

**ESCAMBIA SCHOOL DISTRICT  
EMPLOYEE BENEFIT TRUST**

**FINANCIAL STATEMENTS**

**Year Ended June 30, 2012**

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MOORE STEPHENS  
LOVELACE, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Trustees  
Escambia School District Employee Benefit Trust  
Pensacola, Florida

We have audited the accompanying financial statements of Escambia School District Employee Benefit Trust of the Escambia County School District as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of Escambia County School District's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Escambia School District Employee Benefit Trust as of June 30, 2011, were audited by other auditors whose report dated June 20, 2012 expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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 provides a reasonable basis for our opinion.

As discussed in Note 2 to the financial statements, the financial statements present the financial position of only Escambia School District Employee Benefit Trust of the Escambia County School District and do not purport to, and do not, present fairly the financial position of the District School Board of Escambia County, Florida, as of June 30, 2012, and the changes in its financial position, and cash flows of its proprietary fund type for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Escambia School District Employee Benefit Trust of the Escambia County School District as of June 30, 2012, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

To the Board of Trustees  
Escambia School District Employee Benefit Trust

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2012 on our consideration of Escambia School District Employee Benefit Trust of the Escambia County School District's internal control over financial reporting and on our tests of its compliance with laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental information on pages 13 through 15 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Moore Stephens Lovelace, P.A.*

**MOORE STEPHENS LOVELACE, P.A.**  
Certified Public Accountants

Orlando, Florida  
November 30, 2012

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the District School Board of Escambia County, Florida, has prepared the following discussion and analysis to provide an overview of the District's Employee Benefit Trust Fund ("Trust Fund") financial activities for the fiscal year ended June 30, 2012. The information contained in the Management's Discussion and Analysis ("MD&A") is intended to highlight significant transactions, events, and conditions and should be considered in conjunction with the Trust Fund financial statements and notes to the financial statements.

### FINANCIAL HIGHLIGHTS

Key financial highlights for the 2011-12 fiscal year are as follows:

- The assets of the Trust Fund exceeded its liabilities at June 30, 2012, by \$4.0 million (net assets).
- Net assets decreased by \$1.3 million, which was an improvement over the prior fiscal year when the decrease in net assets totaled \$6.8 million.
- Due to the implementation of health insurance plan design changes, Trust Fund operating revenues increased over the prior fiscal year by \$1.6 million, while operating expenses decreased by \$3.9 million. The additional revenue and reduced expenses curtailed the rate of negative trend significantly.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The Escambia County School District Employee Benefit Trust Fund was established to administer the District's employee life, health, and dental insurance programs. The Escambia County District School Board exercises significant oversight responsibility over the Trust Fund, and all activities of the Trust Fund are solely for the benefit of the District and its employees. Therefore, the financial activities of the Trust Fund have been included (blended) as an integral part of the primary government in the District's Comprehensive Annual Financial Report ("CAFR").

The Trust Fund was established as a proprietary, internal service fund to account for activities in which a fee is charged for services. Internal service funds are used to report activities that provide goods and services to support the District's other programs and functions through user charges. Since these services predominantly benefit governmental rather than business-type functions, the Trust Fund has been included within the governmental activities in the government-wide financial statements.

The Trust Fund is combined in a single, aggregated column in the proprietary fund financial statements.

#### Notes to Financial Statements

The notes provide additional information that is essential for a full understanding of the data provided in the Employee Benefit Trust Fund.

## EMPLOYEE BENEFITS TRUST FUND FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of an entity's financial position. The following is a summary of the Trust Fund's net assets as of June 30, 2012, compared to net assets as of June 30, 2011:

### Net Assets, End of Year

	Employee Benefit Trust Activities	
	2012	2011
Cash and Cash Equivalents	\$ 12,160,439	\$ 12,980,380
Accounts Receivable	122,671	117,536
<b>Total Assets</b>	<u>12,283,110</u>	<u>13,097,916</u>
Estimated Claims Incurred but not Reported	4,503,599	4,475,714
Other Liabilities	3,765,123	3,294,771
<b>Total Liabilities</b>	<u>8,268,722</u>	<u>7,770,485</u>
Net Assets:		
Restricted for Employee Benefits	4,014,388	5,327,431
<b>Total Net Assets</b>	<u>\$ 4,014,388</u>	<u>\$ 5,327,431</u>

The restricted portion of the Trust Fund net assets, \$4.0 million, represents resources that are subject to the requirements of the Employee Benefit Trust Fund Trust Agreement, which was made in 1983 between the School Board of Escambia County and the Trustees of the Fund.

