---|
|  | Original<br>Budget      | Final<br>Budget         | Actual                  | Variance with<br>Final Budget -<br>Positive<br>(Negative) |
| <b>Revenues</b>  |                         |                         |                         |   |
| Intergovernmental:                                       |                         |                         |                         |   |
| Federal Direct   | \$ 6,090,843.00         | \$ 6,075,183.98         | \$ 6,213,107.33         | \$ 137,923.35   |
| Federal Through State                                    | 157,888.00              | 1,504,756.45            | 1,888,756.35            | 383,999.90  |
| State  | 107,681,925.00          | 107,212,584.69          | 107,211,966.46          | (618.23)  |
| Local  | 82,749,795.57           | 88,607,310.86           | 89,208,174.17           | 600,863.31  |
| <b>Total Revenues</b>                                    | <b>196,680,451.57</b>   | <b>203,399,835.98</b>   | <b>204,522,004.31</b>   | <b>1,122,168.33</b>                                       |
| <b>Expenditures</b>                                      |                         |                         |                         |   |
| Current - Education:                                     |                         |                         |                         |   |
| Instruction  | 133,782,141.30          | 144,880,120.61          | 138,723,408.98          | 6,156,711.63  |
| Pupil Personnel Services                                 | 6,521,038.65            | 6,941,487.23            | 6,610,723.25            | 330,763.98  |
| Instructional Media Services                             | 2,923,851.15            | 3,006,777.37            | 2,867,156.54            | 139,620.83  |
| Instruction and Curriculum Development Services          | 4,638,721.37            | 4,372,119.05            | 3,821,539.27            | 550,579.78  |
| Instructional Staff Training                             | 885,414.55              | 949,740.23              | 597,770.41              | 351,969.82  |
| Instruction Related Technology                           | 8,067,043.89            | 1,425,092.59            | 1,001,509.37            | 423,583.22  |
| Board of Education                                       | 3,483,305.58            | 1,205,565.75            | 874,331.89              | 331,233.86  |
| General Administration                                   | 321,557.98              | 363,420.76              | 351,816.55              | 11,604.21   |
| School Administration                                    | 14,960,343.25           | 14,960,124.93           | 14,716,061.16           | 244,063.77  |
| Facilities Acquisition and Construction                  | 539,797.50              | 569,628.51              | 392,657.41              | 176,971.10  |
| Fiscal Services  | 1,512,692.14            | 1,442,788.87            | 1,388,827.78            | 53,961.09   |
| Food Services  |                         | 91,479.27               | 91,479.27               |   |
| Central Services   | 4,869,022.63            | 3,652,633.26            | 2,465,058.31            | 1,187,574.95  |
| Pupil Transportation Services                            | 8,566,000.39            | 9,823,433.24            | 9,570,713.04            | 252,720.20  |
| Operation of Plant                                       | 12,947,806.74           | 16,613,916.40           | 15,320,633.76           | 1,293,282.64  |
| Maintenance of Plant                                     | 7,031,233.42            | 7,684,662.24            | 6,387,220.05            | 1,297,442.19  |
| Administrative Technology Services                       | 2,115,765.84            | 2,943,049.81            | 2,755,733.93            | 187,315.88  |
| Community Services                                       | 1,970,853.36            | 2,224,307.88            | 1,430,759.98            | 793,547.90  |
| Fixed Capital Outlay:                                    |                         |                         |                         |   |
| Facilities Acquisition and Construction                  |                         | 215,449.93              | 75,984.39               | 139,465.54  |
| Other Capital Outlay                                     |                         | 1,181,971.71            | 754,523.57              | 427,448.14  |
| <b>Total Expenditures</b>                                | <b>215,136,589.74</b>   | <b>224,547,769.64</b>   | <b>210,197,908.91</b>   | <b>14,349,860.73</b>                                      |
| <b>Excess (Deficiency) of Revenues Over Expenditures</b> | <b>(18,456,138.17)</b>  | <b>(21,147,933.66)</b>  | <b>(5,675,904.60)</b>   | <b>15,472,029.06</b>                                      |
| <b>Other Financing Sources (Uses)</b>                    |                         |                         |                         |   |
| Transfers In   | 10,036,645.00           | 10,168,043.00           | 10,168,043.00           |   |
| Proceeds from Sale of Capital Assets                     |                         | 937,928.28              | 937,928.28              |   |
| Transfers Out  |                         | (2,677,695.97)          | (2,677,695.97)          |   |
| <b>Total Other Financing Sources (Uses)</b>              | <b>10,036,645.00</b>    | <b>8,428,275.31</b>     | <b>8,428,275.31</b>     |   |
| <b>Net Change in Fund Balances</b>                       | <b>(8,419,493.17)</b>   | <b>(12,719,658.35)</b>  | <b>2,752,370.71</b>     | <b>15,472,029.06</b>                                      |
| Fund Balances, July 1, 2005                              | 41,414,739.96           | 41,429,050.47           | 41,429,050.47           |   |
| <b>Fund Balances, June 30, 2006</b>                      | <b>\$ 32,995,246.79</b> | <b>\$ 28,709,392.12</b> | <b>\$ 44,181,421.18</b> | <b>\$ 15,472,029.06</b>                                   |

