



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



**PALM BEACH COUNTY**  
**DISTRICT SCHOOL BOARD**  
A Financial and Federal Single Audit Report

For the Fiscal Year Ended June 30, 2004

Palm Beach County District School Board members and the Superintendent of Schools who served during the 2003-04 fiscal year are shown in the following tabulation:

<i>Dr. Monroe Benaim</i>	<i>1</i>
<i>Paulette Burdick</i>	<i>2</i>
<i>William G. Graham, Vice-Chair</i>	<i>3</i>
<i>Thomas E. Lynch, Chair</i>	<i>4</i>
<i>Mark Hansen</i>	<i>5</i>
<i>Dr. Sandra Samal Richmond</i>	<i>6</i>
<i>Dr. Debra L. Robinson</i>	<i>7</i>

*Dr. Arthur C. Johnson, 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.

**PALM BEACH COUNTY DISTRICT SCHOOL BOARD**

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**EXECUTIVE SUMMARY**

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**Summary of Report on Financial Statements**

The Palm Beach County District School Board prepared its basic financial statements for the fiscal year ended June 30, 2004, 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.

**Summary of Report on Federal Awards**

We audited the District's Federal awards for compliance with applicable Federal requirements. The Food Donation, Title I, and Charter Schools 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. However, we did note a compliance finding that is summarized below.

**Federal Awards Finding No. 1: Allowable Costs/ Cost Principles**

The District did not document compliance with the Federal requirement that semi-annual certifications be prepared to support salaries and benefits costs for employees who worked solely on a single Federal program. Contrary to the provisions of the United States Office of Management and Budget *Circular A-87*, our tests disclosed that 15 administrative employees working for the Title I program were paid \$1,225,845.01 in salaries and benefits that had not prepared the required semi-annual certifications.

**Audit Scope and Objectives**

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, 2004. 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.

Our audit objectives were to determine whether the Palm Beach 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; and
- Complied with the various provisions of law, 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.

### 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*.

### Statement From Audited Official

In accordance with the provisions of Section 11.45(4)(d), Florida Statutes, our audit finding and recommendation was submitted to members of the Palm Beach County District School Board and the Superintendent. The Superintendent's written response to the audit finding and recommendation is included in this report is shown on pages 67 through 71.

This audit was conducted by Clare Waters, CPA, and supervised by Ida Marie Westbrook, 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, as well as other audit reports prepared by the Auditor General, can be obtained on our Web site at <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.

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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 Net Assets – Proprietary Fund.*

***EXHIBIT – H*** *Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Fund.*

***EXHIBIT – I*** *Statement of Cash Flows – Proprietary Fund.*

***EXHIBIT – J*** *Statement of Fiduciary Net Assets – Fiduciary Funds.*

***EXHIBIT – K*** *Statement of Changes in Fiduciary Net Assets – Fiduciary Fund.*

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

***OTHER REQUIRED SUPPLEMENTARY INFORMATION***

***EXHIBIT – M*** *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 Palm Beach County District School Board as of and for the fiscal year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed on page 1. 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 13 percent of the assets and 66 percent of the liabilities of the aggregate remaining fund information. Additionally, we did not audit the financial statements of the discretely presented component units. Those financial statements were audited by other auditors whose reports have been provided to us, and our opinion on the basic financial statements, 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. 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 of the Palm Beach County District School Board as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report on our consideration of the Palm Beach 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 4 through 13) and the Budgetary Comparison Schedule (shown as exhibit M) are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the United States Office of Management and Budget's *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

February 2, 2005



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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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The School District of Palm Beach County, Florida's (the "District") discussion and analysis is designed to provide an objective and easy to read analysis of the District's financial activities for the fiscal year ended June 30, 2004, based on currently known facts, decisions, and conditions. It is intended to provide a broad overview using a short-term and long-term analysis of the District's activities based on information presented in the financial report and fiscal policies that have been adopted by the seven elected members of the School Board (the "Board"). Specifically, this section is designed to assist the reader in focusing on significant financial issues, provide an overview of the District's financial activity, identify changes in the District's financial position (its ability to address the next and subsequent year's challenges), identify any material deviations from the financial plan (the approved budget), and identify individual fund issues or concerns.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 *"Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments"* (GASB 34).

As with other sections of this financial report, the information contained within this MD&A should be considered only a part of a greater whole. The reader of this statement should take time to read and evaluate all sections of this report, including the notes that are provided in addition to this MD&A.

**FINANCIAL HIGHLIGHTS**

- Total net assets increased by 7 percent over the course of the 2003-04 fiscal year. Overall, revenues were \$1.51 billion, fully \$87.9 million more than expenses.
- General revenue accounted for \$1.3 billion, or 86 percent, of all revenues. Program specific revenue in the form of charges, for services, grants, or contributions accounted for \$216.3 million, or 14 percent of total revenue of \$1.51 billion.
- The District had \$1.43 billion in expenses related to programs; \$216.3 million were offset by program specific charges for services, grants or contributions. General revenues, primarily property taxes and Florida Education Finance Program (FEFP) revenues, were adequate to provide for these programs.
- Governmental funds reported a deficiency of revenues over expenditures (including other financing sources and uses) of \$160.6 million for the fiscal year ended June 30, 2004. The deficiency is principally due to expenditures of approximately \$466 million for the construction of seven new schools and modernization of four existing schools, coupled with a reduction of \$263.9 million in proceeds from the issuance of new debt. During the fiscal year ended June 30, 2004, \$112.5 million was issued in new debt, compared to \$376.4 million during the prior year.
- In governmental funds for the fiscal year ended June 30, 2004, revenues increased 12 percent and expenditures increased 10 percent, in comparison to the fiscal year ended June 30, 2003. The increase in revenue is primarily due to an increase in property tax revenue. The increase in expenditures is primarily due to the increases in instructional services as a result of student growth and increased spending for construction, remodeling, and renovation of school facilities.
- The General Fund (the primary operating fund), reflected on a current financial resources basis, ended the year with a fund balance of \$89.1 million. During the 2003-04 fiscal year, General Fund revenues exceeded expenditures (including other financing sources and uses) by \$6.9 million.

## OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *district-wide financial statements* that provide both *short-term* and *long-term* information about the District’s *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District’s operations *in more detail* than the district-wide statements.
- The *governmental funds* statements tell how *basic* services like instruction and instructional support services were financed in the *short-term*, as well as what remains for future spending.
- *Proprietary funds* statements offer *short-term* and *long-term* financial information about the activities the District operates *like businesses*, such as maintenance services.
- *Fiduciary funds* statements provide information about the financial relationships in which the District acts solely as a *trustee or agent* for the benefit of others.

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data.

Figure 1				
<b>Major Features of District-Wide and Fund Financial Statements</b>				
	<b>District-wide Statements</b>	<b>Fund Financial Statements</b>		
		<b>Governmental Funds</b>	<b>Proprietary Funds</b>	<b>Fiduciary Funds</b>
<i>Scope</i>	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: maintenance services and other internal service funds	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
<i>Required financial statements</i>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenue, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of revenue, expenses, and changes in fund net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus

Figure 1 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis highlights the structure and contents of each of the statements.

### District-wide Statements

The District-wide statements report information about the District as a whole, using accounting methods similar to those used by private-sector companies. The statement of net assets includes *all* of the District’s assets and liabilities. All of the current year’s revenue and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two district-wide statements report the District’s *net assets* and how they have changed. Net assets – the difference between the District’s assets and liabilities – are one way to measure the District’s financial health or *position*.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, the reader needs to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements, all the District's activities are reported as governmental activities.

- *Governmental activities* – All of the District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and State formula aid finance most of the activities.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the District's *funds*, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debts) or to show that it is properly using certain revenues (like Federal grants).

The District has three kinds of funds:

- *Governmental funds* – Most of the District's basic services are included in governmental funds, which generally focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, the District provides additional information with the governmental funds statements that explains the relationship (or differences) between them.
- *Proprietary funds* – Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the district-wide statements. There are two types of proprietary funds:
  - *Enterprise funds* account for goods and services provided to those outside the district, generally on a user-charge basis. Currently, the district has no enterprise funds.
  - *Internal service funds* report activities that provide supplies and services for the District's other programs and activities. The District currently has one internal service fund – the Maintenance Services fund.
- *Fiduciary funds* – The District is the trustee, or *fiduciary*, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

### FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's net assets are \$1.3 billion at June 30, 2004. The largest portion of the District's net assets, \$956.1 million or 74 percent, reflect its investment in capital assets (i.e., land, buildings, furniture and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the District's net assets (\$442.8 million) represents resources that are subject to external restrictions on how they may be used.

The unrestricted net assets of governmental activities represent the accumulated results of all past years' operations. The adoption of GASB 34 resulted in the District having to expense its long-term compensated absences. This resulted in the recording of \$135.5 million in expenses against the Statement of Net Assets balance, which caused a shortfall of unrestricted net assets.

The analyses below and on page 8 focus on the summary of net assets (Table 1) and the summary of changes in net assets (Table 2) of the District's governmental activities.

	<b>Net Assets, End of Year</b>		
	(in thousands)		
	Governmental Activities		
	6-30-04	6-30-03	Change
Current and Other Assets	\$ 1,030,980	\$ 1,184,213	\$ (153,233)
Capital Assets	2,247,633	1,909,322	338,311
<b>Total Assets</b>	<b>3,278,613</b>	<b>3,093,535</b>	<b>185,078</b>
Long-Term Liabilities	1,781,876	1,704,464	77,412
Other Liabilities	188,790	203,332	(14,542)
<b>Total Liabilities</b>	<b>1,970,666</b>	<b>1,907,796</b>	<b>62,870</b>
Net Assets:			
Invested in Capital Assets -			
Net of Debt	956,117	893,958	62,159
Restricted	442,815	384,588	58,227
Unrestricted (Deficit)	(90,985)	(92,807)	1,822
<b>Total Net Assets</b>	<b>\$ 1,307,947</b>	<b>\$ 1,185,739</b>	<b>\$ 122,208</b>

The results of the 2003-04 fiscal year operations for the District as a whole are reported in the Statement of Activities. Table 2 takes the information from that statement and rearranges it slightly so the reader can see the total revenues for the year.

As reported in the Statement of Activities, the cost of all of the governmental activities this year was \$1.42 billion. The amount that the taxpayers ultimately financed for these activities through District taxes and other sources was \$1.3 billion because some of the cost was paid by those who benefited from the programs (\$73.6 million) or

by other governments and organizations which subsidized certain programs with grants and contributions (\$142.7 million). The District paid for the remaining “public benefit” portion of the governmental activities with \$815 million in property taxes, \$440 million in grants and contributions not restricted to specific programs, and \$42.5 million with other general revenue.

Table 2

	Operating Results for the Year		
	(in thousands)		
	Governmental		
	Activities		
	6-30-04	6-30-03	Changes
Program Revenues:			
Charges for Services	\$ 73,592	\$ 38,374	\$ 35,218
Operating Grants and Contributions	70,103	67,171	2,932
Capital Grants and Contributions	72,621	56,889	15,732
General Revenues:			
Property Taxes	814,967	746,666	68,301
Grants and Contributions Not Restricted to Specific Programs	439,979	423,435	16,544
Other General Revenue	42,490	39,697	2,793
<b>Total Revenues</b>	<b>1,513,752</b>	<b>1,372,232</b>	<b>141,520</b>
Functions/Program Expenses:			
Instruction	722,278	672,512	49,766
Instructional Support Services	139,502	129,368	10,134
School Administration	81,102	74,526	6,576
Facilities Acquisition and Construction	55,356	50,226	5,130
Food Services	53,253	47,095	6,158
Pupil Transportation Services	36,111	32,792	3,319
Operation and Maintenance of Plant	134,161	125,055	9,106
Community Services	22,841	20,994	1,847
Interest on Long-Term Debt	69,959	59,695	10,264
Unallocated Depreciation /Amortization Expenses	66,875	62,289	4,586
Other Expenses	44,431	51,068	(6,637)
<b>Total Functions/Program Expenses</b>	<b>1,425,869</b>	<b>1,325,620</b>	<b>100,249</b>
<b>Increase in Net Assets</b>	<b>\$ 87,883</b>	<b>\$ 46,612</b>	<b>\$ 41,271</b>

Table 3 presents the costs of three major District activities: instruction, instructional support services, and operation and maintenance of plant. The table also shows each activity’s *net cost* (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the District’s taxpayers by each of these functions.