Total net assets decreased during the fiscal year. The key elements of the changes in the District's net assets for the fiscal years ended June 30, 2012 and 2011, are as follows:

### Operating Results for the Year

	Employee Benefit Trust Activities	
	2012	2011
<b>Operating Revenues:</b>		
Employer Contributions	\$ 26,557,728	\$ 25,143,132
Employee Contributions	12,664,288	12,387,877
Other Operating Revenue	300,775	375,858
Total Operating Revenues	<u>39,522,791</u>	<u>37,906,867</u>
<b>Operating Expenses:</b>		
Insurers, Claims, and Administrative	41,246,295	45,151,385
Total Operating Expenses	<u>41,246,295</u>	<u>45,151,385</u>
<b>Operating Loss</b>	<u>(1,723,504)</u>	<u>(7,244,518)</u>
<b>Nonoperating Revenue:</b>		
Investment Earnings	17,462	28,024
Total Nonoperating Revenue	<u>17,462</u>	<u>28,024</u>
<b>Loss Before Transfer</b>	(1,706,042)	(7,216,494)
Transfer In	392,999	422,497
<b>Change in Net Assets</b>	(1,313,043)	(6,793,997)
<b>Total Net Assets Beginning</b>	5,327,431	12,121,428
<b>Total Net Assets Ending</b>	<u>\$ 4,014,388</u>	<u>\$ 5,327,431</u>

Activities during the year decreased the Trust Fund's net assets by \$1.3 million. Key issues concerning the decrease are as follows:

- Claims and other expenses continued to exceed revenue as they did in the 2010-11 fiscal year.
- Health insurance plan design changes became effective in January 2012. These changes resulted in a positive trend through June 30<sup>th</sup> thereby reducing the amount of the operating loss significantly from the prior fiscal year.

#### **REQUESTS FOR INFORMATION**

Questions concerning information provided in the MD&A, and financial statements and notes thereto, or requests for additional financial information should be addressed to the Assistant Superintendent - Finance and Business Services, District School Board of Escambia County, 75 North Pace Boulevard, Pensacola, FL 32505.

# ESCAMBIA SCHOOL DISTRICT EMPLOYEE BENEFIT TRUST

## STATEMENTS OF NET ASSETS

June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 12,160,439	\$ 12,980,380
Accounts receivable	122,671	117,536
Total current assets	<u>12,283,110</u>	<u>13,097,916</u>
Total assets	<u>\$ 12,283,110</u>	<u>\$ 13,097,916</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Estimated claims incurred but not reported - Health	\$ 4,359,147	\$ 4,331,262
Estimated claims incurred but not reported - Dental	144,452	144,452
Unearned revenue	3,401,113	3,253,753
Due to other funds	935	828
Other accrued liabilities	363,075	40,190
Total current liabilities	<u>8,268,722</u>	<u>7,770,485</u>
Total liabilities	8,268,722	7,770,485
Net assets		
Restricted for employee benefits	<u>4,014,388</u>	<u>5,327,431</u>
Total net assets	<u>4,014,388</u>	<u>5,327,431</u>
Total liabilities and net assets	<u>\$ 12,283,110</u>	<u>\$ 13,097,916</u>

The notes to the financial statements are an integral part of these statements.



# ESCAMBIA SCHOOL DISTRICT EMPLOYEE BENEFIT TRUST

## STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS

Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>Operating revenues</b>		
Employer contributions	\$ 26,557,728	\$ 25,143,132
Employee contributions	12,664,288	12,387,877
Other operating revenue	300,775	375,858
Total operating revenues	<u>39,522,791</u>	<u>37,906,867</u>
<b>Operating expenses</b>		
Insurers, claims and administrative	<u>41,246,295</u>	<u>45,151,385</u>
Total operating expenses	<u>41,246,295</u>	<u>45,151,385</u>
<b>Operating loss</b>	(1,723,504)	(7,244,518)
<b>Nonoperating revenue</b>		
Investment earnings	<u>17,462</u>	<u>28,024</u>
Total nonoperating revenue	<u>17,462</u>	<u>28,024</u>
<b>Loss before transfer</b>	(1,706,042)	(7,216,494)
Transfer in	<u>392,999</u>	<u>422,497</u>
<b>Change in net assets</b>	(1,313,043)	(6,793,997)
<b>Total net assets - beginning</b>	<u>5,327,431</u>	<u>12,121,428</u>
<b>Total net assets - ending</b>	<u>\$ 4,014,388</u>	<u>\$ 5,327,431</u>

The notes to the financial statements are an integral part of these statements.