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**FEDERAL REPORTS AND SCHEDULES**

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

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

*SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS*

*SCHEDULE OF FINDINGS AND QUESTIONED COSTS – FEDERAL AWARDS*

*SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS*



WILLIAM O. MONROE, CPA  
AUDITOR GENERAL

# AUDITOR GENERAL STATE OF FLORIDA

G74 Claude Pepper Building  
111 West Madison Street  
Tallahassee, Florida 32399-1450



850/488-5534/SC 278-5534  
Fax: 488-6975/SC 278-6975

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

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

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Okaloosa County District School Board as of and for the fiscal year ended June 30, 2006, which collectively comprise the District's basic financial statements, and have issued our report thereon included under the heading ***INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS***. Our report on the basic financial statements was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the school internal funds and the aggregate discretely presented component units, as described in our report on the Okaloosa County District School Board's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the school internal funds were not audited in accordance with *Government Auditing Standards*.

### ***Internal Control Over Financial Reporting***

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the District's internal control over financial reporting. Our consideration of 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, administrative rules, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We did note certain additional matters which are discussed in the ***FINDINGS AND RECOMMENDATIONS*** section of this audit report and certain instances of noncompliance related to Federal programs which are discussed in the ***SCHEDULE OF FINDINGS AND QUESTIONED COSTS – FEDERAL AWARDS*** section of this audit report.

This report is intended for the information of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, Federal and other granting agencies, and applicable management. Copies of this report are available pursuant to Section 11.45(4), Florida Statutes, and its distribution is not limited.

Respectfully submitted,



William O. Monroe, CPA  
October 17, 2006



WILLIAM O. MONROE, CPA  
AUDITOR GENERAL

# AUDITOR GENERAL STATE OF FLORIDA

G74 Claude Pepper Building  
111 West Madison Street  
Tallahassee, Florida 32399-1450



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

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

### *Compliance*

We have audited the District's compliance with the types of compliance requirements described in the United States Office of Management and Budget's (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the fiscal year ended June 30, 2006. The District's major Federal programs are identified in the **SUMMARY OF AUDIT RESULTS** section of the accompanying **SCHEDULE OF FINDINGS AND QUESTIONED COSTS - FEDERAL AWARDS**. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of the District's major Federal programs is the responsibility of District management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

As discussed in the accompanying ***SCHEDULE OF FINDINGS AND QUESTIONED COSTS - FEDERAL AWARDS***, the District did not comply with the requirements regarding Activities Allowed/Unallowed, Eligibility, and Special Tests and Provisions - Return of Title IV Funds that are applicable to the Federal Pell Grant program. Compliance with such requirements is necessary, in our opinion, for the District to comply with requirements applicable to the program.

In our opinion, except for the noncompliance described in the preceding paragraph, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the fiscal year ended June 30, 2006. However, as discussed in the accompanying ***SCHEDULE OF FINDINGS AND QUESTIONED COSTS - FEDERAL AWARDS***, the results of our auditing procedures disclosed some instances of noncompliance with those requirements which are required to be reported in accordance with OMB *Circular A-133*.

### ***Internal Control Over Compliance***

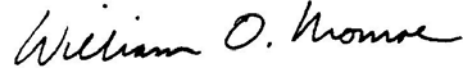
District management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered the District's internal control over compliance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

We noted certain matters, described in the accompanying ***SCHEDULE OF FINDINGS AND QUESTIONED COSTS - FEDERAL AWARDS***, involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the District's ability to administer a major Federal program in accordance with applicable requirements of laws, regulations, contracts, and grants.

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 applicable requirements of laws, regulations, contracts, and grants caused by error or 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. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable conditions referred to above regarding the Activities Allowed/Unallowed, Eligibility, and Special Tests and Provisions – Return of Title IV Funds requirements applicable to the Federal Pell Grant Program are material weaknesses.