Table 3

**Governmental Activities**

Years Ended June 30, 2004 and 2003  
(in thousands)

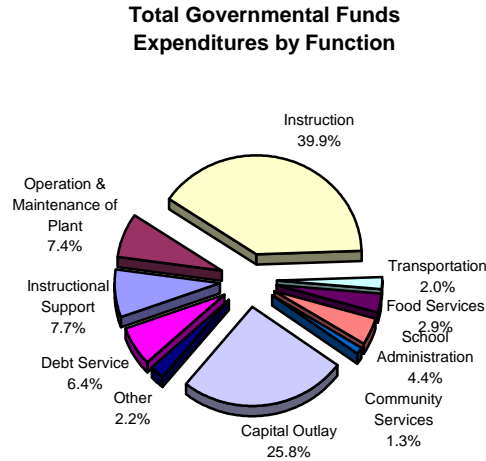
	<u>2004</u>	<u>2003</u>	<u>Change</u>
<b>Total Cost of Services</b>			
Instruction	\$ 722,278	\$ 672,512	\$ 49,766
Instructional Support Services	139,502	129,368	10,134
Operation and Maintenance of Plant	<u>134,161</u>	<u>125,055</u>	<u>9,106</u>
<b>Total</b>	<u>\$ 995,941</u>	<u>\$ 926,935</u>	<u>\$ 69,006</u>
<b>Net Cost of Services</b>			
Instruction	\$ 688,514	\$ 670,839	\$ 17,675
Instructional Support Services	139,502	129,368	10,134
Operation and Maintenance of Plant	<u>134,161</u>	<u>125,055</u>	<u>9,106</u>
<b>Total</b>	<u>\$ 962,177</u>	<u>\$ 925,262</u>	<u>\$ 36,915</u>

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

As of June 30, 2004, the District's governmental funds reports a combined fund balance of \$852.8 million, which is a decrease of \$160.6 million, or 16 percent from the 2002-03 fiscal year. The change largely reflects a decrease of \$178.2 million in the Capital Projects – Other Fund, one of the District's major funds, primarily due to expenditures of approximately \$351 million for construction of seven new schools and modernization of four existing schools during the 2003-04 fiscal year.

The General Fund, which is the chief operating fund of the District and is always considered a major fund, has an ending fund balance of \$89.1 million at June 30, 2004. The fund balance of the District's General Fund increased by \$6.9 million during the 2003-04 fiscal year. At the end of the 2003-04 fiscal year, unreserved fund balance of the General Fund is \$67.9 million.

In the Capital Projects – Local Capital Improvement Fund, property tax revenue increased from \$170.1 million in the 2002-03 fiscal year to \$190.1 million in the 2003-04 fiscal year due to higher property values.



The above graph presents total expenditures from Governmental Funds classified by function.

**General Fund Budgetary Highlights**

Over the course of the year, the District revises its budget and brings amendments to the Board on a monthly basis. These amendments are needed to adjust to actual revenues received and direct resources where needed. The Board approves the final amendment to the budget after year-end. Schedules showing the District’s original budget and final amended budget, compared with actual amounts paid and received, are provided as exhibit M.

There were revisions made to the 2003-04 General Fund original budget. FEFP revenue was increased \$2.6 million, as a result of student count higher than projected by 700 students. Revenue from interest income fell short of original budget by \$1.1 million due to declining interest rates. In contrast, local revenue from real estate taxes was \$8.5 million greater than original budget. Local revenues from fee-based programs were also higher than originally projected by \$1.4 million. Also, insurance loss recoveries were \$3.9 million higher than originally estimated. Overall, budgeted revenues and other financing sources ended the year \$21.4 million higher than original budget.

Budgeted expenditures were increased \$21.4 million from the original budget to the final amended budget to account for increases in employee salaries and benefits, as well as pupil transportation and energy expenditures.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

As shown in Table 4, at June 30, 2004, the District has \$2.2 billion invested in a broad range of capital assets, including land; construction in progress; improvements other than buildings; buildings and fixed equipment; furniture, fixtures and equipment; motor vehicles; and audio visual materials and computer software. This amount represents a net increase (including additions, deletions, and depreciation) of \$338.3 million from the 2002-03 fiscal year.

**Table 4** **Capital Assets at June 30, 2004 and 2003**

(in thousands)

	2004	2003
Land	\$ 215,509	\$ 198,265
Construction in Progress	482,195	364,324
Improvements Other Than Buildings	6,375	4,140
Buildings and Fixed Equipment	1,917,306	1,701,862
Furniture, Fixtures, and Equipment	182,306	179,532
Motor Vehicles	69,837	62,981
Property Under Capital Lease	2,879	2,879
Audio Visual and Computer Software	32,858	30,371
Less: Accumulated Depreciation	(661,632)	(635,032)
<b>Total Capital Assets, Net</b>	<b>\$ 2,247,633</b>	<b>\$ 1,909,322</b>

This year's net increase of \$338.3 million includes the construction of seven new schools, which opened in the 2003-04 fiscal year, and several major expansions and renovation projects.

The District anticipates capital additions will continue to increase due to the effort being made to reduce student overcrowding.

The Notes to Financial Statements provide more information on capital assets.

### Long-Term Debt

As shown in Table 5 below, at the end of the 2003-04 fiscal year, the District has \$1.6 billion in debt outstanding, compared to \$1.53 billion at the end of the 2002-03 fiscal year, an increase of \$71.5 million, or 4.7 percent.

**Table 5** **Long-Term Debt Outstanding at June 30, 2004 and 2003**

(in thousands)

	2004	2003
State School Bond Issues	\$ 50,735	\$ 47,945
General Obligation Debt	103,665	126,690
Capital Leases	1,862	2,801
Certificates of Participation	1,431,453	1,340,950
Plus: Issuance Premiums	28,136	27,191
Less: Deferred Amounts	(12,877)	(14,089)
<b>Total Long-Term Debt, Net</b>	<b>\$ 1,602,974</b>	<b>\$ 1,531,488</b>

The District's general obligation debt and certificates of participation are rated Aa3 and A1 by Moody's Investors Service, AA and AA- by Standard and Poor's Corporation, and AA- and A+ by Fitch Ratings Services, respectively.

The District is subject to State laws that limit the amount of debt outstanding to 10 percent of the non-exempt assessed valuation. At June 30, 2004, the statutory limit for the District was approximately \$9.9 billion, providing additional debt capacity of approximately \$9.8 billion.

Other long-term obligations include liability for compensated absences and estimated claims liability.



## FACTORS BEARING ON THE DISTRICT'S FUTURE

The State of Florida, by constitution, does not have a State personal income tax and, therefore, the State operates primarily using sales, gasoline, and corporate income taxes. State funds to school districts are provided primarily by legislative appropriations from the State's general revenue funds under the FEFP. The level of tourism in the State influences the amount collected. Changes in the anticipated amount of revenues collected by the State directly impact the revenue allocation to the District.

The focus of the State finance program bases financial support for education upon the individual student participating in a particular educational program rather than upon the number of teachers or classrooms. FEFP funds are primarily generated by multiplying the number of full-time equivalent students (FTEs) in each of the educational programs by cost factors to obtain weighted FTEs. Weighted FTEs are then multiplied by a base student allocation and by a district cost differential in the major calculation to determine the State and local FEFP funds. Program cost factors are determined by the Legislature and represent relative cost differences among the FEFP programs.

### State Support

Funds for State support to school districts are provided primarily by legislative appropriations. The major portion of State support is distributed under the provisions of the FEFP. State funds appropriated to finance the FEFP in 2004-05 is \$6.8 billion for student enrollment associated with the 180-day regular school year and students in juvenile justice programs during the summer. A separate appropriation of \$388.7 million for Workforce Development was made to finance adult vocational and adult general education. While a number of tax sources are deposited in the State's General Revenue Fund, the predominant tax source is the sales tax.

Statewide, proceeds from the 2004-05 Florida Lottery will be used to finance the following general fund K-12 appropriations: District Discretionary Lottery Funds, \$103.4 million, and School Recognition Funds, \$160 million.

In addition, funds are appropriated to meet other needs by means of categorical programs and special allocations. These include Class Size Reduction, \$978.8 million; Instructional Materials Program, \$234.4 million; Student Transportation, \$440.3 million; Public School Technology, \$49.9 million; Teacher Lead Program, \$16.5 million; Teacher Training, \$36.0 million; and Summer Reading, \$25.0 million.

### Local Support

Local revenue for school support is derived almost entirely from property taxes. Each of the 67 school districts in the State is a countywide district.

Each school board participating in the State allocation of funds for current operation of schools must levy the millage set for its required local effort taxes. The Legislature set the amount of \$5.6 billion as the State total required local effort for the 2004-05 fiscal year. Each district's share of the State total of required local effort is determined by a statutory procedure that is initiated by certification of the property tax valuations of each district by the Florida Department of Revenue.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, parents, students, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact:

Joseph Moore, Chief Operating Officer  
The School District of Palm Beach County, Florida  
3328 Forest Hill Boulevard, Suite A-306  
West Palm Beach, FL 33406.

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**EXHIBIT - A**  
**PALM BEACH COUNTY**  
**DISTRICT SCHOOL BOARD**  
**STATEMENT OF NET ASSETS**  
**June 30, 2004**

	Primary Government Governmental Activities	Component Units
<b>ASSETS</b>		
Cash	\$ 326,186,225.67	\$ 3,890,902.00
Investments	587,936,270.32	450,513.00
Accounts Receivable	2,197,884.34	401,458.00
Interest Receivable	721,142.53	
Deposits Receivable		241,763.00
Prepaid Items	20,910.00	176,109.00
Deferred Charges	14,703,420.15	
Due from Other Agencies	83,259,315.95	84,145.00
Inventories	15,949,512.35	
Restricted Cash with Fiscal Agent	4,883.65	
Capital Assets:		
Land	215,509,136.79	232,263.00
Construction in Progress	482,194,845.82	266,558.00
Improvements Other Than Buildings, Net	5,583,086.48	14,808.00
Buildings and Fixed Equipment, Net	1,442,146,977.92	2,525,376.00
Furniture, Fixtures, and Equipment, Net	60,138,122.01	1,672,456.00
Motor Vehicles, Net	32,009,185.85	113,123.00
Property Under Capital Lease, Net	2,433,034.84	12,695.00
Audio Visual Materials and Computer Software, Net	7,618,939.16	103,451.00
<b>TOTAL ASSETS</b>	<b>\$ 3,278,612,893.83</b>	<b>\$ 10,185,620.00</b>
<b>LIABILITIES</b>		
Salaries and Benefits Payable	\$ 13,911,215.67	\$ 73,042.00
Payroll Deductions and Withholdings	6,598,793.78	176,846.00
Accounts Payable	47,657,936.93	1,914,608.00
Construction Contracts Payable	17,342,521.38	20,359.00
Construction Contracts Payable - Retainage	24,072,184.99	
Accrued Interest Payable	27,052,073.01	
Due to Fiscal Agent	206,896.75	1,047,979.00
Notes Payable	45,000,000.00	
Due to Other Agencies	2,693,967.46	
Deposits Payable	223,637.30	
Deferred Revenue	4,031,142.62	
Long-Term Liabilities:		
Portion Due Within One Year:		
Estimated Insurance Claims Payable	9,330,000.00	
Estimated Post Retirement Benefits Payable	2,568,939.17	
Obligations Under Capital Lease	961,209.14	
Bonds Payable	27,855,406.63	
Certificates of Participation Payable	25,704,083.06	428,310.00
Compensated Absences Payable	8,856,073.37	7,301.00
Deferred Revenue		46,264.00
Portion Due After One Year:		
Estimated Insurance Claims Payable	27,966,000.00	
Estimated Post Retirement Benefits Payable	3,513,839.07	
Obligations Under Capital Lease	901,153.63	
Bonds Payable	127,514,936.82	
Certificates of Participation Payable	1,420,037,555.31	829,125.00
Compensated Absences Payable	126,666,765.63	
<b>Total Liabilities</b>	<b>1,970,666,331.72</b>	<b>4,543,834.00</b>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	956,116,585.16	4,460,135.00
Restricted for:		
State Categorical Programs	43,821,300.40	
Debt Service	178,768,174.60	
Capital Projects	201,932,376.72	414,942.00
Other Purposes	18,293,962.72	178,625.00
Unrestricted	(90,985,837.49)	588,084.00
<b>Total Net Assets</b>	<b>1,307,946,562.11</b>	<b>5,641,786.00</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 3,278,612,893.83</b>	<b>\$ 10,185,620.00</b>

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

**EXHIBIT - B**  
**PALM BEACH COUNTY**  
**DISTRICT SCHOOL BOARD**  
**STATEMENT OF ACTIVITIES**  
For the Fiscal Year Ended June 30, 2004

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government</b>				
<b>Governmental Activities:</b>				
Instruction	\$ 722,278,495.65	\$ 1,608,967.89	\$ 32,155,110.00	\$
Pupil Personnel Services	47,445,811.35			
Instructional Media Services	16,654,673.85			
Instruction and Curriculum Development Services	53,862,282.95			
Instructional Staff Training	21,539,477.84			
Board of Education	4,054,018.55			
General Administration	8,946,411.14			
School Administration	81,102,465.95			
Facilities Acquisition and Construction	62,376,706.43			66,718,152.48
Fiscal Services	4,572,542.88			
Food Services	53,252,913.95	53,376,528.08	883,780.00	
Central Services	19,836,357.20			
Pupil Transportation Services	36,111,119.40	1,223,567.69	29,778,761.00	
Operation of Plant	102,041,810.81			
Maintenance of Plant	32,118,746.38			
Community Services	22,840,735.84	17,383,225.85	7,285,158.01	
Interest on Long-Term Debt	69,959,476.16			5,902,752.89
Unallocated Depreciation Expenses	66,874,817.29			
<b>Total Governmental Activities</b>	<b>1,425,868,863.62</b>	<b>73,592,289.51</b>	<b>70,102,809.01</b>	<b>72,620,905.37</b>
<b>Component Units</b>				
Charter Schools	\$ 27,507,926.00	\$ 304,187.00	\$ 12,793,036.00	\$ 2,246,308.00

General Revenues:

Taxes:

- Property Taxes, Levied for Operational Purposes
- Property Taxes, Levied for Debt Service
- 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, 2003