# ESCAMBIA SCHOOL DISTRICT EMPLOYEE BENEFIT TRUST

## STATEMENTS OF CASH FLOWS

Years Ended June 30, 2012 and 2011

	2012	2011
<b>Operating activities</b>		
Cash received from Board funds and participants	\$ 39,665,016	\$ 37,884,089
Cash payments to vendors for goods and services	(5,381,307)	(5,350,950)
Cash payments for insurance claims	(35,224,129)	(39,368,488)
Cash payments to employees for services	(289,982)	(267,567)
<b>Cash used for operating activities</b>	(1,230,402)	(7,102,916)
<b>Noncapital financing activities</b>		
Transfers in	392,999	422,497
<b>Net cash provided by noncapital financing activities</b>	392,999	422,497
<b>Investing activities</b>		
Interest payments received	17,462	28,024
<b>Net cash provided by investing activities</b>	17,462	28,024
<b>Net decrease in cash and cash equivalents</b>	(819,941)	(6,652,395)
<b>Cash and cash equivalents</b>		
<b>Beginning of year</b>	12,980,380	19,632,775
<b>End of year</b>	\$ 12,160,439	\$ 12,980,380
<b>Reconciliation of operating loss</b>		
<b>to net cash used in operating activities</b>		
Operating loss	\$ (1,723,504)	\$ (7,244,518)
Adjustments to reconcile operating loss		
to net cash used in operating activities:		
Accounts receivable	(5,135)	(21,029)
Estimated claims incurred but not reported - Health	381,562	177,018
Unearned revenue	147,360	(1,748)
Due to other funds	108	828
Other accrued liabilities	(30,793)	(13,467)
<b>Total adjustments</b>	493,102	141,602
<b>Net cash used in operating activities</b>	\$ (1,230,402)	\$ (7,102,916)

The notes to the financial statements are an integral part of these statements.

# ESCAMBIA SCHOOL DISTRICT EMPLOYEE BENEFIT TRUST

## NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2012

### NOTE 1 - DESCRIPTION OF THE PLAN

The following description of Escambia School District Employee Benefit Trust (the "Trust") provides only general information. Participants should refer to the Plan Agreement for a complete description of the Trust's provisions.

#### **General**

The Trust provides life, health, and dental benefits covering substantially all active and retired employees of the District School Board of Escambia County, Florida, (the "District") and their covered dependents. The Trust was established on April 18, 1983 by the governing Board of the District. The District is authorized to provide payment of the premiums for such insurance for its employees and their dependents through a group insurance plan, and may enter into contracts with insurance companies or professional administrators to provide such insurance pursuant to Section 112.08(1) of the Florida Statutes. The self-insurance plan and administrators of the Plan were submitted to and approved by the Florida Department of Financial Services Office of Insurance Regulation.

#### **Benefits**

The Trust provides health (medical, hospital, surgical, and major medical), dental, and life insurance benefits to full-time employees of the District (permanent positions working at least 20 hours per week) and eligible dependents. Retired employees are entitled to similar health, life, and dental benefits, provided they pay for the cost of the premiums.

The health and dental claims are self-insured by the District. The District has contracted with third-party administrators to process and pay medical, prescription, dental and drug claims. A stop-loss insurance policy has been purchased to provide coverage of medical claims in excess of \$350,000 (\$275,000 prior to January 1, 2011) per individual per policy period.

Generally, dental claims have a maximum yearly cap of \$800, or \$1,200 per individual, depending on the plan, or a \$1,000 lifetime cap for orthodontic treatment for individuals ages 18 or younger (typically for dependents).

Life insurance benefits are fully insured with Standard Life.

**NOTE 1 - DESCRIPTION OF THE PLAN (Continued)**

**Contributions**

The Trust's insurance program provides that the District pays the premiums for health, life, and dental coverage for the employee, and that the employee may provide for family coverage provided by the insurance program through salary deduction.