This report is intended for the information of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, Federal and other granting agencies, and applicable management. Copies of this report are available pursuant to Section 11.45(4), Florida Statutes, and its distribution is not limited.

Respectfully submitted,

A handwritten signature in black ink that reads "William O. Monroe". The signature is written in a cursive, flowing style.

William O. Monroe, CPA

October 17, 2006

**OKALOOSA COUNTY  
DISTRICT SCHOOL BOARD  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Fiscal Year Ended June 30, 2006**

| Federal Grantor/Pass-Through Grantor/Program Title   | Catalog of<br>Federal<br>Domestic<br>Assistance<br>Number | Pass -<br>Through<br>Grantor<br>Number | Amount of<br>Expenditures<br>(1) | Amount<br>Provided<br>to<br>Subrecipients |
|--|---|--|----------------------------------|---|
| <b>United States Department of Agriculture:</b>  |   |  |                                  |   |
| Indirect:  |   |  |                                  |   |
| Florida Department of Agriculture and Consumer Services:<br>Food Donation  | 10.550(2)(A)  | None                                   | \$ 506,790.49                    | \$  |
| Florida Department of Education:<br>Child Nutrition Cluster:   |   |  |                                  |   |
| School Breakfast Program   | 10.553  | 321                                    | 702,455.39                       |   |
| National School Lunch Program  | 10.555  | 300                                    | 3,005,905.48                     |   |
| Summer Food Service Program for Children   | 10.559  | 323                                    | 239,193.88                       |   |
| <b>Total Child Nutrition Cluster</b>   |   |  | <b>3,947,554.75</b>              |   |
| Florida Department of Financial Services:<br>Schools and Roads - Grants to States                                      | 10.665  | None                                   | 369.38                           |   |
| <b>Total United States Department of Agriculture</b>   |   |  | <b>4,454,714.62</b>              |   |
| <b>United States General Services Administration:</b>  |   |  |                                  |   |
| Indirect:  |   |  |                                  |   |
| Florida Department of Management Services:<br>Donation of Federal Surplus Personal Property                            | 39.003(2)(B)  | None                                   | 2,552.75                         |   |
| <b>United States Department of Education:</b>  |   |  |                                  |   |
| Direct:  |   |  |                                  |   |
| Impact Aid   | 84.041  | N/A                                    | 5,120,931.62                     | 103,365.27                                |
| Federal Pell Grant Program   | 84.063  | N/A                                    | 221,668.55                       |   |
| <b>Total Direct</b>  |   |  | <b>5,342,600.17</b>              | <b>103,365.27</b>                         |
| Indirect:  |   |  |                                  |   |
| Florida Department of Education:<br>Special Education Cluster:   |   |  |                                  |   |
| Special Education - Grants to States   | 84.027  | 262, 263                               | 6,362,547.44                     |   |
| Special Education - Preschool Grants   | 84.173  | 267                                    | 172,242.50                       |   |
| <b>Total Special Education Cluster</b>   |   |  | <b>6,534,789.94</b>              |   |
| Title I Grants to Local Educational Agencies   | 84.010  | 212                                    | 4,590,993.70                     |   |
| Vocational Education - Basic Grants to States  | 84.048  | 151                                    | 367,371.63                       |   |
| Safe and Drug-Free Schools and Communities - State Grants  | 84.186  | 103                                    | 89,672.49                        |   |
| Education for Homeless Children and Youth  | 84.196  | 127                                    | 65,000.00                        | 65,000.00                                 |
| Even Start - State Educational Agencies  | 84.213  | 219                                    | 427,951.90                       |   |
| Charter Schools  | 84.282  | 298                                    | 292,163.25                       | 292,163.25                                |
| State Grants for Innovative Programs   | 84.298  | 112,113                                | 96,945.73                        |   |
| Education Technology State Grants  | 84.318  | 121                                    | 120,620.27                       |   |
| Comprehensive School Reform Demonstration  | 84.332  | 128,129                                | 1,949.78                         |   |
| English Language Acquisition Grants  | 84.365  | 102                                    | 44,194.16                        |   |
| Improving Teacher Quality State Grants   | 84.367  | 224                                    | 1,219,926.12                     |   |
| Hurricane Education Recovery   | 84.938  | None                                   | 1,475,280.00                     | 207,405.00                                |
| Santa Rosa County District School Board:<br>Education Technology State Grants  | 84.318  | None                                   | 117,151.70                       |   |
| <b>Total Indirect</b>  |   |  | <b>15,444,010.67</b>             | <b>564,568.25</b>                         |
| <b>Total United States Department of Education</b>   |   |  | <b>20,786,610.84</b>             | <b>667,933.52</b>                         |
| <b>United States Department of Homeland Security:</b>  |   |  |                                  |   |
| Indirect:  |   |  |                                  |   |
| Florida Department of Community Affairs:<br>Disaster Grants - Public Assistance (Presidentially<br>Declared Disasters) | 97.036(3)   | None                                   | 966,753.91                       |   |
| Florida Department of Education:<br>Homeland Security Grant Program  | 97.067  | 532                                    | 32,611.44                        |   |
| Florida Department of Law Enforcement:<br>Homeland Security Grant Program  | 97.067  | None                                   | 49,243.00                        |   |
| <b>Total United States Department of Homeland Security</b>   |   |  | <b>1,048,608.35</b>              |   |