**Net Assets - June 30, 2004**

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



**EXHIBIT - C  
PALM BEACH COUNTY  
DISTRICT SCHOOL BOARD  
BALANCE SHEET - GOVERNMENTAL FUNDS  
June 30, 2004**

	General Fund	Capital Projects- Local Capital Improvement Fund	Capital Projects - Other Fund
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>ASSETS</b>			
Cash	\$ 116,531,939.75	\$ 98,575,612.40	\$ 65,289,202.47
Investments	30,008,299.90	25,385,906.31	358,657,024.63
Interest Receivable			
Accounts Receivable	929,017.43		
Due from Other Funds	310,160.25		535,000.00
Due from Other Agencies	12,958,968.80	4,063,311.62	42,985,383.60
Prepaid Items	20,910.00		
Inventories	14,150,823.24		
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>TOTAL ASSETS</b>	<b><u>\$ 174,910,119.37</u></b>	<b><u>\$ 128,024,830.33</u></b>	<b><u>\$ 467,466,610.70</u></b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Salaries and Benefits Payable	\$ 13,911,215.67	\$	\$
Payroll Deductions and Withholdings	6,598,793.78		
Accounts Payable	17,701,284.61	10,675,974.10	17,062,809.06
Matured Interest Payable	1,765,312.50		
Tax Anticipation Notes Payable	45,000,000.00		
Construction Contracts Payable		1,509,948.60	15,813,822.78
Construction Contracts Payable - Retainage		708,502.32	23,363,682.67
Due to Other Funds			
Due to Fiscal Agent			
Due to Other Agencies	5,903.45		2,414,723.56
Deposits Payable	103,314.63		
Deferred Revenue	699,832.46		
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Total Liabilities</b>	<b><u>85,785,657.10</u></b>	<b><u>12,894,425.02</u></b>	<b><u>58,655,038.07</u></b>
Fund Balances:			
Reserved for State Categorical Programs	1,184,896.55		
Reserved for Encumbrances	5,872,023.50	27,645,763.69	212,788,651.60
Reserved for Inventories	14,150,823.24		
Reserved for Debt Service			
Unreserved:			
Designated for Board Contingency	31,600,000.00		
Undesignated	36,316,718.98	87,484,641.62	196,022,921.03
Undesignated, Reported in Nonmajor:			
Special Revenue Funds			
Capital Projects Funds			
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Total Fund Balances</b>	<b><u>89,124,462.27</u></b>	<b><u>115,130,405.31</u></b>	<b><u>408,811,572.63</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$ 174,910,119.37</u></b>	<b><u>\$ 128,024,830.33</u></b>	<b><u>\$ 467,466,610.70</u></b>

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

**EXHIBIT - C**

Debt Service - Other Fund	Total Nonmajor Funds	Total Governmental Funds
<u>                    </u>	<u>                    </u>	<u>                    </u>
\$ 2,869,499.37	\$ 42,902,197.53	\$ 326,168,451.52
161,173,838.84	12,705,365.64	587,930,435.32
721,142.53		721,142.53
	1,268,866.91	2,197,884.34
		845,160.25
	22,941,491.68	82,949,155.70
		20,910.00
	<u>1,798,689.11</u>	<u>15,949,512.35</u>
<u>\$ 164,764,480.74</u>	<u>\$ 81,616,610.87</u>	<u>\$ 1,016,782,652.01</u>
\$	\$	\$ 13,911,215.67
		6,598,793.78
	2,205,274.24	47,645,342.01
		1,765,312.50
		45,000,000.00
	18,750.00	17,342,521.38
		24,072,184.99
	535,000.00	535,000.00
167,402.73	39,494.02	206,896.75
	273,340.45	2,693,967.46
	120,322.67	223,637.30
	<u>3,331,310.16</u>	<u>4,031,142.62</u>
<u>167,402.73</u>	<u>6,523,491.54</u>	<u>164,026,014.46</u>
		1,184,896.55
	16,903,462.39	263,209,901.18
	1,798,689.11	15,949,512.35
164,597,078.01	33,740,500.94	198,337,578.95
		31,600,000.00
		319,824,281.63
	12,199,729.73	12,199,729.73
	<u>10,450,737.16</u>	<u>10,450,737.16</u>
<u>164,597,078.01</u>	<u>75,093,119.33</u>	<u>852,756,637.55</u>
<u>\$ 164,764,480.74</u>	<u>\$ 81,616,610.87</u>	<u>\$ 1,016,782,652.01</u>



**EXHIBIT - D  
PALM BEACH COUNTY  
DISTRICT SCHOOL BOARD  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2004**

**Total Fund Balances - Governmental Funds** \$ 852,756,637.55

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

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. 2,247,633,328.87

Debt issuance costs and underwriter's discounts are not expensed in the government-wide statements, but are reported as deferred charges, and amortized over the life of the debt. 14,703,420.15

Interest on long-term debt is accrued as a liability in the government-wide statements, but is not recognized in the governmental funds until due. (25,286,760.51)

An internal service fund is used by management to charge the costs of maintenance activities to individual funds. The assets and liabilities of the internal service fund are included in the governmental activities in the statement of net assets. 15,897.88

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	\$	155,370,343.45	
Certificates of Participation Payable		1,445,741,638.37	
Obligations Under Capital Lease		1,862,362.77	
Estimated Insurance Claims Payable		37,296,000.00	
Estimated Post Retirement Benefits Payable		6,082,778.24	
Compensated Absences Payable		135,522,839.00	
		135,522,839.00	(1,781,875,961.83)

**Total Net Assets - Governmental Activities** \$ 1,307,946,562.11

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

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**EXHIBIT - E**  
**PALM BEACH COUNTY**  
**DISTRICT SCHOOL BOARD**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES -**  
**GOVERNMENTAL FUNDS**  
**For the Fiscal Year Ended June 30, 2004**

	General Fund	Capital Projects - Local Capital Improvement Fund	Capital Projects - Other Fund
<b>Revenues</b>			
Intergovernmental:			
Federal Direct	\$ 625,821.77	\$	\$
Federal Through State			
State	410,382,836.39		42,596,719.00
Local	636,262,062.85	190,675,704.18	32,890,293.58
<b>Total Revenues</b>	1,047,270,721.01	190,675,704.18	75,487,012.58
<b>Expenditures</b>			
Current - Education:			
Instruction	676,415,333.78		
Pupil Personnel Services	35,252,852.78		
Instructional Media Services	16,663,285.64		
Instruction and Curriculum Development Services	39,357,822.28		
Instructional Staff Training	8,684,342.58		
Board of Education	3,988,185.64		
General Administration	6,944,892.55		
School Administration	78,377,943.76		
Facilities Acquisition and Construction	480,308.76		
Fiscal Services	4,467,256.51		
Food Services			
Central Services	17,941,347.15		
Pupil Transportation Services	35,223,591.28		
Operation of Plant	100,173,685.83		
Maintenance of Plant	32,082,635.22		
Community Services	18,846,424.97		
Fixed Capital Outlay:			
Facilities Acquisition and Construction	116,416.51	84,716,145.58	351,458,748.53
Other Capital Outlay	1,748,609.17		
Debt Service:			
Principal			938,905.64
Interest and Fiscal Charges	515,239.99		1,188,723.05
<b>Total Expenditures</b>	1,077,280,174.40	84,716,145.58	353,586,377.22
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	(30,009,453.39)	105,959,558.60	(278,099,364.64)
<b>Other Financing Sources (Uses)</b>			
Transfers In	33,000,000.00		
Bonds Issued			
Discount on Bonds Issued			
Certificates of Participation Issued			106,498,326.00
Premium on Certificates of Participation Issued			3,287,703.40
Proceeds from Sale of Capital Assets			34,000.00
Insurance Loss Recoveries	3,901,394.34		
Transfers Out		(111,126,415.00)	(9,900,000.00)
<b>Total Other Financing Sources (Uses)</b>	36,901,394.34	(111,126,415.00)	99,920,029.40
<b>Net Change in Fund Balances</b>	6,891,940.95	(5,166,856.40)	(178,179,335.24)
Fund Balances, July 1, 2003	82,232,521.32	120,297,261.71	586,990,907.87
<b>Fund Balances, June 30, 2004</b>	\$ 89,124,462.27	\$ 115,130,405.31	\$ 408,811,572.63

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

**EXHIBIT - E**

Debt Service - Other Fund	Total Nonmajor Funds	Total Governmental Funds
<u>                    </u>	<u>                    </u>	<u>                    </u>
\$	\$ 5,450,240.59	\$ 6,076,062.36
	114,048,585.84	114,048,585.84
	25,585,674.49	478,565,229.88
<u>5,911,206.24</u>	<u>58,363,041.60</u>	<u>924,102,308.45</u>
<u>5,911,206.24</u>	<u>203,447,542.52</u>	<u>1,522,792,186.53</u>
	43,622,095.85	720,037,429.63
	12,102,532.36	47,355,385.14
	39,997.75	16,703,283.39
	14,750,186.78	54,108,009.06
	11,913,681.87	20,598,024.45
		3,988,185.64
	2,250,360.47	9,195,253.02
	610,156.84	78,988,100.60
	456,714.21	937,022.97
	139,761.01	4,607,017.52
	53,021,603.79	53,021,603.79
	2,200,044.48	20,141,391.63
	848,568.40	36,072,159.68
	1,359,452.73	101,533,138.56
	53,833.25	32,136,468.47
	3,931,564.51	22,777,989.48
	25,368,855.44	461,660,166.06
	2,668,956.24	4,417,565.41
15,995,000.00	26,285,000.00	43,218,905.64
<u>61,293,445.83</u>	<u>8,645,165.59</u>	<u>71,642,574.46</u>
<u>77,288,445.83</u>	<u>210,268,531.57</u>	<u>1,803,139,674.60</u>
<u>(71,377,239.59)</u>	<u>(6,820,989.05)</u>	<u>(280,347,488.07)</u>
88,026,415.00		121,026,415.00
	6,050,000.00	6,050,000.00
	(60,372.10)	(60,372.10)
		106,498,326.00
		3,287,703.40
		34,000.00
		3,901,394.34
		<u>(121,026,415.00)</u>
<u>88,026,415.00</u>	<u>5,989,627.90</u>	<u>119,711,051.64</u>
16,649,175.41	(831,361.15)	(160,636,436.43)
<u>147,947,902.60</u>	<u>75,924,480.48</u>	<u>1,013,393,073.98</u>
<u>\$ 164,597,078.01</u>	<u>\$ 75,093,119.33</u>	<u>\$ 852,756,637.55</u>

**EXHIBIT - F  
PALM BEACH 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, 2004**

**Net Change in Fund Balances - Governmental Funds** \$ (160,636,436.43)

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 those 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.	344,777,994.86
Capital assets donated to the District increase net assets on the government-wide financial statements. However, they do not provide current financial resources and are not reported as revenues in the governmental funds.	34,300.82
The un depreciated cost of capital assets disposed of during the current period is expensed in the statement of activities, the cost of those 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.	(6,501,034.39)
Governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized over the life of the debt in the statement of activities.	(2,165,883.43)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.	(112,548,326.00)
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.	43,218,905.64
Revenues previously recognized in the statement of activities for impact fee accruals are recognized in the governmental funds in the current year.	(13,000,000.00)
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.	(7,172,178.85)
The net change in the post retirement benefits program liability is reported in the government-wide financial statements, but not in the governmental fund statements.	1,902,850.34
The increase in estimated insurance claims payable is an expense in the statement of activities, but is not recognized in the governmental funds statement of revenues, expenditures, and changes in fund balance.	(657,000.00)
Interest on long-term debt is recognized as an expenditure in the governmental funds when due, but is recognized as interest accrues in the government-wide financial statements. This is the net decrease in accrued interest during the current period.	621,650.42
Internal service funds are used by management to charge the cost of maintenance activities to individual funds. The net revenue of internal service funds is reported with governmental activities.	8,300.68

**Change in Net Assets - Governmental Activities** \$ 87,883,143.66

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

**EXHIBIT - G**  
**PALM BEACH COUNTY**  
**DISTRICT SCHOOL BOARD**  
**STATEMENT OF NET ASSETS -**  
**PROPRIETARY FUND**  
*June 30, 2004*

		Governmental Activities - Internal Service Fund
		<u>                    </u>
<b>ASSETS</b>		
Cash and Cash Equivalents	\$	22,657.80
Investments		<u>5,835.00</u>
<b>TOTAL ASSETS</b>	<b>\$</b>	<b><u>28,492.80</u></b>
<b>LIABILITIES</b>		
Accounts Payable	\$	12,594.92
<b>NET ASSETS</b>		
Unrestricted		<u>15,897.88</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$</b>	<b><u>28,492.80</u></b>

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

**EXHIBIT - H  
PALM BEACH COUNTY  
DISTRICT SCHOOL BOARD  
STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN FUND NET ASSETS -  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	Governmental Activities - Internal Service Fund
<b>OPERATING REVENUES</b>	
Charges for Services	\$ 23,512,455.17
<b>OPERATING EXPENSES</b>	
Salaries	17,820,454.25
Employee Benefits	5,637,634.95
Purchased Services	86,141.12
<b>Total Operating Expenses</b>	<b>23,544,230.32</b>
<b>Operating Loss</b>	<b>(31,775.15)</b>
<b>NONOPERATING REVENUES</b>	
Interest	40,075.83
<b>Change in Net Assets</b>	<b>8,300.68</b>
Total Net Assets, July 1, 2003	7,597.20
<b>Total Net Assets, June 30, 2004</b>	<b>\$ 15,897.88</b>