The District pays twenty-one and one-tenth cents per thousand dollars of annual employee salary for term life insurance. The employees pay any premiums for any excess life insurance coverage. For health insurance, the District pays the single coverage for all employees who enroll in the Basic Plan. The District also subsidizes two other health plans (HRA, PPO) at the same level of benefit as the Basic Plan. Effective January 1, 2012, the District restructured the medical plan, including introduction of an additional option with a HSA component. The employees pay for family coverage or the additional cost for single coverage in higher tier plans. The premiums for the base dental plan for single coverage are paid fully by the District. Employees pay the additional premiums for the Enhanced dental plan.

Retirees pay the premiums on health, dental, and life coverage. The District subsidizes certain retiree premiums to offset the total cost to retirees.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**General**

As described in Note 1, the financial statements of the Trust are intended to present the financial position of only that Trust which provides certain health, life, and dental insurance to the employees and retirees of the District and their families.

**Basis of Presentation**

The financial statements of the Trust are prepared using the accrual basis of accounting. The Trust is accounted for as a proprietary activity under standards issued by the Financial Accounting Standards Board through November 1989 and applicable standards by the Government Accounting Standards Board. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of the related cash flows. The Trust distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Trust's principal ongoing operations.

## **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **Estimates**

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

### **Cash Equivalents**

Investments that have original maturities of three months or less are considered cash equivalents for financial statement reporting purposes. For this purpose, money market mutual funds are considered cash equivalents.

### **Unpaid Claims Liabilities**

The Trust establishes claims liabilities based on estimates provided by the Trust's actuaries in accordance with accepted actuarial principles. The claims liabilities include estimates of the ultimate cost of claims (including future claims adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. Estimated amounts of subrogation and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claims costs are dependent on such complex factors as inflation, enrollment, adverse claims deviation, and uncertainty and timing of claims and losses, the process used in computing claims liabilities cannot yield an exact result. Claims liabilities are recomputed periodically by independent actuaries for the Trust using a variety of actuarial and statistical techniques for producing current estimates of actual claims costs, claims frequency, and other economic and social factors. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

### **Reinsurance**

The Trust uses a stop-loss reinsurance agreement to reduce its exposure to large losses incurred on excessive health claims per individual. Reinsurance permits recovery of a portion of losses, although it does not discharge the primary liability of the Trust as direct insurer of the risks reinsured.

### **Transfer**

Transfer in represents funds received from the District to redirect Federal Early Retiree Reinsurance Program ("ERRP") reimbursements for the purpose of reducing health insurance premiums.

### NOTE 3 - CASH

Cash deposits of the Trust are held by banks qualified as public depositories under Florida law. All deposits are insured by the Federal Deposit Insurance Corporation or are collateralized with securities held in Florida's multiple financial institution collateral pool required by Sections 280.07 and 280.08, Florida Statutes.

### NOTE 4 - UNEARNED REVENUE

Unearned revenue represents prepaid contributions for the month of July 2012 for instructional personnel and for the months of July 2012 and August 2012 for non-instructional personnel.

### NOTE 5 - RECONCILIATION OF CLAIMS LIABILITY

	<u>2012</u>	<u>2011</u>
Unpaid claims and claims adjustment expenses at beginning of the fiscal year	\$ 4,475,714	\$ 4,298,696
Incurred claims and changes in estimate	35,224,129	38,252,546
Less claims payments	<u>35,252,014</u>	<u>38,075,528</u>
Total unpaid claims and claims adjustment expenses at end of the fiscal year	<u>\$ 4,503,599</u>	<u>\$ 4,475,714</u>
Portion allocable to estimated health claims incurred but not reported	\$ 4,359,147	\$ 4,331,262
Portion allocable to estimated dental claims incurred but not reported	<u>144,452</u>	<u>144,452</u>
Total unpaid claims and claims adjustment expenses at end of the fiscal year	<u>\$ 4,503,599</u>	<u>\$ 4,475,714</u>

### NOTE 6 - TAX MATTERS

The Trust previously obtained a favorable tax determination letter from the Internal Revenue Service ("IRS"). However, the IRS revoked the Trust's tax-exempt status effective November 15, 2010 due to the Trust's non-filing of Form 990, *Return of Organization Exempt from Income Tax*, for three consecutive years. The Trust has reapplied for tax-exempt status. The Trustees believe that the Plan continues to qualify and to operate as designed.