**OKALOOSA COUNTY  
DISTRICT SCHOOL BOARD  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Fiscal Year Ended June 30, 2006**

| Federal Grantor/Pass-Through Grantor/Program Title | Catalog of<br>Federal<br>Domestic<br>Assistance<br>Number | Pass -<br>Through<br>Grantor<br>Number | Amount of<br>Expenditures<br>(1) | Amount<br>Provided<br>to<br>Subrecipients |
|--|---|--|----------------------------------|---|
| <b>United States Department of Defense:</b>        |   |  |                                  |   |
| Direct:  |   |  |                                  |   |
| Public Law 109-163                                 | None  | N/A                                    | \$ 766,035.40                    | \$  |
| Public Law 106-398                                 | None  | N/A                                    | 43,625.68                        |   |
| Air Force Junior Reserve Officers Training Corps   | None  | N/A                                    | 173,485.39                       |   |
| Army Junior Reserve Officers Training Corps        | None  | N/A                                    | 108,479.24                       |   |
| <b>Total United States Department of Defense</b>   |   |  | <b>1,091,625.71</b>              |   |
| <b>Total Expenditures of Federal Awards</b>        |   |  | <b>\$ 27,384,112.27</b>          | <b>\$ 667,933.52</b>                      |

Notes: (1) Basis of Presentation. The Schedule of Expenditures of Federal Awards represents amounts expended from Federal programs during the 2005-06 fiscal year as determined based on the modified accrual basis of accounting. The amounts reported on the Schedule have been reconciled to and are in material agreement with amounts recorded in the District's accounting records from which the basic financial statements have been reported.

(2) Noncash Assistance.

(A) Food Donation - Represents the amount of donated food used during the 2005-06 fiscal year. Commodities are valued at fair value as determined at the time of donation.

(B) Donation of Federal Surplus Personal Property - Represents 23.3 percent of the original acquisition costs of the donated Federal surplus personal property obtained during the 2005-06 fiscal year.

(3) Disaster Grants - Public Assistance (Presidentially Declared Disasters). The amount reported as expenditures represents hurricane-related loss recoveries for the 2005-06 fiscal year as follows: \$929,823.91 for large projects which generally represent expenditures already incurred; \$24,168.85 for small projects which generally represent the final payment of eligible costs made upon the approval of the project (not necessarily expenditures already incurred); and \$12,761.15 for allowable administrative costs.

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**OKALOOSA COUNTY  
DISTRICT SCHOOL BOARD  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS -  
FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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**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, 2006:

- An unqualified opinion was issued on the financial statements.
- No matters involving the internal control over financial reporting and its operation were considered to be reportable conditions.
- No noncompliance was disclosed which is material to the financial statements.
- Reportable conditions in internal control over major Federal programs were disclosed, one of which was considered to be a material weakness.
- A qualified opinion was issued on the Federal Pell Grant Program. An unqualified opinion was issued on major program compliance for the District's other major Federal programs.
- Audit findings on Federal programs are listed below under the subheading ***FINDINGS AND RECOMMENDATIONS***.
- Major Federal programs included: Title I Grants to Local Educational Agencies (CFDA No. 84.010); Special Education Cluster [Special Education – Grants to States (CFDA No. 84.027) and Special Education – Preschool Grants (CFDA No. 84.173)]; Federal Pell Grant Program (CFDA 84.063); and Hurricane Education Recovery (CFDA 84.938).
- The dollar threshold used to distinguish between Type A and Type B Federal programs was \$821,523.
- The low risk entity threshold was applied.