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

**EXHIBIT - I  
PALM BEACH COUNTY  
DISTRICT SCHOOL BOARD  
STATEMENT OF CASH FLOWS -  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	Governmental Activities - Internal Service Fund
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash Received from Services Provided to Other Funds	\$ 23,512,455.17
Cash Payments to Suppliers for Goods and Services	(73,546.20)
Cash Payments to Employees for Services	<u>(23,458,089.20)</u>
<b>Net Cash Used by Operating Activities</b>	<u>(19,180.23)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of Investments	(5,835.00)
Interest Income	<u>40,075.83</u>
<b>Net Cash Provided by Investing Activities</b>	<u>34,240.83</u>
<b>Net Increase in Cash and Cash Equivalents</b>	15,060.60
Cash and Cash Equivalents, Beginning	<u>7,597.20</u>
<b>Cash and Cash Equivalents, Ending</b>	<u><u>\$ 22,657.80</u></u>
<b>Reconciliation of Operating Loss to Net Cash Used by Operating Activities:</b>	
Operating Loss	\$ (31,775.15)
Adjustments to Reconcile Operating Loss to Net Cash Provided	
Changes in Assets and Liabilities:	
Increase in Accounts Payable	<u>12,594.92</u>
<b>Net Cash Used by Operating Activities</b>	<u><u>\$ (19,180.23)</u></u>

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



**EXHIBIT - J**  
**PALM BEACH COUNTY**  
**DISTRICT SCHOOL BOARD**  
**STATEMENT OF FIDUCIARY NET ASSETS -**  
**FIDUCIARY FUNDS**  
**June 30, 2004**

	Private-Purpose Trust Fund	Agency Funds
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 473,967.91	\$ 12,258,223.40
Accounts Receivable, Net		481,606.84
<b>TOTAL ASSETS</b>	<b>\$ 473,967.91</b>	<b>\$ 12,739,830.24</b>
<b>LIABILITIES</b>		
Accounts Payable	\$	\$ 117,286.16
Due to Other Funds		310,160.25
Internal Accounts Payable		12,312,383.83
<b>Total Liabilities</b>		<b>\$ 12,739,830.24</b>
<b>NET ASSETS</b>		
Assets Held in Trust for Scholarships and Other Purposes	473,967.91	
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 473,967.91</b>	

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

**EXHIBIT - K**  
**PALM BEACH COUNTY**  
**DISTRICT SCHOOL BOARD**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS -**  
**FIDUCIARY FUND**  
**For the Fiscal Year Ended June 30, 2004**

	Private-Purpose Trust Fund
<b>ADDITIONS</b>	
<b>Contributions:</b>	
Gifts, Grants, Endowments, and Bequests	\$ 146,616.11
<b>Investment Earnings:</b>	
Interest, Dividends, and Other	16,764.75
<b>Total Additions</b>	163,380.86
<b>DEDUCTIONS</b>	
Scholarship Payments	119,331.94
<b>Change in Net Assets</b>	44,048.92
Net Assets, July 1, 2003	429,918.99
<b>Net Assets, June 30, 2004</b>	\$ 473,967.91

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

**EXHIBIT – L**  
**PALM BEACH COUNTY**  
**DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**

**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 Palm Beach County School District is considered part of the Florida system of public education. The governing body of the school district is the Palm Beach County District School Board which is composed of seven elected members. The appointed Superintendent of Schools is the executive officer of the School Board. Geographic boundaries of the District correspond with those of Palm Beach 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 Palm Beach County School Board Leasing Corporation, Inc., was formed to facilitate financing for the acquisition of facilities as further discussed in Note 8. Due to the substantive economic relationship between the Palm Beach 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. Currently, there are 28 Charter Schools operating within the School District of Palm Beach County meeting the criteria for presentation as discretely presented component unit. These component units consist of the following:

Academy for International Studies, Inc.	Academy for Positive Learning, Inc.
Bright Futures International, Inc.	Chancellor Charter School at Lantana
Charter School of Boynton Beach, Inc.	Corebridge Educational Academy Charter School, Inc.
DayStar Academy of Excellence, Inc.	Delray-Boynton Academy, Inc.
Delray Youth Enrichment Development Center, Inc.	Ed Venture Charter School, Inc.
Everglades Preparatory Academy, Inc.	Students in the Arts TV/G-Star TV, Inc.
Good Schools for All Leadership Academy, Inc.	Glades Academy of Agriculture and Ecological Studies, Inc.
Gulfstream Goodwill Career Academy, Inc.	Noah's Ark International Charter School
The IMAGINE School, Inc.	JFK Medical Center Charter School, Inc.
Joseph Littles Nguzo Saba Charter School, Inc.	Lakeside Academy, Inc.
Palm Beach School for Autism, Inc.	Renaissance Learning Center, Inc.
Riviera Beach Academy Charter School, Inc.	Spanish Academies, Inc.
Survivors Charter School, Inc.	Survivor Charter School of Boynton Beach
Western Academy, Inc.	The Center for Education, Training, and Holistic Approaches, Inc.

**EXHIBIT - L (Continued)**  
**PALM BEACH COUNTY**  
**DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**

Section 1002.33, Florida Statute, authorizes the establishment of Charter Schools as part of the State's education program. All the Charter Schools are fully recognized as public schools. As such, Charter Schools are funded on the same basis and are subject to the same financial reporting requirements as the District. Additionally, all students enrolled in Charter Schools are included in the District's total enrollment. The financial data reported on the accompanying financial statements was derived from the audited annual financial statements of the Charter Schools. The audit reports are on file 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 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. 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, proprietary, 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.
- Debt Service – Other Fund – to account for the repayment of the Certificates of Participation.
- Capital Projects - Local Capital Improvement Fund – to account for locally received funds, primarily ad valorem tax revenue, for the acquisition, construction, or renovation of capital facilities, including land and equipment.

**EXHIBIT - L (Continued)**  
**PALM BEACH COUNTY**  
**DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**

- Capital Projects - Other Fund – to account for various construction projects and equipment purchases.

The District reports the following proprietary and fiduciary fund types:

- Internal Service Fund – to account for the financing of goods and services provided by one department to another on a cost reimbursement basis. The District's internal service fund accounts for the District's maintenance services.
- Private-Purpose Trust Fund – to account for District-supported Florida Future Educators of America. Revenues consist of employee donations and interest income. Expenditures represent scholarships for future teachers, which are awarded in accordance with trust requirements.
- Agency Funds – to account for the receipts and disbursements of various school activities administered for the general welfare of the students and completion of certain planned objectives and special programs of school groups. The District retains no equity interest in these funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

➤ **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 proprietary fund and 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 60 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.

The Proprietary Funds are accounted for as proprietary activities under standards issued by the Financial Accounting Standards Board through November 1989 and applicable standards issued by the Governmental Accounting Standards Board. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds' principal ongoing operations. The principal operating revenues of the District's internal service fund

**EXHIBIT - L (Continued)**  
**PALM BEACH COUNTY**  
**DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**

are charges for maintenance services. Operating expenses include maintenance costs. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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.

Sixteen of the District's Charter Schools are accounted for as governmental organizations and follow the same accounting model as the District's governmental activities. Twelve of the Charter Schools follow the not-for-profit accounting model and use 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. The statement of cash flows considers cash as those accounts used as demand deposit accounts and considers cash equivalents as those amounts on deposit in money market accounts.

Investments consist of amounts placed with the State Board of Administration for participation in the Local Government Surplus Funds Trust Fund investment pool created by Section 218.405, Florida Statutes, and those made locally. 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.

Investments made locally consist of government securities and corporate notes and are reported at fair value. Types and amounts of investments held at fiscal year-end are described in a subsequent note on investments.

➤ **Inventories**

Inventories consist of expendable supplies held for consumption in the course of District operations. Inventories are stated at cost using the average cost method, 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. The costs of inventories are recorded as expenditures when used rather than purchased. The reserve for inventories at the governmental fund level is equal to the amount of inventories at year-end to indicate the portion of the governmental fund balances that are not available for appropriation and expenditure.

➤ **Capital Assets**

Expenditures for capital assets acquired or constructed for general District purposes are reported in the governmental fund that financed the acquisition or construction. The capital assets so acquired are reported at cost in the government-wide statement of net assets but are not reported in the governmental fund financial statements. Capital assets are defined by the District as those costing more than \$750 on tangible personal property, \$100,000 on buildings and improvements, and \$50,000 on improvements other than buildings. 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:

**EXHIBIT - L (Continued)**  
**PALM BEACH COUNTY**  
**DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**

<u>Description</u>	<u>Estimated Lives</u>
Improvements Other than Buildings	15 years
Buildings and Improvements	15 - 50 years
Furniture, Fixtures, and Equipment	3 - 15 years
Motor Vehicles	5 - 10 years
Audio Visual Materials and Computer Software	3 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. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

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

Changes in 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.

**EXHIBIT - L (Continued)**  
**PALM BEACH COUNTY**  
**DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**

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 also received an allocation under the lottery-funded Public School Capital Outlay Program (commonly called the Classrooms First Program). The District is authorized to expend these funds only upon applying for and receiving an encumbrance authorization from the Department.

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

➤ **District Property Taxes**

The 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 Palm Beach County Property Appraiser, and property taxes are collected by the Palm Beach County Tax Collector.

The School Board adopted the 2003 tax levy on September 8, 2003. 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 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 Palm Beach 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.



**EXHIBIT - L (Continued)**  
**PALM BEACH COUNTY**  
**DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**

**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**

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

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

Investments in the SBA, funds held in trust by the State Board of Education, and funds held by the trustee for the Certificates of Participation cannot be categorized because the District's investments are not evidenced by specific, identifiable investment securities, or because they are subject solely to the control of the fiscal agent.

Section 218.415, Florida Statutes, authorizes the District to invest in investments approved by the Board. The Board has adopted an investment policy that authorizes investing in following:

- Florida Local Government Surplus Funds Trust Fund (SBA).
- State and/or local government taxable and/or tax-exempt debt.

**EXHIBIT - L (Continued)**  
**PALM BEACH COUNTY**  
**DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**

- United States Government Securities defined as negotiable direct obligations, or obligations the principal and interest of which are unconditionally guaranteed by the United States government.
- United States Government Agencies related bonds, debentures, and notes which are backed by the full faith and credit of the United States government.
- United States Government Federal Instrumentalities related bonds, debentures, and notes which are non-full faith and credit agencies limited to Federal Farm Credit Bank (FFCB), Federal Home Loan Bank (FHLB), Federal National Mortgage Corporation (Freddie-Macs), and Student Loan Marketing Association (Sallie-Mae).
- Interest-bearing time deposits or savings accounts, repurchase agreements, commercial paper, corporate notes, and bankers' acceptance.
- Registered Investment Companies (Money Market Mutual Funds).

Investments at June 30, 2004, are shown below:

	Investments			Fair Value
	Risk Category			
	1	2	3	
Obligations of United States Government				
Agencies and Instrumentalities (1)	\$ 232,887,917.15	\$	\$	\$ 232,887,917.15
United States Treasury Securities (2)	102,588,197.34			102,588,197.34
<b>Total</b>	<b>\$ 335,476,114.49</b>	<b>\$</b>	<b>\$</b>	<b>335,476,114.49</b>
Money Market Funds (3)				12,414,051.85
Government Obligation Treasury Funds (4)				26,121,068.48
Investment in State Board of Administration Pool (5)				212,663,953.79
Funds Held in Trust by the State				1,261,081.71
<b>Total Investments, Primary Government Component Units</b>				<b>587,936,270.32 450,513.00</b>
<b>Total Investments, Reporting Entity</b>				<b>\$ 588,386,783.32</b>

- Notes: (1) Risk Category 1 investments include Corporate Notes, Federal Home Loan Bank Notes, Federal Home Loan Mortgage Corporation Notes, and Federal National Mortgage Association Notes. Maturity dates for these securities range from November 2004 to May 2008. Additionally, Risk Category 1 investments include mortgage backed securities held by the trustee for the Certificates of Participation, Series 2002A, 2002C, 2003A, 2003B, and 2004A. Maturity dates range from August 2004 to August 2006.
- (2) Investments in Treasury Notes held by the trustee for the Certificates of Participation Series 2002E. Maturity dates range from July 2004 to July 2006.
- (3) Investments held by trustee relating to the Certificates of Participation, Series 2002C, 2002D, and 2002E.
- (4) Investments held by trustee relating to the Certificates of Participation, Series 1994, 1995, 1996, 2000, 2001A, 2003B, and 2004A.
- (5) Investments held by trustee relating to the Certificates of Participation, Series 2000, 2001A, 2002A, 2002B, 2002C, 2002QZAB, 2002D, 2002E, 2003A, 2003B, 2004A, and 2004QZAB, and General Obligation Bonds, Series 2002 and 2002A.

**EXHIBIT - L (Continued)**  
**PALM BEACH COUNTY**  
**DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**

**4. DUE FROM OTHER AGENCIES**

At June 30, 2004, the District has a total of \$82,949,155.70 in Due from Other Governments or Agencies. Approximately \$6 million is due from Federal, State, and local governments for various grant programs. Approximately \$43 million and \$16 million are due from the State for the Class Size Reduction Program and Public Education Capital Outlay, respectively. Approximately \$17 million is due from the Palm Beach County Tax Collector for fiscal year 2004 tax receipts. Another \$1 million of this total is from the Classrooms First Program. This program was bonded from lottery proceeds and is to be used for the construction of new classrooms.