## **SUPPLEMENTAL SCHEDULES**

**ESCAMBIA SCHOOL DISTRICT EMPLOYEE BENEFIT TRUST**  
**SCHEDULES OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**LIFE BENEFITS**

**Years Ended June 30, 2012 and 2011**

	2012	2011
<b>Operating revenues</b>		
Employer contributions	\$ 466,535	\$ 480,000
Employee contributions	1,222,210	1,243,443
Total operating revenues	1,688,745	1,723,443
 <b>Operating expenses</b>		
Insurers, claims and administrative	1,688,745	1,723,443
Total operating expenses	1,688,745	1,723,443
 <b>Change in net assets</b>	-	-
 <b>Total net assets - beginning</b>	-	-
 <b>Total net assets - ending</b>	\$ -	\$ -

See Independent Auditor's Report.



**ESCAMBIA SCHOOL DISTRICT EMPLOYEE BENEFIT TRUST**  
**SCHEDULES OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**HEALTH BENEFITS**

Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>Operating revenues</b>		
Employer contributions	\$ 25,427,825	\$ 23,977,197
Employee contributions	10,610,725	10,335,118
Other operating revenue	300,775	375,858
Total operating revenues	<u>36,339,325</u>	<u>34,688,173</u>
 <b>Operating expenses</b>		
Insurers, claims and administrative	<u>37,936,761</u>	<u>41,797,813</u>
Total operating expenses	<u>37,936,761</u>	<u>41,797,813</u>
 <b>Operating loss</b>	(1,597,436)	(7,109,640)
 <b>Nonoperating revenue</b>		
Investment earnings	<u>16,240</u>	<u>26,062</u>
Total nonoperating revenue	<u>16,240</u>	<u>26,062</u>
 <b>Loss before transfer</b>	(1,581,196)	(7,083,578)
 Transfer in	<u>392,999</u>	<u>422,497</u>
 <b>Change in net assets</b>	(1,188,197)	(6,661,081)
 <b>Total net assets - beginning</b>	<u>4,333,598</u>	<u>10,994,679</u>
 <b>Total net assets - ending</b>	<u>\$ 3,145,401</u>	<u>\$ 4,333,598</u>

See Independent Auditor's Report.

**ESCAMBIA SCHOOL DISTRICT EMPLOYEE BENEFIT TRUST**  
**SCHEDULES OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**DENTAL BENEFITS**

Years Ended June 30, 2012 and 2011

	2012	2011
<b>Operating revenues</b>		
Employer contributions	\$ 663,368	\$ 685,935
Employee contributions	831,353	809,316
Total operating revenues	1,494,721	1,495,251
 <b>Operating expenses</b>		
Insurers, claims and administrative	1,620,789	1,630,129
Total operating expenses	1,620,789	1,630,129
 <b>Operating loss</b>	(126,068)	(134,878)
 <b>Nonoperating revenue</b>		
Investment earnings	1,222	1,962
Total nonoperating revenue	1,222	1,962
 <b>Change in net assets</b>	(124,846)	(132,916)
 <b>Total net assets - beginning</b>	993,833	1,126,749
 <b>Total net assets - ending</b>	\$ 868,987	\$ 993,833

See Independent Auditor's Report.



MOORE STEPHENS  
LOVELACE, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

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

To the Board of Trustees  
Escambia School District Employee Benefit Trust  
Pensacola, Florida

We have audited the financial statements of Escambia School District Employee Benefit Trust of the Escambia County School District (the "Trust") as of and for the year ended June 30, 2012, and have issued our report thereon dated November 30, 2012. 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**

Management of the Trust is responsible for establishing and maintaining effective internal controls over financial reporting. In planning and performing our audit, we considered the Trust's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Trust's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Trust's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

To the Board of Trustees  
Escambia School District Employee

**Compliance and Other Matters**

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

This report is intended solely for the information of the Board of Trustees, the District School Board of Escambia County, Florida, the Audit Committee, applicable management, and applicable state agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

*Moore Stephens Lovelace, P.A.*

**MOORE STEPHENS LOVELACE, P.A.**  
Certified Public Accountants

Orlando, Florida  
November 30, 2012