**OKALOOSA COUNTY  
DISTRICT SCHOOL BOARD  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS –  
FEDERAL AWARDS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**FINDINGS AND RECOMMENDATIONS**

**Federal Awards Finding No. 1:**

**Federal Agency:** United States Department of Education

**Pass-Through Entity:** Florida Department of Education

**Program:** Title I Grants to Local Educational Agencies (CFDA 84.010)

**Finding Type:** Noncompliance

**Questioned Costs:** Not Applicable

**Special Tests and Provisions – Identifying Schools Needing Improvement.** Title 34, Section 200.32, Code of Federal Regulations, provides that school districts must identify for school improvement any elementary or secondary school that is served under Title 34, Part 200, Title I, Subpart A (a Title I school) and that fails to meet adequate yearly progress as defined in Title 34, Sections 200.13 through 200.20, Code of Federal Regulations. Title 34, Section 200.36, Code of Federal Regulations, requires that throughout the school improvement process, school districts must communicate with the parents of each child attending school. This Section further provides that school districts must provide information directly to parents through such means as regular mail or e-mail. If a school district identifies a school for improvement, Title 34, Section 200.37, Code of Federal Regulations, requires that the school district must, consistent with the requirements of Title 34, Section 200.36, Code of Federal Regulations, promptly notify the parents of each child enrolled in the school about certain information, including the following:

- An explanation of what the identification means, and how the school compares in terms of academic achievement to other elementary and secondary schools served by the local educational agency and the State educational agency involved.
- The reasons for the identification.
- An explanation of how parents can become involved in addressing the academic issues that led to identification.
- An explanation of the parents' option to transfer their child to another public school, including the provision of transportation to the new school, in accordance with Title 34, Section 200.44, Code of Federal Regulations.
- The explanation of the parents' option to transfer must include, at a minimum, information on the academic achievement of the school or schools to which the child may transfer.

In response to our request for documentation demonstrating that the required notifications were made directly to the parents for the 2005-06 school year, District personnel provided us a copy of a letter sent to the parents of children attending two of the schools identified as needing improvement. However, this letter did not include required elements noted above including how the child's school compared academically with other District schools and information on the academic achievement of the schools to which their child could have been

transferred. Also, as explained in Federal Awards Finding No. 2, Matching, Level of Effort, Earmarking – Targeting Funds for Choice Related Transportation, the District did not notify the parents of children attending four elementary schools of the option to transfer their child to another District school. Failure to provide the required notifications above may limit the ability of parents to make an informed decision regarding the educational choices available to their child.

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**Recommendation:**     **The District should ensure that required notifications are made to the parents of children attending schools identified as needing improvement.**

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District Contact Person: Dr. Diane Kelley, Director of Curriculum, Assessment, and Instruction

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**Federal Awards Finding No. 2:**

**Federal Agency:** United States Department of Education

**Pass-Through Entity:** Florida Department of Education

**Program:** Title I Grants to Local Educational Agencies (CFDA 84.010)

**Finding Type:** Noncompliance

**Questioned Costs:** Not Applicable

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**Matching, Level of Effort, Earmarking – Targeting Funds for Choice Related Transportation.** Title 34, Section 200.44, Code of Federal Regulations, provides that if a school is identified for improvement, a school district must provide all students enrolled in the school with the option to transfer to another public school served by the school district that has not been identified for improvement (a qualifying school).

District records provided for our review indicated that, for the 2005-06 school year, approximately 1,925 elementary school students at four elementary schools identified for improvement were not provided the option to transfer to a qualifying District school even though there were such elementary schools within the District. It is not known how many eligible elementary school students would have accepted the option to transfer to a qualifying District school if they had been offered that option.

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**Recommendation:**     **The District should ensure that all eligible students are provided required choice options available to them under the above provisions of law.**

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District Contact Person: Dr. Diane Kelley, Director of Curriculum, Assessment, and Instruction

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**Federal Awards Finding No. 3:**

**Federal Agency:** United States Department of Education

**Pass-Through Entity:** Florida Department of Education

**Programs:** Title I Grants to Local Educational Agencies (CFDA 84.010) and  
Special Education Cluster (CFDA Nos. 84.027 and 84.173)

**Finding Type:** Noncompliance and Reportable Condition

**Questioned Costs:** \$2,671

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**Allowable Costs/Cost Principles (Documentation of Employee Time and Effort).** OMB *Circular A-87*, Attachment B, paragraph 8.h.(3), requires that in instances where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic

certifications that the employees worked solely on that program for the period covered by the certification. These certifications must be prepared at least semi-annually and signed by the employee or supervisor having first hand knowledge of the work performed by the employee. Paragraphs 8.h.(4) and (5), require that in instances where employees work on multiple activities or cost objectives, a distribution of their salaries and wages will be supported by personnel activity reports. These reports must reflect an after-the-fact distribution of the actual activity of each employee, must account for the total activity for which the employee is compensated, and must be signed by the employee.