**5. CHANGES IN CAPITAL ASSETS**

Changes in capital assets are presented in the table below.

**EXHIBIT - L (Continued)**  
**PALM BEACH COUNTY**  
**DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**

	Balance 7-1-03	Additions	Deletions	Balance 6-30-04
<b>GOVERNMENTAL ACTIVITIES</b>				
Capital Assets Not Being Depreciated:				
Land	\$ 198,265,151.48	\$ 17,243,985.31	\$	\$ 215,509,136.79
Construction in Progress	364,324,299.83	364,244,886.35	246,374,340.36	482,194,845.82
<b>Total Capital Assets Not Being Depreciated</b>	<b>562,589,451.31</b>	<b>381,488,871.66</b>	<b>246,374,340.36</b>	<b>697,703,982.61</b>
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	4,139,346.32	2,235,401.18		6,374,747.50
Buildings and Improvements	1,701,862,460.98	241,174,895.39	25,730,715.48	1,917,306,640.89
Furniture, Fixtures, and Equipment	179,531,724.36	20,727,707.78	17,952,880.73	182,306,551.41
Motor Vehicles	62,981,163.40	9,409,926.90	2,554,376.07	69,836,714.23
Property Under Capital Lease	2,878,520.10			2,878,520.10
Audio Visual Materials and Computer Software	30,371,398.73	3,024,650.42	538,129.88	32,857,919.27
<b>Total Capital Assets Being Depreciated</b>	<b>1,981,764,613.89</b>	<b>276,572,581.67</b>	<b>46,776,102.16</b>	<b>2,211,561,093.40</b>
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	366,677.84	424,983.18		791,661.02
Buildings and Improvements	456,670,595.14	39,967,184.64	21,478,116.81	475,159,662.97
Furniture, Fixtures, and Equipment	120,904,456.42	18,327,547.12	17,063,574.14	122,168,429.40
Motor Vehicles	34,226,677.30	4,813,801.56	1,212,950.48	37,827,528.38
Property Under Capital Lease	34,268.10	411,217.16		445,485.26
Audio Visual Materials and Computer Software	22,829,322.82	2,930,083.63	520,426.34	25,238,980.11
<b>Total Accumulated Depreciation</b>	<b>635,031,997.62</b>	<b>66,874,817.29</b>	<b>40,275,067.77</b>	<b>661,631,747.14</b>
<b>Total Capital Assets Being Depreciated, Net</b>	<b>1,346,732,616.27</b>	<b>209,697,764.38</b>	<b>6,501,034.39</b>	<b>1,549,929,346.26</b>
<b>Governmental Activities Capital Assets, Net</b>	<b>\$ 1,909,322,067.58</b>	<b>\$ 591,186,636.04</b>	<b>\$ 252,875,374.75</b>	<b>\$ 2,247,633,328.87</b>

The class of property under capital lease is presented in Note 7.

Depreciation expenses were charged as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES Unallocated	<u>\$66,874,817.29</u>

**6. CHANGES IN SHORT-TERM DEBT**

The following is a schedule of changes in short-term debt:

**EXHIBIT - L (Continued)**  
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GOVERNMENTAL ACTIVITIES	<u>7-1-03</u>	<u>Additions</u>	<u>Deletions</u>	<u>6-30-04</u>
Tax Anticipation Notes Payable	<u>\$ 45,000,000.00</u>	<u>\$ 45,000,000.00</u>	<u>\$ 45,000,000.00</u>	<u>\$ 45,000,000.00</u>

On October 1, 2003, the District issued Tax Anticipation Notes (“TANS”), Series 2003. This \$45,000,000 issue was sold at a coupon interest rate of 6 percent with an effective yield of 0.97 percent. Interest costs incurred on this issue for the year ended June 30, 2004, were \$348,089, net of a premium of \$1,669,411. Note proceeds were used to pay fiscal year 2004 District operating expenditures prior to the receipt of ad valorem taxes. TANS are subject to arbitrage rebate. There is no arbitrage rebate due on the TANS, Series 2003. The notes are due on September 30, 2004.

**7. OBLIGATIONS UNDER CAPITAL LEASE**

The class and amount of property being acquired under capital lease are as follows:

	<u>Asset Balance</u>
Fitness Equipment	<u>\$ 2,878,520.10</u>

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

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 994,665.52	\$ 961,209.14	\$ 33,456.38
2006	<u>911,776.71</u>	<u>901,153.63</u>	<u>10,623.08</u>
Total Minimum Lease Payments	<u>\$1,906,442.23</u>	<u>\$1,862,362.77</u>	<u>\$ 44,079.46</u>

The stated interest rate is 2.35 percent.

**8. CERTIFICATES OF PARTICIPATION**

Certificates of Participation outstanding at June 30, 2004, are as follows:

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Series	Amount Outstanding	Interest Rates (Percent)	Lease Term Maturity
Series 1994-A	\$ 2,660,000	4.500 - 6.375	2004
Series 1995-A	94,875,000	3.75 - 6.00	2015
Series 1996-A	24,405,000	3.75 - 5.50	2016
Series 1997-A	44,910,000	3.75 - 5.25	2015
Series 2001-A	134,785,000	3.0 - 5.5	2026
Series 2001-B	168,560,000	2.700 - 5.375	2025
Series 2002-A	107,645,000	2.500 - 5.375	2018
Series 2002-B	115,350,000	(1)	2027
Series 2002-C	161,090,000	2.4 - 5.5	2027
Series 2002-D	191,215,000	(2)	2028
Series 2002-E	93,350,000	4.000 - 5.375	2016
Series 2003-A	60,865,000	2 - 5	2021
Series 2003-B	124,295,000	(3)	2029
Series 2004-A	103,575,000	2 - 5	2029
Series 2002-QZAB	950,000	(4)	2016
Series 2004-QZAB	<u>2,923,326</u>	(4)	2020
Total Certificates of Participation	<u>\$ 1,431,453,326</u>		

Note: (1) Floating-to-Fixed Cancelable Interest Rate Swap. See notes below.

Note: (2) Floating-to-Floating Interest Rate Swap. See notes below.

Note: (3) Floating-to-Fixed Knockout Interest Rate Swap. See notes below.

Note: (4) Interest on this debt is "paid" by the United States Government through the issuance of Federal Income tax credits to the holder of the QZABs. The rate of return to the holders was established by the United States Government at the time of sale.

The District entered into financing arrangements, characterized as lease-purchase agreements, with the Palm Beach School Board Leasing Corporation (Corporation) whereby the District secured financing of various educational facilities and equipment. The financing was accomplished through the issuance of certificates of participation by the Corporation to third-party investors, to be repaid from the proceeds of rents paid by the District.

As a condition of the financing arrangements, the Corporation leases facilities and equipment to the District under the Master Lease. The Master Lease is automatically renewable annually unless terminated, in accordance with the provisions of the Master Lease, as a result of default or the failure of the Board to appropriate funds to make lease payments in its final official budget. Failure to appropriate funds to pay lease payments under any lease will, and an event default under any lease may, result in the termination of all leases. The remedies on default or upon an event of non-appropriation include the surrender of the Series 1994-A, Series 1995-A, Series 1996-A, Series 2001-A, Series 2002-A, Series 2002-B, Series 2002-C, Series 2002-D, Series 2003-A, Series 2003-B, and Series 2004-A Facilities by the District and the Trustee's re-letting for the remaining Ground Lease term, or the voluntary sale of facilities for these same issues by the School

**EXHIBIT - L (Continued)**  
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Board. In either case, the proceeds will be applied against the School Board's obligations under the Master Lease. A summary of lease terms are presented as follows:

<u>Certificates</u>	<u>Ground Lease Term</u>
Series 1994-A	June 30, 2020
Series 1995-A	June 30, 2020
Series 1996-A	August 1, 2021
Series 2001-A	August 1, 2031
Series 2002-A	August 1, 2023
Series 2002-B	August 1, 2032
Series 2002-C	August 1, 2032
Series 2002-D	August 1, 2033
Series 2003-A	August 1, 2026
Series 2003-B	August 1, 2034
Series 2004-A	August 1, 2034

The District properties included in the ground lease under this arrangement include the land on which projects are to be constructed. These projects are as follows:

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<u>Certificates</u>	<u>Description of Properties</u>
Series 1994A	Two new elementary schools, two new middle schools, and a Learning Center for grades K-12.
Series 1995A	Five new elementary schools, one elementary school replacement, one new middle school, one new high school, and two high school additions.
Series 1996A	Two new middle schools.
Series 1997A	The advance refunding of a portion of the Ground Lease of the Certificates of Participation, Series 1994A.
Series 2001A	One high school addition, two elementary school replacements, and seven new elementary schools.
Series 2001B	The advance refunding of the Ground Lease of the Certificates of Participation, Series 2000A, which included additions to three elementary schools, two new elementary schools, one middle school, one high school replacement, and one new high school.
Series 2002A	One new high school, one high school remodel, and central bus compound.
Series 2002B	Four elementary school replacements, one middle school replacement, and two new elementary schools.
Series 2002C	Two new elementary schools, one new high school, one high school modernization, one elementary school modernization, and one elementary school addition.
Series 2002D	Three new middle schools, one middle school modernization, and four elementary school modernizations.
Series 2002E	The advance refunding of a portion of the Ground Lease of the Certificates of Participation, Series 1995A and 1996A.
Series 2003A	One new high school.
Series 2003B	One high school replacement, one middle school modernization, and one new middle school.
Series 2004A	Two elementary school additions and three elementary school modernizations.

The Certificates are not separate legal obligations of the Board, but represent undivided proportionate interests in lease payments to be made from appropriated funds budgeted annually by the School Board for such purpose from current or other funds authorized by law and regulations of the Florida Department of Education, including the local optional millage levy. However, neither the Board, the District, the State of Florida, nor any political subdivision thereof are obligated to pay, except from Board appropriated funds, any sums due under the Master Lease from any source of taxation. The full faith and credit of the Board and the District are not pledged for payment of such sums due under the Master Lease, and such sums do



**EXHIBIT - L (Continued)**  
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not constitute an indebtedness of the Board or the District within the meaning of any constitutional or statutory provision or limitation. A trust fund was established with a Trustee to facilitate payments in accordance with the Master Lease and the Trust Agreement. Various accounts are maintained by the Trustee in accordance with the trust indenture. Interest earned on invested funds is applied toward the basic lease payments. Basic lease payments are deposited with the Trustee, semi-annually, on June 30 and December 30, and are payable to Certificate holders on August 1 and February 1.

Due to the economic substance of the issuances of Certificates of Participation as a financing agreement on behalf of the Board, the financial activities of the Corporation have been blended in with the financial statements of the District. For accounting purposes, due to the blending of the Corporation within the District's financial statements, basic lease payments are reflected as debt service expenditures when payable to Certificate holders. Payment of the outstanding Certificates of Participation is insured through AMBAC Indemnity Corporation. During the year ended June 30, 2004, \$324,255,669.80 was expended for capital outlay in the Capital Projects - Other Fund.

**Floating-to-Fixed Cancelable Interest Rate Swap:** In connection with the issuance on March 21, 2002, of \$115,350,000 variable-rate Certificates of Participation, Series 2002-B, the District entered into a floating-to-fixed cancelable interest rate swap, effective through August 1, 2027, to hedge against future increases in interest rates. The swap will effectively convert the Certificates into 25-year synthetic fixed rate obligations with a coupon of 4.22 percent. In exchange for an upfront premium payment of \$6,142,000 received by the District, the swap counterparty has the right to cancel the swap on any date on or after February 1, 2007. In the event the swap is terminated, the District will be exposed to potentially higher interest rate payments on the Certificates. In exchange for an additional reduction in the fixed rate paid by the District on the swap, the counterparty has the right to pay a lower Alternate Floating rate equal to 67 percent of 1-month London Interbank Offered Rate (LIBOR). The counterparty can pay this lower Alternate Rate if the 180-day average of the Bond Market Association (BMA)/LIBOR ratio exceeds 67 percent. The most likely cause of an increase in the tax-exempt/taxable yield relationship would be legislation reducing the tax advantage of municipal debt, i.e., a tax cut. The Certificates and swap together create a low cost, long-term synthetic fixed-rate debt for the District. At June 30, 2004, the swap has a negative fair value of \$14,458,762 based on mid-market values as of the close of business.

**\$100 Million Fixed Margin Basis:** On June 10, 2003, the District entered into a 25.5 year floating-to-floating interest rate swap in connection with the issuance of \$191,215,000 of fixed-rate Certificates of Participation, Series 2002-D. The swap notional principal amortizes to match the final \$100

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million of maturing principal of the underlying Certificates. The swap creates economics similar to a 67 percent of LIBOR synthetic fixed-rate financing, i.e., variable-rate bonds plus floating to fixed rate swap, without the District having to actually issue the underlying variable-rate bonds. Under the basis swap, in exchange for receiving a below-market percentage of LIBOR, the District pays a variable rate equal to the BMA index less a fixed margin of 66.5 bps (basis point spread). The swap produces expected present value (PV) savings of \$10.68 million based on an assumed future average ratio BMA to 1-month LIBOR of 67 percent. Since the District both receives and pays a variable rate under the basis swap, the transaction is interest rate neutral, all else equal. However, the District does bear risk of a future reduction or elimination in the benefit of the tax exemption for municipal debt. For example, the tax cut would likely increase the variable rate paid by the District under the swap and reduce or eliminate (in a worst case scenario) the swap's expected positive cash flow and PV savings. However, the risk of radical tax reform that would severely reduce or eliminate the swap's savings is deemed to be relatively low. At June 30, 2004, the swap has a negative fair value of \$389,011 based on mid-market values as of the close of business.