During the 2005-06 fiscal year, the District paid salaries and benefits totaling \$3,314,784 to employees from its Title I, Part A grant program and \$6,033,604 from its Special Education Cluster programs. Our testing disclosed that salaries and benefits were paid to employees who worked solely on these respective programs, but no semi-annual certifications were prepared for the first half of the 2005-06 fiscal year. Upon notifying the District of the requirement to prepare these certifications, the District provided us with certifications covering the July 2005 through December 2005 period, which were signed by either the employee or the supervisor in June 2006.

In our review of the personnel activity reports supporting the distribution of salaries and wages of employees who work on multiple activities or cost objectives, we noted that 20 percent of one employee's salary was charged to the Title I, Part A grant program. However, the personnel activity reports provided to us indicated that the employee spent less than 20 percent of her time on Title I activities, resulting in questioned costs of \$2,671.

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**Recommendation:** The District should enhance its procedures to ensure that employees working solely on a single cost objective complete semi-annual certifications; and, for employees who split their time between multiple cost objectives, that distribution of salaries reflects an after-the-fact distribution of the actual activity of each employee and account for the total activity for which the employee is compensated. In addition, the District should document to the grantor (Florida Department of Education) the allowability of the \$2,671 in estimated questioned costs noted above or those moneys should be restored to the Title I program.

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District Contact Person: Dr. Diane Kelley, Director of Curriculum, Assessment, and Instruction

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**Federal Awards Finding No. 4:**

**Federal Agency:** United States Department of Education

**Award Number:** P063P054878

**Program:** Federal Pell Grant Program (CFDA No. 84.063)

**Finding Type:** Material Weakness and Material Noncompliance

**Questioned Costs:** Not Applicable

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**Federal Program Review – Activities Allowed/Unallowed, Eligibility, and Special Tests and Provisions.**

The United States Department of Education (USDOE) conducted a focused program review of the Title IV, Pell Grant program, for the 2003-04 and 2004-05 fiscal years at the Okaloosa Applied Technology Center (OATC) in August 2005. This review identified numerous procedural and policy deficiencies such as an invalid excused absence policy; an improperly developed satisfactory academic progress policy; incorrect determination of Pell Grant awards to be returned to USDOE after students withdrew; inadequate verification of applicant

information; inadequate record-retention, including no resolution of apparent conflicting student application information; and no student account records maintained. These deficiencies resulted in Pell Grant awards being calculated improperly (mostly under-awards), students in ineligible programs receiving Pell Grants, and students receiving over- and under-awards. The USDOE review team concluded from this review that the findings were of a serious nature and reflected OATC's administrative capability.

During our review, OATC was attempting to correct the findings noted in this review and was in the process of training new personnel, revising procedures, and remediating its records for the 2005-06 fiscal year. Since OATC was in a transition period, several deficiencies had not been corrected and the results of our audit were similar to those noted by the USDOE review team. In summary, we noted that:

- OATC's most recent version of its Attendance and Satisfactory Academic Progress (SAP) policies did not contain components and standards required by Title 34, Section 668.16, Code of Federal Regulations.
- OATC had not implemented an accounting system that shows payments, refunds, and account balances (student accounts) for each Pell Grant recipient. OATC personnel indicated that an accounting system is in the design phases and should be implemented for the 2006-07 fiscal year.
- During this transition period, OATC had not implemented planned procedures to ensure that Pell Grant awards were properly calculated. Our review of ten Pell Grant students showed that all ten students were awarded Pell Grants that were less than what they were entitled, primarily because OATC personnel did not use a 900-hour academic year as the base for determining the awards. However, the number of students receiving under-awards could change depending on how the Department of Education applies the 900 vs. 876 clock hour issue (see below.)
- OATC has not implemented procedures to ensure consistent calculation of awards for students who withdrew. Title 34, Section 668.22, Code of Federal Regulations, requires institutions to determine whether Pell Grant funds were earned by students who withdrew. For those students who are determined to have earned Pell Grant funds in excess of Pell Grant funds that were disbursed to the student at the time of withdrawal, the difference must be treated as a post-withdrawal disbursement. The institution must offer the student any amount of a post-withdrawal disbursement that is not credited to the student's account.
- Our review disclosed that of the six students included in our sample who withdrew from OATC during the 2005-06 fiscal year, the post-withdrawal disbursements were incorrectly calculated for one of these students. The student was over-awarded \$359.77 primarily due to the use of incorrect clock hours or other data in the computations of earned awards.