**Floating-to-Fixed Knockout Interest Rate Swap:** In connection with the issuance on June 24, 2003, of \$124,295,000 of variable rate Certificates of Participation Series 2003-B, the District entered into a floating-to-fixed knockout interest rate swap, effective through August 1, 2029, to hedge against future increases in interest rates. The swap will effectively convert the Certificates into a synthetic fixed rate debt obligation with a coupon of 3.91 percent. In exchange for an upfront premium payment of \$3,010,000 received by the District, the swap counterparty has the right to terminate "knockout" the swap if the 180-day average of the BMA index exceeds 7 percent in the future. In the event the swap is terminated, the District will be exposed to higher interest rate payments on the Certificates. The knockout feature is exercisable anytime until August 1, 2018. Once the knockout option expires, the District will be left with a fixed-payer swap that matures on August 1, 2029. The Certificates and knockout swap together create low cost, long-term synthetic fixed-rate debt for the District. At June 30, 2004, the swap has a positive fair value of \$4,068,500 based on mid-market values as of the close of business.

The debt service requirements through maturity to the holders of the Certificates of Participation, which will be serviced by the annual lease payments, is as follows:

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Fiscal Year Ending June 30	Total	Principal	Interest
2005	\$ 90,559,461.54	\$ 24,855,000.00	\$ 65,704,461.54
2006	94,955,812.06	29,060,000.00	65,895,812.06
2007	95,126,358.06	30,320,000.00	64,806,358.06
2008	103,485,488.56	39,980,000.00	63,505,488.56
2009	103,336,445.69	41,455,000.00	61,881,445.69
2010-2014	515,711,613.88	236,015,000.00	279,696,613.88
2015-2019	477,281,871.40	261,175,000.00	216,106,871.40
2020-2024	449,112,235.72	301,788,326.00	147,323,909.72
2025-2029	444,686,455.39	379,485,000.00	65,201,455.39
2030-2031	89,062,719.75	87,320,000.00	1,742,719.75
Total Minimum Lease Payments Plus Unamortized Net Premiums	2,463,318,462.05 14,288,312.37	1,431,453,326.00 14,288,312.37	1,031,865,136.05
<b>Total</b>	<b>\$ 2,477,606,774.42</b>	<b>\$ 1,445,741,638.37</b>	<b>\$1,031,865,136.05</b>

**9. BONDS PAYABLE**

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

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 1995-A	\$ 190,000	5.0 - 5.9	2005
Series 1996-A	19,580,000	4.75 - 6.00	2016
Series 1997-A	5,315,000	4.1 - 5.0	2017
Series 1998-A	2,065,000	4.0 - 5.5	2018
Series 1999-A	2,265,000	4.00 - 4.75	2019
Series 2000-A	1,460,000	4.65 - 6.00	2020
Series 2001-B	4,525,000	3.5 - 5.0	2007
Series 2002-A	2,665,000	3 - 5	2022
Series 2002-B	6,730,000	3.375 - 5.375	2015
Series 2003-A	5,940,000	3 - 5	2023
District General Obligation Bonds:			
Series 2002-A, Refunding	23,000,000	3.5 - 5.0	2008
Series 2002, Refunding	80,665,000	5	2008
<b>Total Bonds Payable</b>	<b>\$ 154,400,000</b>		

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

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license tax. Additionally, the State's full faith and credit is also pledged as security for these bonds. Principal and interest payments, investment of Debt Service Fund resources, and compliance with reserve requirements are administered by the State Board of Education and the State Board of Administration.

➤ **District General Obligation Bonds**

General Obligation Bonds, Series 2002-A Refunding and 2002 Refunding, are authorized by Article VII, Section 12 of the Constitution of the State of Florida and secured by a pledge of property taxes levied, pursuant to Chapters 1010 and 1011, Florida Statutes. All bonds issued are subject to arbitrage rebate; however, at June 30, 2004, the arbitrage is zero.

Annual requirements to amortize all bonded debt outstanding as of June 30, 2004, are as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
<b>State School Bonds:</b>			
2005	\$ 5,866,988.75	\$ 3,415,000.00	\$ 2,451,988.75
2006	5,875,568.75	3,605,000.00	2,270,568.75
2007	5,877,206.25	3,800,000.00	2,077,206.25
2008	4,766,186.25	2,885,000.00	1,881,186.25
2009	4,836,100.00	3,080,000.00	1,756,100.00
2010-2014	25,408,242.50	18,995,000.00	6,413,242.50
2015-2019	13,824,418.75	11,885,000.00	1,939,418.75
2020-2023	<u>3,392,775.00</u>	<u>3,070,000.00</u>	<u>322,775.00</u>
Subtotal	69,847,486.25	50,735,000.00	19,112,486.25
Less: Unamortized Discount on Debt	<u>(52,554.45)</u>	<u>(52,554.45)</u>	
<b>Total State School Bonds</b>	<u>69,794,931.80</u>	<u>50,682,445.55</u>	<u>19,112,486.25</u>
<b>General Obligation Bonds:</b>			
2005	28,519,100.00	24,110,000.00	4,409,100.00
2006	28,509,475.00	25,280,000.00	3,229,475.00
2007	28,516,937.50	26,510,000.00	2,006,937.50
2008	<u>28,459,125.00</u>	<u>27,765,000.00</u>	<u>694,125.00</u>
Subtotal	114,004,637.50	103,665,000.00	10,339,637.50
Add: Unamortized Premium on Debt	<u>1,022,897.90</u>	<u>1,022,897.90</u>	
<b>Total General Obligation Bonds</b>	<u>115,027,535.40</u>	<u>104,687,897.90</u>	<u>10,339,637.50</u>
<b>Total</b>	<u><u>\$ 184,822,467.20</u></u>	<u><u>\$ 155,370,343.45</u></u>	<u><u>\$ 29,452,123.75</u></u>

**10. DEFEASED DEBT**

In prior years, the District defeased certain certificates of participation by creating separate irrevocable trust funds. New debt has been issued and the proceeds used to purchase U.S. Government Securities that were

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placed in an irrevocable trust with an escrow agent to provide for all future debt service payments. These investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and, therefore, removed as a liability from the financial statements. As of June 30, 2004, the total amount of defeased debt outstanding but removed from the District's financial statements amounts to \$197,550,000.

In the prior year, the District advance refunded certain certificates of participation which will meet the requirements of an in-substance debt defeasance on August 1, 2005, and August 1, 2006. At that time, the liability for the refunded certificates will be removed from the District's financial statements. At June 30, 2004, the amount of refunded debt to be defeased but still remaining on the District's financial statements amounts to \$96,555,000.

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

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

Description	Balance 7-1-03	Additions	Deductions	Balance 6-30-04	Due in One Year
<b>GOVERNMENTAL ACTIVITIES</b>					
Bonds Payable	\$ 174,635,000.00	\$ 6,050,000.00	\$ 26,285,000.00	\$ 154,400,000.00	\$ 27,525,000.00
Add: Unamortized Net Premiums on Debt	<u>1,361,122.18</u>	<u>(60,372.10)</u>	<u>330,406.63</u>	<u>970,343.45</u>	<u>330,406.63</u>
Total Bonds Payable	<u>175,996,122.18</u>	<u>5,989,627.90</u>	<u>26,615,406.63</u>	<u>155,370,343.45</u>	<u>27,855,406.63</u>
Certificates of Participation Payable	1,340,950,000.00	106,498,326.00	15,995,000.00	1,431,453,326.00	24,855,000.00
Add: Unamortized Net Premium on Debt	<u>11,741,151.13</u>	<u>3,287,703.40</u>	<u>740,542.16</u>	<u>14,288,312.37</u>	<u>849,083.06</u>
Total Certificates of Participation	<u>1,352,691,151.13</u>	<u>109,786,029.40</u>	<u>16,735,542.16</u>	<u>1,445,741,638.37</u>	<u>25,704,083.06</u>
Obligations Under Capital Lease	2,801,268.41		938,905.64	1,862,362.77	961,209.14
Estimated Insurance Claims Payable	36,639,000.00	19,931,519.74	19,274,519.74	37,296,000.00	9,330,000.00
Post Retirement Benefits Payable	7,985,628.58		1,902,850.34	6,082,778.24	2,568,939.17
Compensated Absences Payable	<u>128,350,660.15</u>	<u>17,451,824.05</u>	<u>10,279,645.20</u>	<u>135,522,839.00</u>	<u>8,856,073.37</u>
Total Governmental Activities	<u>\$ 1,704,463,830.45</u>	<u>\$ 153,159,001.09</u>	<u>\$ 75,746,869.71</u>	<u>\$ 1,781,875,961.83</u>	<u>\$ 75,275,711.37</u>

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

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**12. 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 2004-05 fiscal year budget as a result of purchase orders outstanding at June 30, 2004.

**13. 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	\$310,160.25	\$
Capital Projects - Other	535,000.00	
Nonmajor Governmental Funds		535,000.00
Fiduciary Funds		310,160.25
Total	<u>\$845,160.25</u>	<u>\$845,160.25</u>

The amount payable by the nonmajor governmental funds to the Capital Projects – Other Fund is to cover temporary cash shortages in the nonmajor governmental funds. The amount payable by the fiduciary funds to the General Fund is for supplemental payroll, bus trips, and warehouse orders charged to the General Fund but owed by the fiduciary fund.

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

Funds	Interfund	
	Transfers In	Transfers Out
Major Funds:		
General	\$ 33,000,000.00	\$
Debt Service:		
Other	88,026,415.00	
Capital Projects:		
Local Capital Improvement		111,126,415.00
Other		9,900,000.00
Total	<u>\$121,026,415.00</u>	<u>\$121,026,415.00</u>

The majority of interfund transfers were for recurring annual operating and debt service expenditures.

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**14. SCHEDULE OF STATE REVENUE SOURCES**

The following is a schedule of the District's State revenue for the 2003-04 fiscal year:

Source	Amount
Florida Education Finance Program	\$286,645,268.00
Categorical Educational Programs:	
Class Size Reduction	32,155,110.00
Transportation	29,778,761.00
Instructional Materials	15,119,552.00
School Recognition Program	9,687,604.00
Discretionary Lottery Funds	8,799,714.00
Other	13,123,884.39
Class Size Reduction Capital Outlay	42,596,719.00
Workforce Development Program	14,576,961.00
Gross Receipts Tax (Public Education Capital Outlay)	13,627,563.00
Capital Outlay and Debt Service Withheld for SBE Bonds	5,825,712.29
Charter Schools Capital Outlay	2,039,040.00
Adults with Disabilities	1,449,308.19
Motor Vehicle License Tax (Capital Outlay and Debt Service)	1,220,070.21
Food Service Supplement	883,780.00
Miscellaneous	1,036,182.80
<b>Total</b>	<b>\$478,565,229.88</b>

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

**15. PROPERTY TAXES**

The following is a summary of millages and taxes levied on the 2003 tax roll for the 2003-04 fiscal year:

**EXHIBIT - L (Continued)**  
**PALM BEACH COUNTY**  
**DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**

	Millages	Taxes Levied
<b><u>GENERAL FUND</u></b>		
Nonvoted School Tax:		
Required Local Effort	5.652	\$ 556,669,025.74
Basic Discretionary Local Effort	0.510	50,230,218.98
Supplemental Discretionary Local Effort	0.089	8,765,665.66
<b><u>DEBT SERVICE FUNDS</u></b>		
Voted Tax:		
Special Tax School District No. 1	0.320	31,516,999.11
<b><u>CAPITAL PROJECTS FUNDS</u></b>		
Nonvoted Tax:		
Local Capital Improvements	2.000	196,981,250.88
Total	8.571	\$ 844,163,160.37

**16. STATE RETIREMENT PROGRAM**

**Defined Benefit Plan.** All regular employees of the District are covered by the Florida Retirement System (FRS). The 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 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 defined benefit plan vest at six years of service. The defined benefit plan also includes an early retirement provision, but imposes a penalty for each year a member retires before his or her normal retirement date. The defined benefit plan provides retirement, disability, and death benefits and annual cost-of-living adjustments, as well as supplements for certain employees to cover social security benefits lost by virtue of retirement system membership.

A Deferred Retirement Option Program (DROP) subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with 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.



**EXHIBIT - L (Continued)**  
**PALM BEACH COUNTY**  
**DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**

**Funding Policy.** The contribution rates for members are established, and may be amended, by the State of Florida. During the 2003-04 fiscal year, contribution rates were as follows:

Class or Plan	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	7.39
Florida Retirement System, Elected County Officers	0.00	15.23
Florida Retirement System, Senior Management Service	0.00	9.37
Florida Retirement System, Special Risk	0.00	18.53
Teachers' Retirement System, Plan E	6.25	11.35
State and County Officers and Employees' Retirement System, Plan A	6.00	11.10
State and County Officers and Employees' Retirement System, Plan B	4.00	9.10
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes or Plans	0.00	9.11
Florida Retirement System, Reemployed Retiree	(B)	(B)

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

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

The District's liability for participation 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 employee contributions) for the fiscal years ending June 30, 2002, June 30, 2003, and June 30, 2004, totaled \$51,833,410.00, \$43,586,324.00, and \$55,647,907.41, 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. Required employer contributions made to the program for the fiscal year ending June 30, 2004, totaled \$2,045,215.54.