We also noted that the academic year for OATC's night programs comprised only 876 clock hours. Title 34, Section 668.3, Code of Federal Regulations, requires that an eligible academic year be at least 900 clock hours. According to District personnel, students taking a program at night complete in 876 hours the same program that requires 900 hours to complete in day programs. OATC personnel stated that the reduced night class hours was an oversight that will be corrected for the 2006-07 fiscal year.

In June 2006, the District received a Final Program Review Determination Letter concluding that all the findings in the program determination letter were resolved and closed except for a finding relating to the calculation of clock hours used to make Pell Grant disbursements. This letter directed that the District's auditor should determine that appropriate corrective actions were taken to correct the findings in the next regularly scheduled audit, which will be for the 2006-07 fiscal year.

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**Recommendation:** The District should continue its efforts to complete the necessary corrective actions to address the deficiencies cited in USDOE's review and our audit.

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District Contact Person: Dr. Frank Fuller, Assistant Superintendent of Non-Traditional Schools

**OKALOOSA COUNTY**  
**DISTRICT SCHOOL BOARD**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - FEDERAL AWARDS**  
*For the Fiscal Year Ended June 30, 2006*

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

| Audit Report No.<br>and Federal<br>Awards Finding No. | Program/ Area | Brief Description                   | Status | Comments |
|---|---------------|-------------------------------------|--------|----------|
|   |               | There were no prior audit findings. |        |          |



## MANAGEMENT RESPONSE

## SCHOOL DISTRICT OF OKALOOSA COUNTY

SUPERINTENDENT OF SCHOOLS  
DON GAETZ

ATTORNEY TO THE BOARD  
C. JEFFREY McINNIS



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

November 3, 2006

William O. Monroe, CPA  
Auditor General  
7282 Plantation Road, Suite 401  
Pensacola, Florida 32514

RE: Preliminary and Tentative Audit Findings and Recommendations for the Fiscal Year Ended  
June 30, 2006

Dear Mr. Monroe:

Enclosed are our responses to your preliminary and tentative audit finds and recommendations for the fiscal year ended June 30, 2006.

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

Sincerely,

Don Gaetz  
Superintendent

DG:baz

cc: Cathy Thigpen, Chairman, School Board  
Rodney Walker, School Board Member  
Howard Hill, School Board Member  
Chuck Kelley, School Board Member  
Cindy Frakes, School Board Member  
Chief Officers  
Patricia Wascom, Chief Financial Officer

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**MANAGEMENT RESPONSE (CONTINUED)**

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School District of Okaloosa County  
Letter to William O. Monroe, CPA, Auditor General  
2005-2006 Preliminary and Tentative Audit Findings

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**Finding No. 1: Relocatable Building Inspections**

The School District has instituted procedures which require that prior to the occupancy of any new portable an inspection will be conducted to ensure that the unit complies with all applicable state rules, laws and regulations. The procedures conducted in the inspection and the related results will be documented. A copy of the inspection will be maintained in the relocatable unit, and the original will be maintained in the file of the Specialist - Facilities Planning.

**Finding No. 2: Food Service Operations**

The School District has retained the services of Carr Riggs & Ingram, LLC and Evergreen Solutions, LLC, to conduct an operational review of the all Food Service operations. The primary purpose of this review is to identify those areas which must be improved in order to return the Food Service group to a profitable position. The report will be presented to the School Board in December 2006.

Additionally, the Food Service group has entered into an arrangement with the District's Finance Department to provide financial and budget services which were previously handled by an individual in the Food Service group. The primary purpose for making this change is to ensure that the Food Service group has accurate and reliable financial and budgetary information necessary for managing their operations in the most efficient and economical manner possible. Also, the Food Service group has begun a more intensive training session with each of the cafeteria managers to ensure that they are fully aware of the financial implications on each of the decisions which they make on a daily basis.

The upper management team of the Food Service group is committed to monitoring the key operating metrics on a daily basis to ensure that the food service group is focused on the pennies each and every day.

**Federal Awards Finding 1:****Title I Grants to Local Educational Agencies (CFDA 84.010) - Special Tests and Provisions - Identifying Schools Needing Improvement.**

The slight variation in the District's wording of the 2005-06 letter has been corrected in the 2006-07 parent letter. While student achievement was defined in the previous letter, the text selected reflected the situation in less negative terms than the model. The current letter is an exact replica of the model provided by the FLDOE and clearly defines student achievement at the school of attendance as compared to student achievement at other district schools and at the school to which the child could be transferred. This action complies with direction set forth in Title 34, Section 200.44, Code of Federal Regulations.

The four elementary schools not providing letters to parents notifying them of the option to transfer their child to another district school were schools that achieved AYP in their second year of school improvement status. The FLDOE responded to a request for clarification by stating that these schools were in a "holding pattern" and did not have to offer "choice" for new students but would have to continue offering "choice" to previous students. A misinterpretation of that guidance resulted in letters not being sent to parents from the identified schools in the second year in which AYP was achieved, although transportation continued to be provided to students who selected to transfer to a different school the previous year. In accordance with Title 34, Section 200.36, Code of Federal Regulations, all SINI schools, regardless of school improvement year or AYP status, will inform parents of all enrolled students of their choice options, to include transfer to another district school.

**Federal Awards Finding 2:****Title I Grants to Local Educational Agencies (CFDA 84.010) - Matching, Level of Effort, Earmarking - Targeting Funds for Choice Related Transportation.**

The four elementary schools not providing letters to parents notifying them of the option to transfer their child to another district school were schools that achieved AYP in their second year of school improvement status. A misinterpretation of guidance provided by FLDOE resulted in letters not being sent to parents from the identified schools in the second year of school improvement in which AYP was achieved, although transportation continued to be provided to students who elected to transfer to a different school the previous year. In accordance with Title 34, Section 200.44, Code of Federal Regulations, schools in any year of school improvement will provide notification to parents of

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**MANAGEMENT RESPONSE (CONTINUED)**


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School District of Okaloosa County  
 Letter to William O. Monroe, CPA, Auditor General  
 2005-2006 Preliminary and Tentative Audit Findings

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 November 3, 2006

all enrolled students of the option to transfer their child to a qualifying public school that has not been identified for improvement, with transportation provided.

**Federal Awards Finding 3:**

**Title I Grants to Local Educational Agencies (CFDA 84.010) and Special Education Cluster (CFDA Nos. 84.027 and 84.173) - Allowable Cost/Cost Principles (Documentation of Employee Time and Effort).**

Notification has been provided to all employees working solely on a single cost objective that certification will be completed semi-annually and signed by the employee and the supervisor having first hand knowledge of the work performed by the employee. The appropriate reporting system, begun in July, 2006, will demonstrate adherence to OMB Circular A-87, Attachment B, paragraph 11.h (3).

Due to both annual and monthly fluctuations in percent of time spent on Title I activities (e.g., the 2004-05 distribution exceeded 20% while the 2005-06 distribution was slightly below 20%; some months reported were in excess of 30% while other months were 11%), the employee in question has reduced the Title I portion of the multiple activities/cost objectives to 15% in order to comply with the standards set forth in OMB Circular A-87, Attachment B, paragraph 11.h (4, 5). This budget adjustment became effective in July, 2006.

**Federal Awards Finding 4:**

**Federal Pell Grant Program (CFDA No. 84.063) - Federal Program Review.**

The District has made operational and procedural changes to correct the deficiencies as follows:

- The Financial Aid personnel at OATC have updated the federally required Financial Aid Policies and Procedures Manual for 2006-2007 to include our Attendance and Satisfactory Academic Progress policies (pp. 12-14). After attending and successfully completing the Fundamentals of Title IV Administration training, the Financial Aid coordinator has updated the policies to comply with the federal guidelines.
- OATC has an online accounting system to update student accounts for each Pell Grant recipient. The Financial Aid Coordinator, the Student Intake Coordinator, the Financial Aid Secretary, and the Adult Attendance Secretary at OATC have access to this secure site.
- The Financial Aid personnel developed a payment and disbursement schedule based on OATC's 900-hour, 36-week Academic Year. This schedule is posted in the 2006-2007 Policies and Procedures Manual (pp. 8-9).
- When a Pell student withdraws, Financial Aid personnel complete the federal Treatment of Title IV Funds "When a Student Withdraws from a Clock-Hour Program" form revised after July 1, 2006. The completion of this form leads to the calculation of the amount of Pell funds (if any) to be treated as a post-withdrawal disbursement.
- The federal form for post-withdrawal disbursements has been updated as of July 1, 2006, and is being filled out for each student upon withdrawal from school. By using this form, Financial Aid personnel at OATC should accurately compute the earned awards during 2006-2007.