**EXHIBIT - L (Continued)**  
**PALM BEACH COUNTY**  
**DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**

***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 by contacting the Florida Department of Financial Services in Tallahassee, Florida. 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 in Tallahassee, Florida.

**17. OTHER POSTEMPLOYMENT BENEFITS**

Pursuant to Section 112.0801, Florida Statutes, the District pays the cost of health care and life insurance benefits for retired former employees. The District has two Retirement Incentive Programs (“RIP”); RIP 1996 and RIP 1999. Eligibility criteria to participate in the RIP 1996 included being an administrator of any age with at least 25 years of service with the District. The District pays an annual insurance subsidy for up to ten years. The subsidy amount depends on the age of the retiree. The retiree may purchase insurance through the District or another vendor if they choose. In addition, the eligible retiree receives a life insurance benefit of \$50,000 for up to ten years or the age of 70, whichever comes first.

The eligibility criteria to participate in the RIP 1999 included having 30 years of service with the Palm Beach County School District or being age 62 or higher with at least 10 years of service with the Palm Beach County School District. Additional employees who are eligible include those employees whose age plus years of service equal or exceed 80 and who retired between April 21, 1999, and June 30, 2000. The District pays an annual insurance subsidy for up to ten years beginning at \$2,400 and increasing 3 percent each year thereafter. Payments for this subsidy began August 1999 and are paid each August thereafter.

At June 30, 2004, benefits are being provided to 27 retired former employees under the RIP 1996 plan and 113 retired employees under the RIP 1999 plan. The cost of the benefits provided is recognized as an expense each month as insurance subsidies and incentives are paid. For the 2003-04 fiscal year, insurance subsidies and incentives totaled \$1,962,850.34 for both plans.

**18. CONSTRUCTION CONTRACT COMMITMENTS**

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

**EXHIBIT - L (Continued)**  
**PALM BEACH COUNTY**  
**DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**

Project	Contract Amount	Completed to Date	Balance Committed
<b>Atlantic Community High School:</b>			
Architect	\$ 1,428,208.95	\$ 1,260,303.91	\$ 167,905.04
Contractor	53,410,000.00	20,669,665.00	32,740,335.00
<b>Acreage Area High School:</b>			
Architect	2,238,936.24	1,964,910.17	274,026.07
Contractor	42,132,290.00	22,289,229.24	19,843,060.76
<b>Palm Beach Public School:</b>			
Architect	898,031.81	580,847.06	317,184.75
Contractor	12,327,246.00	34,716.00	12,292,530.00
<b>Green Acres Middle School:</b>			
Architect	1,008,892.00	866,530.04	142,361.96
Contractor	22,853,912.00	4,211,264.00	18,642,648.00
<b>Pierce Hammock Elementary School:</b>			
Architect	433,729.71	406,856.11	26,873.60
Contractor	12,769,352.00	7,898,359.00	4,870,993.00
<b>Grassy Waters Elementary School:</b>			
Architect	323,403.32	312,670.52	10,732.80
Contractor	10,880,653.00	8,273,360.25	2,607,292.75
<b>Osceola Middle School:</b>			
Architect	677,541.00	622,405.00	55,136.00
Contractor	19,296,406.00	13,714,175.65	5,582,230.35
<b>Roosevelt Elementary School:</b>			
Architect	800,247.13	684,091.91	116,155.22
Contractor	15,808,783.00	6,979,784.12	8,828,998.88
<b>Central Bus Compound:</b>			
Architect	407,471.62	400,425.62	7,046.00
Contractor	7,044,452.00	5,174,402.59	1,870,049.41
<b>U. B. Kinsey/Palmview Elementary School:</b>			
Architect	784,594.50	712,915.25	71,679.25
Contractor	9,821,099.00	5,438,457.30	4,382,641.70
<b>Total</b>	<b>\$ 215,345,249.28</b>	<b>\$ 102,495,368.74</b>	<b>\$ 112,849,880.54</b>

**19. RISK MANAGEMENT PROGRAMS**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Workers' compensation, automobile liability, and general liability coverage are being provided on a self-insured basis up to specified limits. The District has entered into agreements with various insurance companies to provide specific excess coverage of claim amounts above the stated amount on an individual claim basis, and aggregate excess coverage when total claims minus specific excess coverage exceeds the loss fund established annually by the District. The District has contracted with an insurance administrator to administer these self-insurance programs, including the processing, investigating, and payment of claims. Health and hospitalization coverage is being

**EXHIBIT - L (Continued)**  
**PALM BEACH COUNTY**  
**DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**

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

A liability in the amount of \$37,296,000 was actuarially determined to cover estimated incurred, but not reported, insurance claims payable at June 30, 2004.

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

	Beginning-of-Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-End
2002-03	\$ 30,807,000.00	\$ 21,678,000.00	\$ (15,846,000.00)	\$ 36,639,000.00
2003-04	36,639,000.00	19,931,520.00	(19,274,520.00)	37,296,000.00

**20. OTHER LOSS CONTINGENCIES**

The District receives funding from the State that is based, in part, on a computation of the number of full time equivalent (“FTE”) students enrolled in different types of instructional programs. The accuracy of data compiled by individual schools supporting the FTE count is subject to State audit and, if found to be in error, could result in refunds or in decreases in future funding allocations. It is the opinion of District management that the amount of revenue which may be remitted back to the State due to errors in the FTE count or the amount of grant expenditures which may be disallowed by granting agencies, if any, will not be material to the financial position of the District.

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of District management, any such disallowed claims will not have material effect on the overall financial position of the District.

**21. LITIGATION**

The District is involved in various lawsuits arising in the ordinary course of operations. In the opinion of the Districts’ management, the District’s estimated aggregate liability with respect to probable losses has been provided for in the estimated liability for insurance risks and pending claims in the accompanying

**EXHIBIT - L (Continued)**  
**PALM BEACH COUNTY**  
**DISTRICT SCHOOL BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**

financial statements, after giving consideration to the District's related insurance coverage, as well as the Florida statutory limitations of governmental liability on uninsured risks. It is the opinion of the District's management, in consultation with legal counsel, that the final settlements of these matters will not result in a material adverse effect on the financial position of the District.

**22. SUBSEQUENT EVENTS**

On October 21, 2004, the District issued Tax Anticipation Notes, Series 2004, in the amount of \$55,000,000 to provide interim funds for the payment of operating expenses of the District for its 2004-05 fiscal year in anticipation of the receipt of the ad valorem taxes. The Notes will mature on September 28, 2005.

On February 1, 2005, the District issued \$50,000,000 in commercial paper to finance school construction in anticipation of the half-cent sales tax. Maturity dates range from May 2, 2005, through May 26, 2005.

**EXHIBIT - M**  
**PALM BEACH COUNTY**  
**DISTRICT SCHOOL BOARD**  
**REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE -**  
**GENERAL FUND**  
**For the Fiscal Year Ended June 30, 2004**

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
<b>Revenues</b>				
Intergovernmental:				
Federal Direct	\$ 542,000.00	\$ 625,821.00	\$ 625,821.77	\$ 0.77
Federal Through State	2,500,000.00	3,398,610.00		(3,398,610.00)
State	402,973,406.00	410,332,001.00	410,382,836.39	50,835.39
Local	623,705,739.00	632,863,452.00	636,262,062.85	3,398,610.85
<b>Total Revenues</b>	<b>1,029,721,145.00</b>	<b>1,047,219,884.00</b>	<b>1,047,270,721.01</b>	<b>50,837.01</b>
<b>Expenditures</b>				
Current - Education:				
Instruction	701,446,628.00	718,350,623.00	676,415,333.78	41,935,289.22
Pupil Personnel Services	35,498,194.00	35,496,277.00	35,252,852.78	243,424.22
Instructional Media Services	16,562,461.00	16,915,234.00	16,663,285.64	251,948.36
Instruction and Curriculum Development Services	40,983,969.00	39,912,471.00	39,357,822.28	554,648.72
Instructional Staff Training	6,759,417.00	9,181,528.00	8,684,342.58	497,185.42
Board of Education	5,168,301.00	4,887,666.00	3,988,185.64	899,480.36
General Administration	7,667,247.00	7,296,793.00	6,944,892.55	351,900.45
School Administration	80,129,167.00	80,140,620.00	78,377,943.76	1,762,676.24
Facilities Acquisition and Construction	516,613.00	526,917.00	480,308.76	46,608.24
Fiscal Services	4,899,837.00	4,750,650.00	4,467,256.51	283,393.49
Central Services	19,448,585.00	19,438,538.00	17,941,347.15	1,497,190.85
Pupil Transportation Services	35,420,477.00	36,718,185.00	35,223,591.28	1,494,593.72
Operation of Plant	100,985,599.00	101,373,979.00	100,173,685.83	1,200,293.17
Maintenance of Plant	35,056,815.00	33,744,703.00	32,082,635.22	1,662,067.78
Community Services	22,340,237.00	23,000,077.00	18,846,424.97	4,153,652.03
Fixed Capital Outlay:				
Facilities Acquisition and Construction		146,998.00	116,416.51	30,581.49
Other Capital Outlay		2,357,299.00	1,748,609.17	608,689.83
Debt Service:				
Interest and Fiscal Charges	470,119.00	515,241.00	515,239.99	1.01
<b>Total Expenditures</b>	<b>1,113,353,666.00</b>	<b>1,134,753,799.00</b>	<b>1,077,280,174.40</b>	<b>57,473,624.60</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(83,632,521.00)</b>	<b>(87,533,915.00)</b>	<b>(30,009,453.39)</b>	<b>57,524,461.61</b>
<b>Other Financing Sources</b>				
Transfers In	33,000,000.00	33,000,000.00	33,000,000.00	
Insurance Loss Recoveries		3,901,394.34	3,901,394.34	
<b>Total Other Financing Sources</b>	<b>33,000,000.00</b>	<b>36,901,394.34</b>	<b>36,901,394.34</b>	
<b>Net Change in Fund Balance</b>	<b>(50,632,521.00)</b>	<b>(50,632,520.66)</b>	<b>6,891,940.95</b>	<b>57,524,461.61</b>
Fund Balance, July 1, 2003	82,232,521.00	82,232,521.00	82,232,521.32	0.32
<b>Fund Balance, June 30, 2004</b>	<b>\$ 31,600,000.00</b>	<b>\$ 31,600,000.34</b>	<b>\$ 89,124,462.27</b>	<b>\$ 57,524,461.93</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

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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 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 Palm Beach County District School Board as of and for the fiscal year ended June 30, 2004, and have issued our report thereon included under the heading *INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS*. Our report on the basic financial statements included disclosures regarding our reference to the reports of 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.

### *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 District's basic 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*. However, our procedures did disclose a certain instance of noncompliance which is not material to the basic financial statements. This matter is 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

February 2, 2005



WILLIAM O. MONROE, CPA  
AUDITOR GENERAL

# AUDITOR GENERAL STATE OF FLORIDA

G74 Claude Pepper Building  
111 West Madison Street  
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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, 2004. 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.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the fiscal year ended June 30, 2004. However, as discussed in the accompanying ***SCHEDULE OF FINDINGS AND QUESTIONED COSTS - FEDERAL AWARDS***, the results of our procedures did disclose instances of noncompliance with those requirements that 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*.

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



William O. Monroe, CPA

February 2, 2005

**PALM BEACH COUNTY  
DISTRICT SCHOOL BOARD  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Fiscal Year Ended June 30, 2004**

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)
<b>United States Department of Agriculture:</b>			
Indirect:			
Florida Department of Agriculture and Consumer Services:			
Food Donation	10.550 (2)	None	\$ 3,396,724.39
Florida Department of Education:			
Child Nutrition Cluster:			
School Breakfast Program	10.553	321	5,241,986.04
National School Lunch Program	10.555	300	21,903,286.50
Summer Food Service Program for Children	10.559	323	945,927.67
<b>Total Child Nutrition Cluster</b>			<b>28,091,200.21</b>
<b>Total United States Department of Agriculture</b>			<b>31,487,924.60</b>
<b>United States Department of Justice:</b>			
Direct:			
Public Safety Partnership and Community Policing Grants	16.710	N/A	1,315,521.25
<b>United States Department of Labor:</b>			
Indirect:			
Florida Crown Workforce Development Board:			
Migrant and Seasonal Farmworkers	17.264	None	31,508.04
<b>United States Department of Education:</b>			
Direct:			
Impact Aid	84.041	N/A	16,353.41
Safe and Drug-Free Schools and Communities - National Programs	84.184	N/A	2,682,288.21
Fund for the Improvement of Education	84.215	N/A	244,321.61
Twenty-First Century Community Learning Centers	84.287	N/A	900,787.70
Bilingual Education - Comprehensive School Grants	84.290	N/A	14,094.73
Bilingual Education - Statewide Improvement Grants	84.291	N/A	26,445.02
Foreign Languages Assistance	84.293	N/A	7,056.87
<b>Total Direct</b>			<b>3,891,347.55</b>
Indirect:			
Florida Department of Education:			
Special Education Cluster:			
Special Education Grants to States	84.027	262, 263	28,294,975.56
Special Education Preschool Grants	84.173	267	1,417,889.62
<b>Total Special Education Cluster</b>			<b>29,712,865.18</b>
Adult Education - State Grant Program	84.002	191	929,353.87
Title I Grants to Local Educational Agencies	84.010	212	26,856,075.72
Migrant Education - State Grant Program	84.011	217	2,447,781.28
Vocational Education Basic Grants to States	84.048	151	1,410,340.99
Safe and Drug-Free Schools and Communities - National Programs	84.184	107	46,495.70
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	1,146,718.94
Education for Homeless Children and Youth	84.196	127	83,053.80
Even Start - State Educational Agencies	84.213	219	458,322.24
Tech-Prep Education	84.243	157	169,478.51
Charter Schools	84.282	298	2,425,544.83
State Grants for Innovative Programs	84.298	113	1,014,314.89
Education Technology State Grants	84.318	121	397,087.80
Comprehensive School Reform Demonstration	84.332	128	1,243,987.99
School Renovation Grants	84.352	146	33,937.82
Reading First State Grants	84.357	226	178,399.15
Voluntary Public School Choice	84.361	299	127,965.33
English Language Acquisition Grants	84.365	102	2,587,739.59
Improving Teacher Quality State Grants	84.367	224	8,614,091.50
<b>Total Indirect</b>			<b>79,883,555.13</b>
<b>Total United States Department of Education</b>			<b>83,774,902.68</b>
<b>United States Department of Health and Human Services:</b>			
Direct:			
Refugee and Entrant Assistance - Discretionary Grants	93.576	N/A	639,699.65
Cooperative Agreements to Support Comprehensive School Health Problems to Prevent the Spread of HIV and Other Important Health Problems	93.938	N/A	259,725.20
<b>Total United States Department of Health and Human Services</b>			<b>899,424.85</b>
<b>Corporation for National and Community Service:</b>			
Indirect:			
Florida Department of Education:			
Learn and Serve America - School and Community Based Programs	94.004	234	45,346.28
<b>United States Department of Defense:</b>			
Direct:			
Army Junior Reserve Officers Training Corps	None	N/A	609,468.36
<b>Total Expenditures of Federal Awards</b>			<b>\$ 118,164,096.06</b>

Notes: (1) Basis of Presentation. The Schedule of Expenditures of Federal Awards represents amounts expended from Federal programs during the 2003-04 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.

Food Donation - Represents the amount of donated food used during the 2003-04 fiscal year. Commodities are valued at fair value as determined at the time of donation.

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**PALM BEACH COUNTY  
DISTRICT SCHOOL BOARD  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS -  
FEDERAL AWARDS  
For the Fiscal Year Ended June 30, 2004**

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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 Palm Beach County District School Board for the fiscal year ended June 30, 2004:

- There was no modification to the opinion on the financial statements.
- No reportable conditions in internal control over financial reporting were noted.
- No noncompliance was disclosed which is material to the financial statements.
- No reportable conditions in internal control over a major Federal program were disclosed.
- An unqualified opinion was issued on major program compliance.
- Audit findings on Federal programs are listed below under the subheading ***FINDINGS AND RECOMMENDATIONS***.
- Major Federal programs included: Food Donation (CFDA No. 10.550), Title I Grants to Local Educational Agencies (CFDA No. 84.010), and Charter Schools (CFDA No. 84.282).
- The dollar threshold used to distinguish between Type A and Type B Federal programs was \$3,000,000.
- The low risk entity threshold was applied.

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**PALM BEACH COUNTY  
DISTRICT SCHOOL BOARD  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS –  
FEDERAL AWARDS (Continued)  
For the Fiscal Year Ended June 30, 2004**

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**FINDINGS AND RECOMMENDATIONS**

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**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 No. 84.010)**

**Finding Type: Noncompliance**

**Questioned Costs: N/A**

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**Allowable Costs/Cost Principles**

**Time and Effort Reporting.** OMB *Circular A-87*, Section 8.h., requires that, for employees who are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually.

During the 2003-04 fiscal year, the District paid 15 administrative employees working for the Title I program \$1,225,845.01 in salaries and benefits, without obtaining certifications stating those employees worked solely on the Title I program. Insofar as the 15 administrative employees paid from the Title I program moneys were not assigned tasks outside of their Title I activities, we do not consider these payments of salaries and benefits to be questioned costs.

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**Recommendation:** We recommend that the District implement procedures to provide for the preparation of semi-annual certifications by administrative employees paid solely from grant funds.

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*PALM BEACH COUNTY  
DISTRICT SCHOOL BOARD  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - FEDERAL AWARDS  
For the Fiscal Year Ended June 30, 2004*

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

Audit Report No. and Federal Awards Finding No.	Program/Area	Brief Description	Status	Comments
KPMG LLP		There were no prior Federal audit findings.		

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**STATEMENT FROM AUDITED OFFICIAL**

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THE SCHOOL DISTRICT OF  
PALM BEACH COUNTY, FLORIDA

ACCOUNTING SERVICES  
3366 Forest Hill Boulevard, A-323  
West Palm Beach, Florida 33406-5870

(561) 434-8096 FAX: (561) 434-8569

ARTHUR C. JOHNSON, Ph.D.  
Superintendent

March 7, 2005

William O. Monroe, CPA  
Auditor General  
111 West Madison Street  
Tallahassee, Florida 32302

Dear Mr. Monroe:

We are responding to the finding and recommendation related to the audit of Federal Awards for the fiscal year 2003-2004, Time and effort reporting, of the Palm Beach County School District.

Time and Effort Reporting. OMB Circular A-87, Section 8.h requires that, for employees who are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages, be supported by periodic certification that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually.

During 2003-2004 fiscal year, the District paid 15 employees working for Title I program \$1,225,8445.01 in salaries and benefits, without obtaining certification stating those employees worked solely on the Title I program. Insofar as the 15 administrative employees paid from the Title I program monies were not assigned tasks outside of their Title I activities, we do not consider these payments of salaries and benefits to be questioned costs.

Management concurs. We have implemented the Auditor General's recommendation related to a procedure for the preparation of semi-annual certifications by administrative employees paid solely from grant funds. We are including copy of the Memorandum, dated January 4, 2005 from the NCLB/Federal Grants Director, containing specific instructions regarding the certifications required for Federal Grant Funded Positions.

We appreciate your guidance on this issue. Please contact Martin V. Arroyo, Director of Accounting at 561-434-8096 if you have questions about this response.

Sincerely



Arthur C. Johnson, Ph. D.  
Superintendent

Attachments

PALM BEACH COUNTY SCHOOLS #3 IN THE NATION!  
VISIT [PALMBEACHSCHOOLS.ORG](http://PALMBEACHSCHOOLS.ORG) FOR DETAILS  
AN EQUAL OPPORTUNITY EMPLOYER



## STATEMENT FROM AUDITED OFFICIAL (Continued)



THE SCHOOL DISTRICT  
OF PALM BEACH COUNTY, FLORIDA

NCLB / FEDERAL GRANTS  
3326 FOREST HILL BOULEVARD, C-216  
WEST PALM BEACH, FL 33406-5871  
(561) 434-8337 FAX (561) 357-7618

KAY W. SCOTT  
DIRECTOR

ARTHUR C. JOHNSON, Ph.D.  
SUPERINTENDENT

## MEMORANDUM

**TO:** Dr. Alison Adler  
Area Superintendents and Selected Directors

**FROM:** Kay W. Scott, Director *KWS*  
NCLB/Federal Grants

**DATE:** January 4, 2005

**SUBJECT:** Federal Compliance for Grant-Funded Positions

It was brought to my attention by Diana Garza, Auditor for the State of Florida Auditor General, that The School District of Palm Beach County is out of compliance in monitoring grant-funded positions. The piece of documentation that is missing is a Certificate of Compliance. This document states that all employees who are funded completely through grants attest to the fact that 100% of their time has been utilized for the grant-related activities for which they were hired.

In order to correct this audit exception, it is necessary that all Supervisors provide the appropriate documentation (see attached circular excerpt) to the NCLB/Federal Grants Department quarterly: October; January; April; and July.

Beginning January 1, 2005, we will show our due diligence in reconciling this audit exception by having all staff funded (100%) by Titles I, II or V complete certificates of compliance. (If you have split-funded personnel, continue to complete the required logs that are due three times a year, in October, February, and May.) Please send the original Certificate(s) of Compliance to the NCLB/Federal Grants office no later than **January 25, 2005**. Keep a copy for your on-site records.

Hereafter, these documents should be completed and returned to the NCLB/Federal Grants office quarterly. Please remit on or before April 1, 2005 and July 1, 2005.

Thank you in advance for your prompt attention to this matter. This will ensure that we continue to benefit from federally funded programs.

KWS:cs

Attachment

c: Ann Killets  
Joseph Moore  
Gerald Williams  
E. Wayne Gent  
Martin Arroyo

AN EQUAL OPPORTUNITY EMPLOYER

Palm Beach County Schools #3 in the NATION!

[www.palmbeachschools.org](http://www.palmbeachschools.org) for details

STATEMENT FROM AUDITED OFFICIAL (Continued)

Certificate of Compliance
NCLB/Federal Grants
School District of Palm Beach County



This document assures that the employee below has appropriately utilized his/her time in carrying out grant-related activities. All documentation for these activities and a copy of the signed Certificate of Compliance is filed on site with the employee.

Return the original signed Certificate of Compliance to the NCLB/Federal Grants office.

I, (name) \_\_\_\_\_, certify that I devoted 100% of my time on (grant name: Title I, Title II, or Title V) \_\_\_\_\_ activities during the period of (date) \_\_\_\_\_ to (date) \_\_\_\_\_.

Employee Signature Date

Director Signature Date



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**STATEMENT FROM AUDITED OFFICIAL (Continued)**

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**OMB CIRCULAR A-87 (REVISED 05/10/04)**

CIRCULAR NO. A-87

Revised

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Cost Principles for State, Local, and Indian Tribal Governments

1. Purpose. This Circular establishes principles and standards for determining costs for Federal awards carried out through grants, cost reimbursement contracts, and other agreements with State and local governments and federally-recognized Indian tribal governments (governmental units).
2. Authority. This Circular is issued under the authority of the Budget and Accounting Act of 1921, as amended; the Budget and Accounting Procedures Act of 1950, as amended; the Chief Financial Officers Act of 1990; Reorganization Plan No. 2 of 1970; and Executive Order No. 11541 ("Prescribing the Duties of the Office of Management and Budget and the Domestic Policy Council in the Executive Office of the President").
3. Background. As part of the governmentwide grant streamlining effort under P.L. 106-107, *Federal Financial Award Management Improvement Act of 1999*, OMB led an interagency workgroup to simplify and make consistent, to the extent feasible, the various rules used to award Federal grants. An interagency task force was established in 2001 to review existing cost principles for Federal awards to State, local, and Indian tribal governments; Colleges and Universities; and Non-Profit organizations. The task force studied Selected Items of Cost in each of the three cost principles to determine which items of costs could be stated consistently and/or more clearly. A proposed revised Circular reflecting the results of those efforts was issued on August 12, 2002 at 67 FR 52558. Extensive comments on the proposed revisions, discussions with interest groups, and related developments were considered in developing this revision.
4. Rescissions. This Circular rescinds and supersedes Circular A-87, as amended, issued May 4, 1995.
5. Policy. This Circular establishes principles and standards to provide a uniform approach for determining costs and to promote effective program delivery, efficiency, and better relationships between governmental units and the Federal Government. The principles are for determining allowable costs only. They are not intended to identify the circumstances or to dictate the extent of Federal and governmental unit participation in the financing of a particular Federal award. Provision for profit or other increment above cost is outside the scope of this Circular.
6. Definitions. Definitions of key terms used in this Circular are contained in Attachment A, Section B.
7. Required Action. Agencies responsible for administering programs that involve cost



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**STATEMENT FROM AUDITED OFFICIAL (Continued)**

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shall be allowable if amortized over a period of years in accordance with GAAP, or, if no such GAAP period exists, over a period negotiated with the cognizant agency.

(5) To be allowable in the current year, the PRHB costs must be paid either to:

(a) An insurer or other benefit provider as current year costs or premiums, or

(b) An insurer or trustee to maintain a trust fund or reserve for the sole purpose of providing post-retirement benefits to retirees and other beneficiaries.

(6) The Federal Government shall receive an equitable share of any amounts of previously allowed post-retirement benefit costs (including earnings thereon) which revert or inure to the governmental unit in the form of a refund, withdrawal, or other credit.

g. Severance pay.

(1) Payments in addition to regular salaries and wages made to workers whose employment is being terminated are allowable to the extent that, in each case, they are required by (a) law, (b) employer-employee agreement, or (c) established written policy.

(2) Severance payments (but not accruals) associated with normal turnover are allowable. Such payments shall be allocated to all activities of the governmental unit as an indirect cost.

(3) Abnormal or mass severance pay will be considered on a case-by-case basis and is allowable only if approved by the cognizant Federal agency.

→ [h] Support of salaries and wages. These standards regarding time distribution are in addition to the standards for payroll documentation.

(1) Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.

(2) No further documentation is required for the salaries and wages of employees who work in a single indirect cost activity.

→ [3] 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 will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on: