

**DISTRICT SCHOOL BOARD OF
ESCAMBIA COUNTY, FLORIDA**

**Financial Statements
for the year ended
June 30, 2010**

DISTRICT SCHOOL BOARD OF ESCAMBIA COUNTY, FLORIDA

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DISTRICT SCHOOL BOARD OF ESCAMBIA COUNTY, FLORIDA

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Report of Independent Auditors

The Honorable Members of the School Board
District School Board of Escambia County
Pensacola, Florida

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the District School Board of Escambia County, Florida (the "District"), as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District School Board of Escambia County'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 aggregate discretely presented component units listed in Note 1 to the financial statements. Those financial statements were audited by other auditors whose reports have been provided to us, and our opinions, insofar as they relate to the amounts included for the aggregate discretely presented component units, are based solely 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 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the District School Board of Escambia County, Florida, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the General Fund and the ARRA Economic Stimulus Funds Special Revenue Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2011 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and on pages 3 through 10 and the Schedule of Funding Progress – Other Postemployment Benefits on page 55 is not a required part of the basic financial statements but is 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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole

Cherry, Beckett & Holland, L.L.P.

Orlando, Florida
January 21, 2011

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 financial activities for the fiscal year ended June 30, 2010. 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 District's financial statements and notes to financial statements.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2009-10 fiscal year are as follows:

- The assets of the District exceeded its liabilities at June 30, 2010, by \$356.9 million (net assets).
- The District's total net assets increased by \$22.4 million.
- At June 30, 2010, the District's governmental funds reported combined fund balances of \$156.9 million, an increase of \$16.2 million from the prior fiscal year.
- At June 30, 2010, the unreserved fund balance for the General Fund was \$32.9 million, or 12.1 percent of total General Fund Expenditures.
- The District's total long-term debt (Bonds Payable and Certificates of Participation) decreased by \$3.8 million, or 6.3 percent during the current fiscal year. The key factor in this decrease was the payment of principal.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements consist of three components:

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

Government-Wide Financial Statements

The government-wide financial statements provide both short-term and long-term information about the District's overall financial condition in a manner similar to those of a private-sector business. The statements include a statement of net assets and a statement of activities that are designed to provide consolidated financial information about the governmental activities of the primary government presented on the accrual basis of accounting. The statement of net assets provides information about the government's financial position, its assets and liabilities, using an economic resources measurement focus. The difference between the assets and liabilities, the net assets, is a measure of the financial health of the District. The statement of activities presents information about the change in the District's net assets, the results of operations, during the fiscal year. An increase or decrease in net assets is an indication of whether the District's financial health is improving or deteriorating.

The government-wide statements present the District's activities in two categories:

- Governmental activities – This represents most of the District's services, including its educational programs: basic, vocational, adult, and exceptional education. Support functions such as transportation and administration are also included. Local property taxes and the State's education finance program provide most of the resources that support these activities.
- Component units – The District presents aggregate financial information for the following six separate legal entities in this report: Escambia Charter School, Inc., Beulah Academy of Science, Inc., Pensacola Beach Elementary School, Inc., Byrneville Elementary School, Inc., Jacqueline Harris Preparatory Academy, and the Escambia County Public Schools Foundation For Excellence, Inc. Although legally separate organizations, the component units are included in this report because they meet the criteria for inclusion provided by generally accepted accounting principles. Financial information for these component units is reported separately from the financial information presented for the primary government.

The Escambia School District Employee Benefit Trust (Trust) has been 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, and all activities of the Trust are solely for the benefit of the District and its employees. Therefore, the financial activities of the Trust have been included (blended) as an integral part of the primary government.

Fund Financial Statements

Fund financial statements are one of the components of the basic financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements and prudent fiscal management. Certain funds are established by law while others are created by legal agreements, such as bond covenants. Fund financial statements provide more detailed information about the District's financial activities, focusing on its most significant or "major" funds rather than fund types. This is in contrast to the entity-wide perspective contained in the government-wide statements. All of the District's funds may be classified within one of three broad categories as discussed below.

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

The governmental fund statements provide a detailed short-term view that may be used to evaluate the District's near-term financing requirements. This short-term view is useful when compared to the long-term view presented as governmental activities in the government-wide financial statements. To facilitate this comparison, both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation of governmental funds to governmental activities.

The governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances provide detailed information about the District's most significant funds. The District's major funds are the General Fund, ARRA Economic Stimulus Funds, and the Capital Projects - Other Fund. Data from the other governmental funds are combined into a single, aggregated presentation.

The District adopts an annual appropriated budget for its governmental funds. Budgetary comparison statements have been provided for the General Fund and Special Revenue – Other Federal Programs Fund to demonstrate compliance with the budget.

Proprietary Funds. Proprietary funds may be established 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. The District uses the internal service funds to account for risk management, employee benefits, and warehouse activities. Since these services predominantly benefit governmental rather than business-type functions, the internal service funds have been included within governmental activities in the government-wide financial statements.

The internal service funds are combined in a single, aggregated column in the proprietary fund financial statements.

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

The District uses agency funds to account for resources held for student activities and groups and to account for the resources of the District's pre-tax flexible benefits plan.

Notes to Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. The following is a summary of the District's net assets as of June 30, 2010, compared to net assets as of June 30, 2009:

	Net Assets, End of Year	
	Governmental	
	Activities	
	6-30-10	6-30-09
Current and Other Non Current Assets	\$ 217,765,460	\$ 204,624,902
Capital Assets	<u>282,107,232</u>	<u>279,065,632</u>
Total Assets	<u>499,872,692</u>	<u>483,690,534</u>
Long-Term Liabilities	124,827,776	127,457,433
Other Liabilities	<u>18,141,819</u>	<u>21,721,205</u>
Total Liabilities	<u>142,969,595</u>	<u>149,178,638</u>
Net Assets:		
Invested in Capital Assets -		
Net of Debt	225,400,496	217,895,405
Restricted	134,790,510	125,051,180
Unrestricted (Deficit)	<u>(3,287,909)</u>	<u>(8,434,689)</u>
Total Net Assets	<u>\$ 356,903,097</u>	<u>\$ 334,511,896</u>

The largest portion of the District's net assets, \$225.4 million, reflects its investment in capital assets (e.g., land, construction in progress, buildings, improvements, equipment, motor vehicles, computer software, and audio visual materials), less any related debt still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending.

The restricted portion of the District's net assets, \$134.8 million, represents resources that are subject to external restrictions on how they may be used. Normally, the unrestricted net assets are used to meet the government's ongoing obligations to students, employees, and creditors. The District's deficit unrestricted net assets results primarily from the recognition of a liability for accumulated employee annual and sick leave balances reported as compensated absences. This liability, totaling \$39.3 million, will be paid over future years when vested employees are paid for their leave upon separation from the District.

Total net assets increased during the fiscal year. The key elements of the changes in the District's net assets for the fiscal years ended June 30, 2010, and June 30, 2009, are as follows:

	Operating Results for the Year	
	Governmental	
	Activities	
	6-30-10	6-30-09
Program Revenues:		
Charges for Services	\$ 7,092,826	\$ 7,356,635
Operating Grants and Contributions	13,816,659	23,782,878
Capital Grants and Contributions	2,872,668	5,549,903
General Revenues:		
Property Taxes, Levied for Operational Purposes	106,137,711	97,379,871
Property Taxes, Levied for Capital Projects	20,066,464	27,210,548
Local Sales Taxes	18,742,256	19,438,020
Grants and Contributions Not Restricted to Specific Programs	224,485,318	204,808,168
Unrestricted Investment Earnings	492,008	1,743,725
Miscellaneous	6,216,542	3,319,666
Insurance Loss Recoveries		1,085,919
Total Revenues	399,922,452	391,675,333
Functions/Program Expenses:		
Instruction	205,951,789	205,755,887
Pupil Personnel Services	16,858,395	16,952,375
Instructional Media Services	4,761,283	5,302,170
Instruction and Curriculum Development Services	11,197,176	10,898,048
Instructional Staff Training	8,724,396	7,202,670
Instruction Related Technology	3,923,575	3,105,661
Board of Education	1,564,164	1,169,146
General Administration	3,003,731	1,609,860
School Administration	14,170,094	14,449,919
Facility Services	17,510,854	22,275,464
Fiscal Services	2,184,481	2,211,047
Food Services	18,879,371	18,394,973
Central Services	3,857,958	3,830,766
Pupil Transportation Services	17,537,020	18,143,178
Operation of Plant	28,935,143	27,722,642
Maintenance of Plant	10,704,965	11,125,532
Administrative Technology Services	3,681,151	3,719,871
Community Services	1,242,581	985,155
Interest on Long-Term Debt	2,843,124	2,876,984
Loss on Disposal of Capital Assets		1,123,337
Total Functions/Program Expenses	377,531,251	378,854,685
Increase in Net Assets	22,391,201	12,820,648
Beginning Net Assets	334,511,896	321,691,248
Ending Net Assets	\$ 356,903,097	\$ 334,511,896

Governmental Activities increased the District's net assets by \$22.4 million. Key elements of the increase are as follows:

- Restricted Net assets for Categorical Carryover Programs increased \$8.3 million.
- The capital projects (construction) revenues received during the current fiscal year are disbursed on construction projects and other capital assets that will be capitalized and expensed in future years through depreciation. If these funds are not disbursed at year-end, they are reported as current assets and restricted net assets. Investments in Capital Assets, Net of Related Debt, increased by \$7.5 million, and Restricted Net Assets for Capital Projects increased by \$2.8 million from the previous fiscal year.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Major Governmental Funds

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved fund balance is \$32.9 million, while the total fund balance is \$50.1 million. The unreserved fund balance increased by \$8.5 million, while the total fund balance increased by \$12.4 million during the fiscal year. Key factors for these changes are as follows:

- General Fund revenues decreased \$8.3 million from the previous fiscal year. The most significant decrease was in the Florida Education Funding Program. This decrease was due to a statewide economic downturn which resulted in reduced state funding. Additional Federal funding was provided through the ARRA Stabilization grant program and accounted for in a special revenue fund. These grant funds offset the decrease in state funded revenue in the General Fund.
- The District's General Fund also receives other financing sources from transfers from other funds and, in recent years, from insurance and hurricane recoveries resulting from Hurricanes Ivan, Dennis, and Katrina. These other financing sources decreased approximately \$4.9 million from the previous fiscal year, primarily from reductions in insurance and hurricane recoveries as the District completes its repairs resulting from those storms.
- The District anticipated revenue shortfalls due to the economic downturn and took action to reduce expenditures during the fiscal year. General Fund expenditures were \$25.2 million less than the previous fiscal year.

The ARRA Economic Stimulus Funds - In the ARRA Economic Stimulus Funds, all revenues were expended.

The Capital Projects – Other Fund has a fund balance of \$78.5 million. The fund balance increased by \$4.4 million due to decreased expenditures as all revenue sources decreased.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the 2009-10 fiscal year, the District received more State funding from the Florida Department of Education than projected at the time the budget was developed. Although a Statewide economic downturn resulted in a lower per FTE allocation, the District received additional state funding due to an increase in student population. The measure of student population used for calculation of State revenues is weighted full-time equivalent (FTE). The projected 2009-10 budget for State revenues was based on weighted FTE of 41,989. Collected State revenues were based on actual weighted FTE of 42,836, an increase of 847 (2.02 percent).

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets for its governmental activities as of June 30, 2010, amounts to \$282.1 million (net of accumulated depreciation). This investment in capital assets includes land; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; property under capital lease; construction in progress; and audio visual materials and computer software. The total increase in the District's investment in capital assets (net of accumulated depreciation) for the current fiscal year was \$3.0 million or 1.1 percent.

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

- Completion of Bellview Elementary New Media Center.
- Completion of Beulah and Cordova Park Elementary Eight Classroom Additions.
- Completion of Pine Meadow Elementary Cafeteria Expansion.
- Completion of Warrington Elementary Art/Music Suite and Skill Lab.
- Completion of Washington High Fine Arts Auditorium
- Completion of Pensacola High Athletic Upgrades and Auditorium & Lobby Renovations
- Covered Play Areas for three elementary schools
- Modular Classrooms for four schools

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

Long-Term Debt

At June 30, 2010, the District has total long-term debt outstanding of \$56.7 million. The District had \$8.3 million outstanding of State School Bonds issued by the State Board of Education (SBE) and backed by the full faith and credit of the State of Florida. Capital leases totaled \$.4 million. The remainder of this debt represents \$48.0 million in Certificates of Participation.

Additional information on the District's long-term debt can be found in Notes 7 through 11 to the financial statements.

ECONOMIC FACTORS AFFECTING 2010-11 FISCAL YEAR BUDGETS AND RATES

These factors were considered in preparing the District budget for the 2010-11 fiscal year:

- The unemployment rate for Escambia County, Florida is currently 10.8 percent, which is an increase from the rate of 9.9 percent a year ago. Escambia County's unemployment rate is less than the State's average unemployment rate of 11.4 percent.

In the General Fund, the District plans to use \$10.3 million of unreserved fund balance to cover planned expenditures during the 2010-11 fiscal year. The District anticipates that this use of unreserved fund balance will be significantly replenished at year-end through unspent appropriations and actual property tax revenues exceeding budgeted amounts. The District anticipates that the fund balance at June 30, 2011, will be in excess of the Board target of 3.5 percent (of the anticipated revenue).

In anticipation of future funding deficits that will occur when the ARRA Funds expire the District increased the designated fund balance in the General Fund by \$4.3 million to \$18.8 million in the 2009-10 fiscal year.

For the 2010-11 fiscal year, expected state sources of funding in the general fund decreased by \$5.1 million. The District will receive \$12.5 million in State Fiscal Stabilization Funds in 2010-11. The State Fiscal Stabilization Funds are federal funds received by the state as part of the American Recovery and Reinvestment Act (ARRA). The State passed through a portion of the ARRA funds to school districts to offset the decreases in general fund revenues that resulted from lost state revenues due to the economic downturn.

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 of Finance and Business Services, District School Board of Escambia County, 215 West Garden Street, Pensacola, FL 32502.

BASIC FINANCIAL STATEMENTS

DISTRICT SCHOOL BOARD OF ESCAMBA COUNTY, FLORIDA
STATEMENT OF NET ASSETS
June 30, 2010

	<i>Governmental Activities</i>	<i>Component Units</i>
ASSETS		
Current Assets:		
Cash	\$ 202,132,339	\$ 2,177,215
Investments	1,279,342	1,574,536
Accounts Receivable	903,460	110,033
Interest Receivable	19,310	
Deposits Receivable	6,500	2,016
Prepaid Items		55,829
Due from Other Agencies	7,121,933	
Inventories	2,449,092	
Total Current Assets	213,911,976	3,919,629
Noncurrent Assets:		
Deferred Charges	1,698,330	
Deferred Outflow of Resources	2,014,154	
Other Post-employment Benefits Obligation (asset)	141,000	
Capital Assets:		
Non-Depreciable Capital Assets	16,037,118	428,690
Depreciable Capital Assets, Net	266,070,114	5,140,191
Total Noncurrent Assets	285,960,716	5,568,881
TOTAL ASSETS	\$ 499,872,692	\$ 9,488,510
LIABILITIES		
Current Liabilities:		
Salaries and Benefits Payable	\$ 39,838	\$
Payroll Deductions and Withholdings	3,681,271	
Accounts Payable	2,995,318	151,965
Construction Contracts Payable	972,100	
Construction Contracts Payable - Retainage	476,373	
Due to Other Agencies	3,082,190	
Deposits Payable	9,894	
Interest Payable	1,057,627	
Unearned Revenue	3,255,501	
Loan Payable	2,571,706	
Long-Term Liabilities -- Portion Due Within One Year:		
Obligations Under Capital Leases	301,261	110,019
Notes Payable		258,494
Bonds Payable	1,025,000	
Estimated Insurance Claims Payable	7,404,419	
Certificates of Participation Payable	2,889,850	
Compensated Absences Payable	4,290,210	25,938
Total Current Liabilities	34,052,558	546,416
Noncurrent Liabilities:		
Long-Term Liabilities -- Portion Due After One Year		
Obligations Under Capital Leases	78,043	163,191
Notes Payable		1,427,958
Bonds Payable	7,273,895	
Estimated Insurance Claims Payable	19,388,259	
Certificates of Participation Payable	45,138,686	
Compensated Absences Payable	35,023,999	29,530
Derivative Instrument Liability	2,014,154	
Total Noncurrent Liabilities	108,917,036	1,620,679
Total Liabilities	142,969,594	2,167,095
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	225,400,496	3,609,219
Restricted for:		
State Categorical Programs	15,897,674	
Debt Service	4,963,630	140,000
Capital Projects	94,688,537	65,160
Employee Benefits	12,121,427	
Other Purposes	7,119,242	348,065
Unrestricted	(3,287,908)	3,158,971
Total Net Assets	356,903,098	7,321,415
TOTAL LIABILITIES AND NET ASSETS	\$ 499,872,692	\$ 9,488,510

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

DISTRICT SCHOOL BOARD OF ESCAMBIA COUNTY, FLORIDA
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2010

Functions/Programs	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Revenues Operating Grants and Contributions</u>
Governmental Activities:			
Instruction	\$ 205,951,789	\$ 1,394,372	\$
Pupil Personnel Services	16,858,395		
Instructional Media Services	4,761,283		
Instruction and Curriculum Development Services	11,197,176		
Instructional Staff Training Services	8,724,396		
Instruction Related Technology	3,923,575		
Board of Education	1,564,164		
General Administration	3,003,731		
School Administration	14,170,094		
Facility Services	17,510,853		
Fiscal Services	2,184,481		
Food Services	18,879,371	5,282,975	13,816,659
Central Services	3,857,958		
Pupil Transportation Services	17,537,020	415,479	
Operation of Plant	28,935,143		
Maintenance of Plant	10,704,965		
Administrative Technology Services	3,681,151		
Community Services	1,242,581		
Interest on Long-Term Debt	2,843,124		
Total Governmental Activities	<u>377,531,250</u>	<u>7,092,826</u>	<u>13,816,659</u>
Component Units			
Charter Schools	\$ 6,238,316	\$ 195,314	\$ 762,455
Escambia County Public Schools Foundation for Excellence, Inc.	483,918		
Total Component Units	<u>\$ 6,722,234</u>	<u>\$ 195,314</u>	<u>\$ 762,455</u>

General Revenues:

Taxes:

Property Taxes, Levied for Operational Purposes

Property Taxes, Levied for Capital Projects

Local Sales Taxes

Grants and Contributions Not Restricted to Specific Programs

Unrestricted Investment Earnings

Miscellaneous

Total General Revenues and Transfers

Change in Net Assets

Net Assets, July 1, 2009

Net Assets, June 30, 2010

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

Net (Expense) Revenue and Changes in Net Assets		
Capital Grants and Contributions	Primary Government Governmental Activities	Component Units
\$	\$	\$
	(204,557,417)	
	(16,858,395)	
	(4,761,283)	
	(11,197,176)	
	(8,724,396)	
	(3,923,575)	
	(1,564,164)	
	(3,003,731)	
	(14,170,094)	
1,481,677	(16,029,176)	
	(2,184,481)	
	220,263	
	(3,857,958)	
	(17,121,541)	
	(28,935,143)	
	(10,704,965)	
	(3,681,151)	
	(1,242,581)	
1,390,991	(1,452,133)	
2,872,668	(353,749,097)	
\$		
22,056		(5,258,491)
		(483,918)
\$		
22,056		(5,742,409)
	106,137,711	
	20,066,464	
	18,742,256	
	224,485,318	5,980,612
	492,008	53,881
	6,216,542	192,331
	376,140,299	6,226,824
	22,391,202	484,415
	334,511,896	6,837,000
\$	356,903,098	\$ 7,321,415

DISTRICT SCHOOL BOARD OF ESCAMBIA COUNTY, FLORIDA
DISTRICT SCHOOL BOARD
BALANCE SHEET - GOVERNMENTAL FUNDS

	<u>General Fund</u>	<u>AARA Economic Stimulus Fund</u>
ASSETS		
Cash	\$ 54,424,295	\$ 375,843
Investments		
Accounts Receivable	565,644	
Interest Receivable	8,517	
Deposits Receivable	6,500	
Due from Other Funds	4,276,045	1,200,000
Due from Other Agencies	1,082,176	1,468,412
Inventories	1,270,326	
TOTAL ASSETS	<u>\$ 61,633,503</u>	<u>\$ 3,044,255</u>
LIABILITIES AND FUND BALANCES		
Liabilities:		
Salaries and Benefits Payable	\$ 33,302	\$ 2,852
Payroll Deductions and Withholdings	3,681,271	
Accounts Payable	2,210,549	111,664
Construction Contracts Payable		
Construction Contracts Payable - Retainage		
Due to Other Funds	100,000	2,850,000
Due to Other Agencies	2,943,979	79,739
Deposits Payable	8,051	
Interest Payable		
Loan Payable	2,571,706	
Total Liabilities	<u>11,548,858</u>	<u>3,044,255</u>
Fund Balances:		
Reserved for State Categorical Programs	12,581,661	
Reserved for Encumbrances	1,609,721	
Reserved for Inventories	1,270,326	
Reserved for Debt Service		
Reserved for Legal Restrictions	1,706,293	
Unreserved:		
Designated, Reported in General Fund:		
Designated for Local Carryover Projects	18,762,069	
Undesignated, Reported in:		
General Fund	14,154,575	
Special Revenue Funds		
Debt Service Funds		
Capital Projects Funds		
Total Fund Balances	<u>50,084,645</u>	
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 61,633,503</u>	<u>\$ 3,044,255</u>

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

Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
\$ 78,771,508	\$ 26,537,794	\$ 160,109,440
	1,279,342	1,279,342
	36,306	601,950
4,445	2,609	15,571
		6,500
	4,450	5,480,495
1,314,813	3,256,532	7,121,933
	1,178,765	2,449,091
<u>\$ 80,090,766</u>	<u>\$ 32,295,798</u>	<u>\$ 177,064,322</u>
\$	\$ 3,684	\$ 39,838
		3,681,271
43,226	576,221	2,941,660
919,357	52,743	972,100
476,373		476,373
130,000	2,304,027	5,384,027
	50,055	3,073,773
	1,842	9,893
	1,057,627	1,057,627
		2,571,706
<u>1,568,956</u>	<u>4,046,199</u>	<u>20,208,268</u>
		12,581,661
27,684,286	1,146,584	30,440,591
	1,178,765	2,449,091
	220,117	220,117
		1,706,293
		18,762,069
		14,154,575
	5,733,237	5,733,237
	4,743,512	4,743,512
<u>50,837,524</u>	<u>15,227,384</u>	<u>66,064,908</u>
<u>78,521,810</u>	<u>28,249,599</u>	<u>156,856,054</u>
<u>\$ 80,090,766</u>	<u>\$ 32,295,798</u>	<u>\$ 177,064,322</u>

**DISTRICT SCHOOL BOARD OF ESCAMBIA COUNTY, FLORIDA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2010**

Total Fund Balances - Governmental Funds	\$	156,856,054
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.		282,107,232
Deferred outflow of resources are reported as a result of changes in fair value of hedging derivative instruments in the statement of net assets.		2,014,154
The cumulative excess of the District's contributions to the other post-employment benefits plan since the District's adoption of GASB 45 over annual OPEB cost is recognized as an asset in the government-wide statements, but is not reported in the governmental funds.		141,000
Debt issuance costs are not expensed in the government-wide statements, but are reported as deferred charges and amortized over the life of the debt.		1,698,330
Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		12,121,427
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:		
Obligations Under Capital Leases	\$	379,304
Bonds Payable		8,298,896
Certificates of Participation		48,028,536
Compensated Absences Payable		39,314,209
Derivative Instrument Liability		2,014,154
		(98,035,099)
Total Net Assets - Governmental Activities	\$	356,903,098

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

DISTRICT SCHOOL BOARD OF ESCAMBIA COUNTY, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2010

	General Fund	AARA Economic Stimulus Fund	Capital Projects - Other Fund
Revenues			
Intergovernmental:			
Federal Direct	\$ 1,563,625	\$	\$
Federal Through State	2,499,869	25,882,513	
State	160,560,822		409,165
Local			
Taxes	106,137,711		18,742,256
Miscellaneous	6,378,393		215,180
	277,140,420	25,882,513	19,366,601
Expenditures			
Current - Education:			
Instruction	163,889,346	18,257,118	
Pupil Personnel Services	13,062,773	599,477	
Instructional Media Services	4,421,261	38,138	
Instruction and Curriculum Development Services	5,403,041	547,252	
Instructional Staff Training Services	1,978,071	2,304,701	
Instruction Related Technology	788,777	1,836,888	
Board of Education	1,543,620		
General Administration	742,697	1,032,688	
School Administration	13,649,906	453,464	
Facility Services	504,653		6,954,039
Fiscal Services	2,136,906		
Food Services	261,274		
Central Services	3,464,599	15,267	
Pupil Transportation Services	15,198,053	401	
Operation of Plant	28,819,301		
Maintenance of Plant	10,265,758	1,572	
Administrative Technology Services	2,968,216		
Community Services	498,814		
Fixed Capital Outlay:			
Facilities Acquisition and Construction	73,268	37,288	10,777,585
Other Capital Outlay	1,328,079	758,259	
Debt Service:			
Principal	658,925		
Interest and Fiscal Charges	37,418		
	271,694,756	25,882,513	17,731,624
Excess of Revenues Over Expenditures	5,445,664		1,634,977
Other Financing Sources (Uses)			
Transfers In	6,996,925		
Proceeds from Sale of Capital Assets			3,195,330
Insurance Loss Recoveries	1,233		
Transfers Out			(409,165)
	6,998,158		2,786,165
Net Change in Fund Balances	12,443,822		4,421,142
Fund Balances, July 1, 2009	37,640,823		74,100,668
Fund Balances, June 30, 2010	\$ 50,084,645	\$	\$ 78,521,810

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

<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 915,964	\$ 2,479,589
46,566,695	74,949,077
2,765,214	163,735,201
20,066,464	144,946,431
5,344,188	11,937,761
<u>75,658,525</u>	<u>398,048,059</u>
16,393,316	198,539,780
3,118,232	16,780,482
241,359	4,700,758
5,230,160	11,180,453
4,449,891	8,732,663
842,697	3,468,362
	1,543,620
1,188,368	2,963,753
2,975	14,106,345
6,215,620	13,674,312
	2,136,906
17,995,127	18,256,401
256,243	3,736,109
584,718	15,783,172
43,377	28,862,678
750	10,268,080
90,400	3,058,616
741,115	1,239,929
4,987,623	15,875,764
994,331	3,080,669
3,721,200	4,380,125
<u>2,667,057</u>	<u>2,704,475</u>
<u>69,764,559</u>	<u>385,073,452</u>
<u>5,893,966</u>	<u>12,974,607</u>
5,000,000	11,996,925
	3,195,330
	1,233
<u>(11,587,760)</u>	<u>(11,996,925)</u>
<u>(6,587,760)</u>	<u>3,196,563</u>
(693,794)	16,171,170
<u>28,943,393</u>	<u>140,684,884</u>
<u>\$ 28,249,599</u>	<u>\$ 156,856,054</u>

**DISTRICT SCHOOL BOARD OF ESCAMBIA COUNTY, FLORIDA
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, 2010**

Net Change in Fund Balances - Governmental Funds \$ 16,171,170

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.

Capital Outlay - Facilities Acquisition and Construction - Capitalized	\$ 12,070,443	
Capital Outlay - Other Capital Outlay - Capitalized	3,080,669	
Less, Depreciation Expense	<u>(10,737,604)</u>	4,413,508

The un depreciated cost of capital assets disposed of during the current period is expensed in the statement of activities. In the governmental funds, the cost of these assets was recognized as an expenditure in the year purchased. Thus, the change in net assets differs from the change in fund balances by the un depreciated cost of disposed assets.

(1,371,908)

Governmental funds report the effect of issuance costs, premiums, discounts, and similar items in the year the debt is issued, but these amounts are deferred and amortized over the life of the debt in the statement of activities.

Amortized Deferred Charges	(222,017)	
Amortized Premiums	<u>83,367</u>	(138,650)

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which repayments exceeded proceeds in the current period.

Bonds Payable	960,000	
Certificates of Participation	2,761,200	
Capital Leases Payable	<u>658,925</u>	4,380,125

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.

1,016,925

The net change in the liability for post-employment health care benefits is reported in the government-wide statements, but not in the governmental fund statements.

256,000

Internal service funds are used by management to charge the cost of certain activities, such as insurance, to individual funds. The net expense of internal service funds is reported with governmental activities.

(2,335,968)

Change in Net Assets - Governmental Activities **\$ 22,391,202**

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

DISTRICT SCHOOL BOARD OF ESCAMBIA COUNTY, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
Budget to Actual - GENERAL FUND
For the Fiscal Year Ended June 30, 2010

	General Fund			
	Original Budget Amounts	Final Budget Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	\$ 1,100,000	\$ 1,563,625	\$ 1,563,625	\$
Federal Through State	800,000	2,499,869	2,499,869	
State	156,247,799	160,667,505	160,560,822	(106,683)
Local:				
Taxes	100,047,207	106,137,711	106,137,711	
Miscellaneous	5,532,537	6,378,393	6,378,393	
Total Revenues	263,727,543	277,247,103	277,140,420	(106,683)
Expenditures				
Current - Education:				
Instruction	174,294,391	180,092,504	163,889,346	16,203,158
Pupil Personnel Services	12,964,518	13,411,189	13,062,773	348,416
Instructional Media Services	4,468,652	4,507,834	4,421,261	86,573
Instruction and Curriculum Development Services	4,806,744	5,534,796	5,403,041	131,755
Instructional Staff Training Services	2,415,488	2,616,399	1,978,071	638,328
Instruction Related Technology	708,624	825,468	788,777	36,691
Board of Education	1,598,189	1,863,779	1,543,620	320,159
General Administration	719,228	778,637	742,697	35,940
School Administration	13,369,496	13,804,109	13,649,906	154,203
Facility Services	982,545	979,960	504,653	475,307
Fiscal Services	2,279,129	2,370,760	2,136,906	233,854
Food Services	73,876	263,279	261,274	2,005
Central Services	3,974,901	4,053,762	3,464,599	589,163
Pupil Transportation Services	16,446,907	16,715,361	15,198,053	1,517,308
Operation of Plant	28,665,681	29,265,775	28,819,301	446,474
Maintenance of Plant	11,596,173	11,776,296	10,265,758	1,510,538
Administrative Technology Services	2,884,715	3,153,889	2,968,216	185,673
Community Services	713,701	728,634	498,814	229,820
Fixed Capital Outlay:				
Facilities Acquisition and Construction	133,982	160,708	73,268	87,440
Other Capital Outlay	1,221,050	1,965,823	1,328,079	637,744
Debt Service:				
Principal	663,449	663,426	658,925	4,501
Interest and Fiscal Charges	37,395	37,418	37,418	
Total Expenditures	285,018,834	295,569,806	271,694,756	23,875,050
Deficiency of Revenues Over Expenditures	(21,291,291)	(18,322,703)	5,445,664	23,768,367
Other Financing Sources				
Transfers In		6,996,925	6,996,925	
Insurance Loss Recoveries		1,233	1,233	
Total Other Financing Sources		6,998,158	6,998,158	
Net Change in Fund Balances	(21,291,291)	(11,324,545)	12,443,822	23,768,367
Fund Balances, July 1, 2009	37,640,823	37,640,823	37,640,823	
Fund Balances, June 30, 2010	\$ 16,349,532	\$ 26,316,278	\$ 50,084,645	\$ 23,768,367

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

DISTRICT SCHOOL BOARD OF ESCAMBIA COUNTY, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
Budget to Actual - MAJOR SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2010

	ARRA Economic Stimulus Funds			
	Original Budget Amounts	Final Budget Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	\$	\$	\$	\$
Federal Through State	34,021,648	35,918,813	25,882,513	(10,036,300)
Total Revenues	34,021,648	35,918,813	25,882,513	(10,036,300)
Expenditures				
Current - Education:				
Instruction	20,263,470	22,745,937	18,257,118	4,488,819
Pupil Personnel Services	303,504	1,086,485	599,477	487,008
Instructional Media Services		38,143	38,138	5
Instruction and Curriculum Development Services	776,620	865,241	547,252	317,989
Instructional Staff Training Services	7,922,271	3,568,190	2,304,701	1,263,489
Instruction Related Technology	230,892	1,966,108	1,836,888	129,220
General Administration	1,448,172	1,509,039	1,032,688	476,351
School Administration	376,185	547,568	453,464	94,104
Facility Services		5,197		5,197
Central Services		370,749	15,267	355,482
Pupil Transportation Services	19,600	1,992,600	401	1,992,199
Operation of Plant				
Maintenance of Plant		1,572	1,572	
Administrative Technology Services				
Community Services				
Fixed Capital Outlay:				
Facilities Acquisition and Construction	17,270	196,235	37,288	158,947
Other Capital Outlay	2,663,664	1,025,749	758,259	267,490
Total Expenditures	34,021,648	35,918,813	25,882,513	10,036,300
Excess (Deficiency) of Revenues Over Expenditures				
Net Change in Fund Balances				
Fund Balances, July 1, 2009				
Fund Balances, June 30, 2010	\$	\$	\$	\$

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

DISTRICT SCHOOL BOARD OF ESCAMBIA COUNTY, FLORIDA
STATEMENT OF NET ASSETS -
PROPRIETARY FUNDS
June 30, 2010

**Governmental
Activities -
Internal
Service
Funds**

ASSETS

Current Assets:

Cash and Cash Equivalents	\$	42,022,899
Accounts Receivable		205,043
Interest Receivable		3,739
		3,739

TOTAL ASSETS

\$ 42,231,681

LIABILITIES

Current Liabilities:

Accounts Payable	\$	53,658
Due to Other Agencies		8,417
Unearned Revenue		3,255,501
Estimated Insurance Claims Payable		7,404,419
		7,404,419

Total Current Liabilities

10,721,995

Noncurrent Liabilities:

Estimated Insurance Claims Payable		19,388,259
		19,388,259

Total Liabilities

30,110,254

NET ASSETS

Restricted for Employee Benefits		12,121,427
		12,121,427

TOTAL LIABILITIES AND NET ASSETS

\$ 42,231,681

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

DISTRICT SCHOOL BOARD OF ESCAMBIA COUNTY, FLORIDA
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2010

	<u>Governmental Activities - Internal Service Funds</u>
OPERATING REVENUES	
Charges for Services	\$ 938,578
Premium Revenues	42,746,063
Other Operating Revenues	<u>433,885</u>
Total Operating Revenues	<u>44,118,526</u>
OPERATING EXPENSES	
Salaries	1,191,404
Employee Benefits	2,986,416
Purchased Services	3,655,923
Energy Services	5,539
Materials and Supplies	4,879
Insurance Claims	<u>38,725,197</u>
Total Operating Expenses	<u>46,569,358</u>
Operating Loss	<u>(2,450,832)</u>
NONOPERATING REVENUES	
Interest	<u>114,864</u>
Total Nonoperating Revenues	<u>114,864</u>
Change in Net Assets	(2,335,968)
Total Net Assets, July 1, 2009	<u>14,457,395</u>
Total Net Assets, June 30, 2010	<u><u>\$ 12,121,427</u></u>

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

DISTRICT SCHOOL BOARD OF ESCAMBIA COUNTY, FLORIDA
STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2010

	<u>Governmental Activities - Internal Service Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Board Funds and Participants	\$ 44,000,224
Cash Payments to Suppliers for Goods and Services	(5,448,750)
Cash Payments to Employees for Services	(1,500,617)
Cash Payments for Insurance Claims	<u>(38,671,276)</u>
Net Cash Used by Operating Activities	<u>(1,620,419)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Income	<u>116,356</u>
Net Cash Provided by Investing Activities	<u>116,356</u>
Net Decrease in Cash and Cash Equivalents	(1,504,063)
Beginning Cash and Cash Equivalents	<u>43,526,962</u>
Ending Cash and Cash Equivalents	<u><u>\$ 42,022,899</u></u>
Reconciliation of Operating Loss to Net Cash Provided (Used) by Operating Activities:	
Operating Loss	\$ (2,450,832)
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities:	
Changes in Assets and Liabilities:	
Increase in Accounts Receivable	(71,084)
Increase in Accounts Payable	12,616
Decrease in Due To Other Agencies	(22,149)
Decrease in Unearned Revenue	(47,218)
Increase in Estimated Insurance Claims Payable	<u>958,248</u>
Total Adjustments	<u>830,413</u>
Net Cash Used by Operating Activities	<u><u>\$ (1,620,419)</u></u>

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

DISTRICT SCHOOL BOARD OF ESCAMBIA COUNTY, FLORIDA
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES -
FIDUCIARY FUNDS
June 30, 2010

	<u>Agency Funds</u>
ASSETS	
Cash	\$ 3,120,816
LIABILITIES	
Payroll Deductions and Withholdings	\$ 360,705
Due to Other Funds	96,467
Internal Accounts Payable	<u>2,663,644</u>
Total Liabilities	<u>\$ 3,120,816</u>

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

**DISTRICT SCHOOL BOARD OF
ESCAMBIA COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010**

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 Escambia County School District is considered part of the Florida system of public education. The governing body of the school district is the Escambia County District School Board which is composed of five elected members. The elected Superintendent of Schools is the executive officer of the School Board. Geographic boundaries of the District correspond with those of Escambia 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 Escambia School District Employee Benefit Trust (Trust) has been 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, and all activities of the Trust are solely for the benefit of the District and its employees. Therefore, the financial activities of the Trust are reported in the District's financial statements.
- **Discretely Presented Component Units.** The component unit columns in the basic financial statements, include the financial data of the District's other component units, as follows:

The Escambia County Public Schools Foundation for Excellence, Inc., (the Foundation) is a separate not-for-profit corporation organized and operated as a direct-support organization under Section 1001.453, Florida Statutes, to raise funds, receive, hold, invest, and administer property and to make expenditures for the benefit of the District. The Foundation is considered to be a component unit of the District, because the District must approve all members of the Foundation Board and the District has the ability to impose its will on the Foundation. It is considered to be a discretely presented component unit, because the two boards are not the same.

Charter schools are separate not-for-profit corporations with a separate board of directors organized pursuant to Chapter 617, Florida Statutes, the Florida Not for Profit Corporation Act, and Section 1002.33, Florida Statutes. Charter schools operate under a charter of the sponsoring school district and are considered component units since they cannot levy taxes and are fiscally dependent on the District for their support. The District has entered into charters with the following charter schools that are considered part of the District's reporting entity:

Escambia Charter School, Inc., was established to provide an alternative educational system for "at risk" students.

Beulah Academy of Science, Inc. was established to provide an agriculture and science program for middle school students.

(Continued)
**DISTRICT SCHOOL BOARD OF
 ESCAMBIA COUNTY, FLORIDA**
NOTES TO FINANCIAL STATEMENTS
 June 30, 2010

Byrneville Elementary School, Inc. was established to provide education, training, and related services for elementary students.

Jacqueline Harris Preparatory Academy was established to provide alternative programs of education, training, and related services for elementary students who are considered “at risk” of academic failure. Jacqueline Harris Preparatory Academy, operated by New Road to Learning, Inc., is a separate not-for-profit entity.

Pensacola Beach Elementary School, Inc., was established to provide education, training and related services for elementary students.

Audits of the Foundation’s financial statements and the charter schools’ financial statements, for the fiscal year ended June 30, 2010, are conducted by independent certified public accountants and are filed in the District’s administrative office at 215 West Garden Street, Pensacola, Florida.

Change in Reporting Entity

The Dr. Ruby J. Gainer School for Reaching Your Dream Charter School ceased operations at the end of fiscal year 2009. The charter school was included in fiscal year 2009 financial statements. As a result of the cease of operations, the net assets of the component units as a whole has been adjusted by (\$225,296) as follows:

Net Assets - beginning, as previously reported	\$7,062,296
Adjustments for effect of change in reporting entity:	
Dr. Ruby J. Gainer School for Reaching Your Dream	(225,296)

Net Assets - beginning, adjusted	\$6,837,000

➤ **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 expense is allocated to the various functions of the primary government based on actual and estimated usage of the assets in those functions.

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 or business segment is self-financing or draws from the general revenues of the District.

The effects of interfund activity have been eliminated from the government-wide financial statements. The only interfund transactions, other than transfers between the governmental activities, were the transactions involving the internal service funds. These transactions were eliminated by allocating the change in net assets of internal service funds in direct proportion as they were charged as expenses to the various functions/programs.

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**DISTRICT SCHOOL BOARD OF
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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.
- ARRA Economic Stimulus Funds – to account for federal funds received by the State as part of the American Recovery and Reinvestment Act (ARRA).
- Capital Projects – Other Fund – to account for the financial resources generated by the local voted sales tax and various other financial resources restricted for educational capital outlay needs, including, new construction, renovation, and remodeling projects.

Additionally, the District reports the following proprietary and fiduciary fund types:

- Internal Service Funds – to account for the District's individual self-insurance programs and to account for the financing of goods and services provided by the District's warehouse to other departments on a cost reimbursement basis.
- Agency Funds – to account for resources of the District's pre-tax flexible benefits plan and the school internal funds which are used to administer moneys collected at the schools in connection with school, student athletic, class, and club activities.

➤ **Basis of Accounting**

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

The government-wide financial statements are prepared using the accrual basis of accounting, as are the proprietary funds 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.

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**DISTRICT SCHOOL BOARD OF
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NOTES TO FINANCIAL STATEMENTS
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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. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the District's internal service funds are charges for employee health insurance premiums. Premiums paid in advance by employees are reported as unearned revenue. Operating expenses include insurance claims and excess coverage premiums. Operating expenses are primarily for purchased services.

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

The charter schools, shown as discretely presented component units, are accounted for as governmental organizations and follow the same accounting model as the District's governmental activities.

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

➤ **Deposits and Investments**

Cash deposits are held by banks qualified as public depositories under Florida law. All deposits are insured by Federal depository insurance and collateralized with securities held in Florida's multiple financial institution collateral pool as required by Chapter 280, Florida Statutes. The statement of cash flows considers cash and cash equivalents as those amounts in demand deposit accounts and all highly liquid investments with an original maturity of three months or less.

Investments consist of amounts placed in State Board of Administration Debt Service accounts for investment of debt service moneys and those made locally.

Investments made locally consist of money market mutual funds 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. Material stores, maintenance stores, custodial stores, transportation stores, and purchased food and lunchroom supply inventories are stated at cost on the first-in, first-out basis. Fuel inventories are stated at an average-cost basis. The 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.

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**DISTRICT SCHOOL BOARD OF
 ESCAMBIA COUNTY, FLORIDA**
NOTES TO FINANCIAL STATEMENTS
 June 30, 2010

➤ **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 \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at fair value at the date of donation.

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

<u>Description</u>	<u>Estimated Lives</u>
Improvements Other than Buildings	15 years
Buildings and Fixed Equipment	20 - 55 years
Furniture, Fixtures, and Equipment	5 - 15 years
Motor Vehicles	10 - 20 years
Audio Visual Materials and Computer Software	10 - 15 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 and certificates of participation (COP) premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the debt using the effective interest method. Bonds and COP payable are reported net of the applicable premiums or discounts.

In the governmental fund financial statements, bonds and other long-term obligations are not recognized as liabilities until due. Governmental fund types recognize premiums and discounts, as well as issuance costs, during the current period. The face amount of debt issued and premiums on debt issuance are 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 for compensated absences in the governmental fund financial statements only if they have matured (i.e., unused reimbursable leave still outstanding following an employee's resignation or retirement).

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

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**DISTRICT SCHOOL BOARD OF
ESCAMBIA COUNTY, FLORIDA
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➤ **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 according to a calendar established by the Department. Such amendments may impact funding allocations for subsequent years. The Department may also adjust subsequent fiscal period allocations based upon an audit of the District's compliance in determining and reporting FTE and related data. Normally, such adjustments are treated as reductions or additions of revenue in the year when the adjustments are made.

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

The State allocates gross receipts taxes, generally known as Public Education Capital Outlay money, to the District on an annual basis. The District also received an allocation under the Classrooms for Kids 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 Escambia County Property Appraiser, and property taxes are collected by the Escambia County Tax Collector.

The School Board adopted the 2009 tax levy on September 15, 2009. 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 a lien on the property on January 1, and are 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.

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**DISTRICT SCHOOL BOARD OF
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June 30, 2010**

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 Escambia 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.

➤ **School Capital Outlay Surtax**

The citizens of Escambia County, on September 5, 2006, approved a 0.5 percent school capital outlay sales surtax authorized under Section 212.055(6), Florida Statutes. The surtax proceeds are to be used for fixed capital expenditures or fixed capital costs associated with the construction, reconstruction, or improvement of school facilities and campuses which have a useful life expectancy of five or more years, and retrofitting and technology implementation and any land acquisition, land improvement, design, and engineering costs related thereto.

➤ **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.

➤ **Impact of Recently Issued Accounting Principles**

In June, 2008, the GASB issued Statement 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB Statement 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. The District adopted GASB Statement 53 in fiscal year 2010. This statement requires the cumulative effect of applying this Statement be reported as a restatement of beginning net assets and impacts the beginning balances in Note 11, Noncurrent Liabilities and Note 9, Derivative Instruments. The accounting change did not change net assets as previously reported for fiscal year 2009.

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**DISTRICT SCHOOL BOARD OF
 ESCAMBIA COUNTY, FLORIDA**
NOTES TO FINANCIAL STATEMENTS
 June 30, 2010

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 no later than the due date for the annual financial report.
- Budgets are prepared using the same modified accrual basis as is used to account for governmental funds.
- Budgetary information is integrated into the accounting system and, to facilitate budget control, budget balances are encumbered when purchase orders are issued. Appropriations lapse at fiscal year-end and encumbrances outstanding are honored from the subsequent year's appropriations.

3. INVESTMENTS

As of June 30, 2010, the District has the following investments and maturities:

Investment	Maturities	Fair Value
B of A Treasury Reserves (1) State Board of Administration Debt Service Accounts	21 Day Average 46 Day Average	\$ 1,059,225 220,117
Total Investments, Primary Government Component Units:		1,279,342
Certificates of Deposit		1,574,536
Total Investments, Reporting Entity		<u>\$ 2,853,878</u>

Note: (1) These investments are held under trust agreements in connection with the Certificates of Participation, Series 1996, 2002, 2004, 2006 financing arrangements.

Interest Rate Risk

- Section 218.415(17), Florida Statutes, limits investment maturities to provide sufficient liquidity to pay obligations as they come due. In order to provide sufficient liquidity to pay obligations as they come due, the District's investment policy limits authorized investments to the Local Government Surplus Funds Trust Fund, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act, Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency, interest-bearing time deposits or savings accounts in qualified public depositories, and direct obligations of the U.S. Treasury.

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**DISTRICT SCHOOL BOARD OF
ESCAMBIA COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS
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Credit Risk

- The District's investment policy limits authorized investments to the types of investments described above.
- The District's investments in the B of A Treasury Reserves are rated AAAM by Standard & Poor's and Aaa by Moody's Investors Service.
- The District's investments in the State Board of Administration Debt Service Accounts, which are not rated, are to provide for debt service payments on bond debt issued by the State Board of Education for the benefit of the District. The District relies on policies developed by the State Board of Administration for managing credit risk for this account.

Custodial Credit Risk

- Section 218.415(18), Florida Statutes, requires the District to earmark all investments and 1) if registered with the issuer or its agents, the investment must be immediately placed for safekeeping in a location that protects the governing body's interest in the security; 2) if in book entry form, the investment must be held for the credit of the governing body by a depository chartered by the Federal Government, the State, or any other state or territory of the United States which has a branch or principal place of business in this State, or by a national association organized and existing under the laws of the United States which is authorized to accept and execute trusts and which is doing business in this State, and must be kept by the depository in an account separate and apart from the assets of the financial institution; or 3) if physically issued to the holder but not registered with the issuer or its agents, must be immediately placed for safekeeping in a secured vault. The District does not have a formal investment policy that addresses custodial credit risk.

4. RECEIVABLES

The majority of receivables are due from other agencies. These receivables and the remaining accounts receivable are considered to be fully collectible. As such, no allowance for uncollectible receivables is accrued.

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**DISTRICT SCHOOL BOARD OF
 ESCAMBIA COUNTY, FLORIDA**
NOTES TO FINANCIAL STATEMENTS
 June 30, 2010

5. CHANGES IN CAPITAL ASSETS

Changes in capital assets are presented in the table below.

	Balance 7-1-09	Additions	Deletions	Balance 6-30-10
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	\$ 8,694,998	\$ 704,974	\$ 83,000	\$ 9,316,972
Construction in Progress	14,509,595	10,327,143	18,116,592	6,720,146
Total Capital Assets Not Being Depreciated	<u>23,204,593</u>	<u>11,032,117</u>	<u>18,199,592</u>	<u>16,037,118</u>
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	11,889,263	1,461,096	41,525	13,308,834
Buildings and Fixed Equipment	332,695,198	16,782,543	2,455,100	347,022,641
Furniture, Fixtures, and Equipment	15,008,275	864,582	809,224	15,063,633
Motor Vehicles	35,011,980	2,614,602	2,030,988	35,595,594
Property Under Capital Leases	9,338,662			9,338,662
Audio Visual Materials and Computer Software	8,755,363	512,764	151,129	9,116,998
Total Capital Assets Being Depreciated	<u>412,698,741</u>	<u>22,235,587</u>	<u>5,487,966</u>	<u>429,446,362</u>
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	4,016,789	776,033	41,525	4,751,297
Buildings and Fixed Equipment	117,017,462	6,733,682	1,701,405	122,049,739
Furniture, Fixtures, and Equipment	9,445,615	946,790	735,808	9,656,597
Motor Vehicles	11,835,743	1,808,296	1,605,741	12,038,298
Property Under Capital Leases	9,338,662			9,338,662
Audio Visual Materials and Computer Software	5,183,431	472,803	114,579	5,541,655
Total Accumulated Depreciation	<u>156,837,702</u>	<u>10,737,604</u>	<u>4,199,058</u>	<u>163,376,248</u>
Total Capital Assets Being Depreciated, Net	<u>255,861,039</u>	<u>11,497,983</u>	<u>1,288,908</u>	<u>266,070,114</u>
Governmental Activities Capital Assets, Net	<u>\$ 279,065,632</u>	<u>\$ 22,530,100</u>	<u>\$ 19,488,500</u>	<u>\$ 282,107,232</u>

The classes of property under capital leases are presented in Note 7.

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**DISTRICT SCHOOL BOARD OF
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Depreciation expense was charged to functions as follows:

<u>Function</u>	<u>Amount</u>
GOVERNMENTAL ACTIVITIES	
Instruction	\$ 6,621,034
Pupil Personnel Services	7,858
Instructional Media Services	33,742
Instruction and Curriculum Development Services	38,709
Instructional Staff Training Services	9,723
Instruction Related Technology	458,704
Board of Education	11,335
General Administration	60,829
School Administration	21,638
Facility Services	36,275
Fiscal Services	23,141
Food Services	662,269
Central Services	104,675
Pupil Transportation Services	1,655,084
Operation of Plant	3,290
Maintenance of Plant	385,656
Administrative Technology Services	600,990
Community Services	2,652
	<hr/>
Total Depreciation Expense - Governmental Activities	<u><u>\$ 10,737,604</u></u>

6. SCHOOL DISTRICT LOAN PROGRAM

In accordance with the School District Loan Program authorized by Chapter 2006-25, Laws of Florida, the District applied for and received an interest-free loan from the Florida Department of Education totaling \$2,571,706, which is included in liabilities of the General Fund. The loan enabled the District to meet operating expenses while awaiting resolution of litigation regarding school property taxes for Pensacola Beach property owners. Loan provisions require District personnel to notify the Florida Department of Education within 5 business days after the resolution of the litigation. Repayment of the loan must be made within 20 business days following the resolution of the litigation or the District may submit a repayment plan not to exceed two fiscal years.

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**DISTRICT SCHOOL BOARD OF
 ESCAMBIA COUNTY, FLORIDA**
NOTES TO FINANCIAL STATEMENTS
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7. OBLIGATIONS UNDER CAPITAL LEASES

The class and amount of property being acquired under capital leases is as follows:

	Asset Balance
Energy Performance	\$ 9,338,662

Future minimum capital lease payments and the present value of the minimum lease payments as of June 30, 2010 are as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
2011	\$ 315,349	\$ 301,261	\$ 14,088
2012	78,837	78,043	794
Total Minimum Lease Payments	\$ 394,186	\$ 379,304	\$ 14,882

The stated interest rates range from 5.27 to 5.67 percent.

8. CERTIFICATES OF PARTICIPATION

The District entered into financing arrangements, characterized as lease purchase agreements, with the Florida School Boards Association, Inc., whereby the District secured financing of various educational facilities. The financing was accomplished through the issuance of Certificates of Participation to be repaid from the proceeds of rents paid by the District. The following schedule describes the current status of these issues at June 30, 2010:

Issue	Original Amount	Principal		Refunded By Series	Balance 6/30/2010
		Paid	Refunded		
Series 1992	\$ 55,830,000	\$ 15,030,000	\$ 40,800,000	1996-1, 2002	\$
Series 1996-1	26,740,000	5,655,000	19,145,000	2005, 2006	1,940,000
Series 1996-2	21,645,000		21,645,000	2004	
Series 2002	16,745,000	12,865,000			3,880,000
Series 2004	22,725,000	570,000			22,155,000
Series 2005	10,000,000	192,845			9,807,155
Series 2006	10,000,000	268,317			9,731,683
	\$ 163,685,000	\$ 34,581,162	\$ 81,590,000		\$ 47,513,838

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DISTRICT SCHOOL BOARD OF
ESCAMBIA COUNTY, FLORIDA
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As a condition of the financing arrangements, the District has given ground leases on District property to the Florida School Boards Association, Inc. The ground leases on the property associated with the Series 1992, 1996-1, 2002, 2005, and 2006 Certificates end on the earlier of (a) the date on which the Series 1996-1, 2005, and 2006 Certificates, and any Certificates of Participation refunding such Certificates, have been paid in full or provision for their payment has been made or, (b) June 30, 2028. The ground leases on the property associated with the Series 1996-2 and 2004 Certificates end on the earlier of (a) the date on which the series of Certificates has been paid in full or, (b) June 30, 2032. The properties covered by the ground leases are, together with the improvements constructed thereon from the financing proceeds, leased back to the District. If the District fails to renew the leases and to provide for the rent payments through to term, the District may be required to surrender the sites included under the ground lease agreements for the benefit of the securers of the Certificates until the end of the ground leases.

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

Certificates of Participation Series 1992, 1996-1, 2002, 2005, and 2006:

- Hellen Caro Elementary School
- C.A. Weis Elementary School
- R.C. Lipscomb Elementary School
- Jim Allen Elementary School – Administrative Suite/Media Center
- Bellview Elementary School – Classroom Building
- Cordova Park Elementary School – Five Classroom Additions/Media Center
- Edgewater Elementary School – Classroom Wing/Media Center
- Escambia Westgate Center – Pre-Kindergarten Classroom Renovation
- Holm Elementary School – Classrooms/Media Center
- Myrtle Grove Elementary School – Classroom Addition
- Navy Point Elementary School – Classroom Addition/Administrative Suite
- Pine Meadow Elementary School – Media Center/Kindergarten Classrooms/Administrative Suite
- Pleasant Grove Elementary School – Dining/Classroom Addition/Administrative Suite
- Scenic Heights Elementary School – Pre-Kindergarten Classrooms/Media Center
- Sherwood Elementary School – Pre-Kindergarten Classrooms/Media Center
- Jim C. Bailey Middle School
- Northview High School
- West Florida School of Advanced Technology (the portion formerly known as Beggs Educational Center and used primarily for instructional purposes)
- Tate High School – Physical Education Facility

(Continued)
**DISTRICT SCHOOL BOARD OF
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Certificates of Participation Series 1996-2 and 2004:

- N.B. Cook Elementary School
- Tate High School – Cafeteria/Media Center Addition and Renovation/ESE/ROTC Classroom Building
- Myrtle Grove Elementary School – Media Center/Classroom Building Renovation
- Navy Point Elementary School – ESE Classroom Building
- Ferry Pass Middle School – ESE Classroom Building
- Carver/Century K-8 Elementary School – Physical Education Building/Media Center/Classroom Additions

The lease payments are payable by the District, semiannually, on August 1 and February 1 at interest rates ranging from 2.8 to 5.5 percent. The following is a schedule by years of future minimum lease payments under the lease agreements together with the present value of minimum lease payments as of June 30, 2010:

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 4,945,452	\$ 2,889,850	\$ 2,055,602
2012	4,941,172	3,018,855	1,922,317
2013	5,136,131	3,355,892	1,780,239
2014	5,134,381	3,497,828	1,636,553
2015	5,109,849	3,620,768	1,489,081
2016-2020	26,132,727	21,145,645	4,987,082
2021-2025	10,490,375	9,985,000	505,375
	<hr/>	<hr/>	<hr/>
Total Minimum Lease Payments	61,890,087	47,513,838	14,376,249
Plus: Unamortized Premium	514,698	514,698	
	<hr/>	<hr/>	<hr/>
Total Certificates of Participation	<u>\$ 62,404,785</u>	<u>\$ 48,028,536</u>	<u>\$ 14,376,249</u>

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**DISTRICT SCHOOL BOARD OF
 ESCAMBIA COUNTY, FLORIDA**
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9. Derivative Instruments

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2010 and the changes in fair value of such derivative instruments for the year then ended as reported in the 2010 financial statements are as follows (debit (credit)):

<u>Changes in Fair Value</u>		<u>Fair Value at June 30, 2010</u>		
<u>Classification</u>	<u>Amount</u>	<u>Classification</u>	<u>Amount</u>	<u>Notional</u>
Governmental activities				
Cash flow hedges:				
Pay-fixed interest rate swaps:				
2005	Deferred outflow			
	Of resources	Debt	\$(1,015,074)	\$9,807,155
2006	Deferred outflow			
	Of resources	Debt	<u>\$(999,080)</u>	\$9,731,684
			<u>\$(2,014,154)</u>	

Objectives of Hedging Derivative Instruments – In order to protect against the potential of rising interest rates, the District entered into pay-fixed, receivable-variable interest rate swap agreements with Bank of America (the counterparty), for both the \$10,000,000 Series 2005 and \$10,000,000 Series 2006 Certificates of Participation. Effectively, the swap agreements changed the District’s variable interest rate on the Series 2005 and 2006 Certificates of Participation to synthetically fixed interest rates of 3.896 percent and 4.106 percent, respectively.

Terms – The District entered into the first swap agreement at the same time it issued the variable rate Series 2005 Certificates of Participation (December 2005). The swap agreement’s original notional amount of \$10,000,000 matched the Series 2005 Certificates of Participation’s original principal amount of \$10,000,000. Beginning in the 2006-07 fiscal year, the notional value of the swap agreement and the principal amount of the associated debt began to decline. Under the terms of the swap agreement, the District pays the counterparty a fixed interest payment of 3.896 percent and receives from the counterparty a variable interest payment computed as 63.7 percent of the London Interbank Offered Rate (LIBOR) plus 0.65 percent. The District has the right to cancel the swap on six specific dates beginning May 1, 2015, and ending August 1, 2017. The Series 2005 Certificates of Participation and related cancelable swap agreement mature on February 1, 2018.

The District entered into the second swap agreement at the same time it issued the variable rate Series 2006 Certificates of Participation (May 2006). The swap agreement’s original notional amount of \$10,000,000 matched the Series 2006 Certificates of Participation’s original principal amount of \$10,000,000. Starting in the 2006-07 fiscal year, the notional value of the swap agreement and the principal amount of the associated debt began to decline. Under the terms of the swap agreement, the District pays the counterparty a fixed interest payment of 4.106 percent and receives from the counterparty a variable interest payment computed as 63.7 percent of the LIBOR plus 0.65 percent. The Series 2006 Certificates of Participation and related swap agreement mature on February 1, 2015.

Bank of America purchased the 2005 and 2006 Certificates of Participation from the District. Since Bank of America is both the purchaser of the Certificates of Participation and the counterparty to the swap agreements, in practice the District simply remits the fixed rate interest payment to the Trustee for the Certificates of Participation, who in turn remits that interest payment to Bank of America.

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Fair Value – Because interest rates have declined since the inception of the swap agreements, the swap agreement related to the Series 2005 Certificates of Participation has a negative fair value of \$1,015,074 as of June 30, 2010, and the swap agreement related to the Series 2006 Certificates of Participation has a negative fair value of \$999,080 as of June 30, 2010. The counterparty, using a proprietary valuation model, estimated the fair value. The model calculates future cash flows by projecting forward interest rates, and then discounts those cash flows at their present value. All rates used in the valuation are mid-market levels (mid-way between bid and ask), or are model-based mid-market levels when mid-market levels are not available. The fair values provided take certain factors into consideration, including liquidity of the swap market and the uniqueness of the deal structure as documented in the swap agreements.

Swap Payments and Associated Debt – Using rates as of June 30, 2010, debt service requirements of the variable rate debt and net swap payments, assuming current interest rates remain the same through the term of the Certificates of Participation, were as follows. As rates vary, interest payments on the variable-rate debt and net receipts/payments on the hedging derivative instruments will vary.

Fiscal Year Ending June 30	Series 2005 Principal	Interest (1)	Swaps, Net (2)	Total
2011	\$ 53,232	\$ 161,917	\$ 225,477	\$ 440,626
2012	55,297	161,038	224,253	440,588
2013	56,411	160,125	224,031	440,567
2014	59,629	159,194	221,684	440,507
2015	291,941	158,209	220,314	670,464
2016-2018	9,290,645	269,428	375,785	9,935,858
Total	<u>\$ 9,807,155</u>	<u>\$ 1,069,911</u>	<u>\$ 1,491,544</u>	<u>\$ 12,368,610</u>

Notes: (1) Assumes a variable interest rate of 1.6386448 percent.
 (2) Assumes a fixed swap rate payment of 3.896 percent and a variable swap rate receipt of 1.6386448 percent.

Fiscal Year Ending June 30	Series 2006 Principal	Interest (1)	Swaps, Net (2)	Total
2011	\$ 46,618	\$ 160,671	\$ 244,462	\$ 451,751
2012	48,559	159,901	243,291	451,751
2013	2,999,481	159,100	243,170	3,401,751
2014	3,373,199	109,578	166,723	3,649,500
2015	3,263,827	53,886	81,988	3,399,701
Total	<u>\$ 9,731,684</u>	<u>\$ 643,136</u>	<u>\$ 979,634</u>	<u>\$ 11,354,454</u>

Notes: (1) Assumes a variable interest rate of 1.6386448 percent.
 (2) Assumes a fixed swap rate payment of 4.106 percent and a variable swap rate receipt of 1.6386448 percent.

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Credit Risk – Credit risk is the risk that the counterparty will not fulfill its obligations. As of June 30, 2010, the District was not exposed to credit risk because the swap agreements have a negative fair value. However, should interest rates rise and the value of the swap agreements become positive, the District would be exposed to credit risk in the amount of the swap agreements’ fair values. The counterparty has a credit rating from Standard & Poor’s of A.

Interest Rate Risk - The District is exposed to interest rate swaps. On its pay-fixed, receive-variable interest rate swaps, as LIBOR decreases, the District's net payment on the swap increases.

Termination Risk – The District or the counterparty may terminate the swap agreements if the other party fails to perform under the terms of the swap agreements. If either swap agreement is terminated, the applicable variable rate certificates of participation would no longer carry a synthetic interest rate. Also, if at the time of termination the swap agreement has a negative fair value, the District would be liable to the counterparty for a payment equal to the swap agreement’s fair value.

10. BONDS PAYABLE

Bonds payable at June 30, 2010 are as follows:

Bond Type	Original Debt Issue Amount	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:				
Series 2002-B (Refunding)	\$ 6,415,000	\$ 3,590,000	3.5-5.375	2015
Series 2003-A	750,000	625,000	3.0-4.25	2023
Series 2004-A	250,000	220,000	3.25-4.625	2024
Series 2005-A	115,000	100,000	4.0-5.0	2025
Series 2005-A (Refunding)	2,935,000	2,110,000	4.0-5.0	2017
Series 2005-B (Refunding)	325,000	275,000	5.0	2018
Series 2008-A	<u>1,295,000</u>	<u>1,220,000</u>	3.25-5.0	2028
Subtotal	12,085,000	8,140,000		
Unamortized Premiums (Discounts), Net	<u>345,840</u>	<u>158,895</u>		
Total Bonds Payable	<u>12,430,840</u>	<u>\$ 8,298,895</u>		

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

➤ **State School Bonds**

These bonds are issued by the State Board of Education on behalf of the District. The bonds mature serially, and are secured by a pledge of the District's portion of the State-assessed motor vehicle license tax. The total revenues received in the current fiscal year were \$1,383,223, all of which related to debt service. 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.

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Annual requirements to amortize all bonded debt outstanding as of June 30, 2010 are as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2011	\$ 1,423,023	\$ 1,025,000	\$ 398,023
2012	1,440,544	1,095,000	345,544
2013	1,453,944	1,155,000	298,944
2014	1,464,625	1,225,000	239,625
2015	1,401,595	1,225,000	176,595
2016-2020	1,697,395	1,300,000	397,395
2021-2025	953,349	770,000	183,349
2025-2028	378,625	345,000	33,625
Subtotal	10,213,100	8,140,000	2,073,100
Unamortized Premiums (Discounts), Net	158,895	158,895	
Total Bonds Payable	<u>\$ 10,371,995</u>	<u>\$ 8,298,895</u>	<u>\$ 2,073,100</u>

11. CHANGES IN LONG-TERM LIABILITIES

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

Description	Balance 7-1-09 (Restated)	Additions	Deductions	Balance 6-30-10	Due in One Year
GOVERNMENTAL ACTIVITIES					
Bonds Payable	\$ 9,100,000		\$ 960,000	\$ 8,140,000	\$ 1,025,000
Unamortized Premiums (Discounts), Net	191,284		32,389	158,895	
Total Bonds Payable	9,291,284		992,389	8,298,895	1,025,000
Certificates of Participation Payable	50,275,038		2,761,200	47,513,838	2,889,850
Unamortized Premium	565,676		50,978	514,698	
Total Certificates of Participation Payable	50,840,714		2,812,178	48,028,536	2,889,850
Obligations Under Capital Leases	1,088,229		658,925	379,304	301,261
Estimated Insurance Claims Payable	25,841,071	39,629,524	38,677,917	26,792,678	7,404,419
Compensated Absences Payable	40,331,134	3,046,184	4,063,109	39,314,209	4,290,210
Derivative Instrument Liability	1,614,835	399,319		2,014,154	
Postemployment Health Care Benefits Payable	115,000		115,000		
Total Governmental Activities	<u>\$ 129,072,267</u>	<u>\$ 43,075,027</u>	<u>\$ 47,319,518</u>	<u>\$ 124,827,776</u>	<u>\$ 15,910,740</u>

For the governmental activities, compensated absences are generally liquidated with resources of the General Fund. The estimated insurance claims are generally liquidated with resources of the Internal Service Funds.

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12. 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:		
General	\$ 4,276,045	\$ 100,000
Capital Projects - Other Capital Projects		130,000
Special Revenue - American Recovery and Reimbursement Act Economic Stimulus Funds	1,200,000	2,850,000
Nonmajor Governmental Agency	4,450	2,304,027
	<u> </u>	<u> </u>
Total	<u>\$ 5,480,495</u>	<u>\$ 5,480,495</u>

The interfund receivables and payables represent the payment of expenditures by one fund for another fund and will be repaid within 12 months.

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	\$ 6,996,925	\$
Capital Projects:		
Other		409,165
Nonmajor Governmental	5,000,000	11,587,760
	<u> </u>	<u> </u>
Total	<u>\$ 11,996,925</u>	<u>\$ 11,996,925</u>

Transfers to the General Fund were made to assist in financing maintenance operations, the lease of instructional equipment, and for the payment of property insurance premiums. Transfers to the Nonmajor Governmental Funds were to facilitate the payment of debt service principal and interest.

13. 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 2010-11 fiscal year budget as a result of purchase orders outstanding at June 30, 2010.

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14. SCHEDULE OF STATE REVENUE SOURCES

The following is a schedule of the District's State revenue for the 2009-10 fiscal year:

<u>Source</u>	<u>Amount</u>
Florida Education Finance Program	\$ 97,334,181
Categorical Educational Programs	
Class Size Reduction	41,546,638
School Recognition/Merit	2,086,427
Voluntary Pre-K Program	977,705
Supplemental Academic Instruction	9,532,468
Safe Schools	1,097,500
Comprehensive K-12 Reading Plan	1,462,347
Workforce Development	4,632,491
Performance Based Incentive	73,716
Adults with Disabilities	230,654
Capital Outlay and Debt Service	1,630,775
Food Service Supplement	333,381
Racing Commission Funds	446,500
District Lottery Funds	106,881
Public Education Capital Outlay	821,950
Charter School Capital Outlay	409,165
Other Misc State Revenue	<u>1,012,422</u>
Total	<u><u>\$ 163,735,201</u></u>

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

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**DISTRICT SCHOOL BOARD OF
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15. PROPERTY TAXES

The following is a summary of millages and taxes levied on the 2009 tax roll for the 2009-10 fiscal year:

	Millages	Taxes Levied
<u>GENERAL FUND</u>		
Nonvoted School Tax:		
Required Local Effort	5.612	\$ 88,877,863
Basic Discretionary Operating	0.748	11,846,159
Critical Operating Needs	0.250	3,959,278
<u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	1.250	19,796,388
Total	7.860	\$ 124,479,688

16. FLORIDA RETIREMENT SYSTEM

All regular employees of the District are covered by the State-administered Florida Retirement System (FRS). Provisions relating to FRS 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 FRS. FRS is a single retirement system administered by the Division of Retirement, Department of Management Services and consists of two cost-sharing, multiple-employer retirement plans and other nonintegrated programs. These include a defined benefit pension plan (Plan), a Deferred Retirement Option Program (DROP), and a defined contribution plan, referred to as the Public Employee Optional Retirement Program (PEORP).

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

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 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.

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As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in PEORP in lieu of the Plan. District employees participating in DROP are not eligible to participate in PEORP. Employer contributions are defined by law; however, the ultimate benefit depends in part on the performance of investment funds. PEORP is funded by employer contributions that are based on salary and membership class (Regular Class, Elected County Officers, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Benefits in PEORP vest after one year of service. There were 433 District participants during the 2009-10 fiscal year. Required contributions made to PEORP totaled \$1,896,620.

FRS Retirement Contribution Rates

The Florida Legislature establishes, and may amend, contribution rates for each membership class of FRS. During the 2009-10 fiscal year, contribution rates were as follows:

Class or Plan	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	9.85
Florida Retirement System, Elected County Officers	0.00	16.53
Teacher's Retirement System, Plan E	6.25	11.35
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes or Plan	0.00	10.91
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.11 percent for the post-employment health insurance subsidy. Also, employer rates, other than for DROP participants, include .05 percent for administrative costs of the Public Employee Optional Retirement Program.

(B) Contribution rates are dependent upon retirement class or plan 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 ended June 30, 2008, June 30, 2009, and June 30, 2010, totaled \$18,653,418, \$18,101,400, and \$17,707,925, respectively, which were equal to the required contributions for each fiscal year.

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

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**DISTRICT SCHOOL BOARD OF
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17. SPECIAL TERMINATION BENEFITS

School Board policy provides for the payment of retirement incentive bonuses to District personnel who retire by the end of the fiscal year in which they first become eligible under any retirement plan sponsored by a unit of Florida municipal, local, or State government and who have a minimum of 15 years of service with the Escambia County School District. The retirement incentive is equal to 25 percent of the qualified employee's gross annual salary. In addition to payments made for regular termination benefits, the District reported expenditures totaling \$426,878 during the 2009-10 fiscal year for retirement incentive pay.

18. POSTEMPLOYMENT HEALTH CARE BENEFITS

Plan Description. The Postemployment Health Care Benefits Plan is a single-employer defined benefit plan administered by the District. Pursuant to the provisions of Section 112.0801, Florida Statutes, former employees who retire from the District are eligible to participate in the District's self-insured health and hospitalization plan for medical, prescription drug, dental, and vision coverage. The District subsidizes the premium rates paid by retirees by allowing them to participate in the plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the plan on average than those of active employees. Additionally, certain retirees receive insurance coverage at a lower (explicitly subsidized) premium rate than active employees. The benefits provided under this defined benefit plan are provided for a fixed number of years determined at the time of retirement based on the number of years worked for the District. Retirees are required to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible. The Postemployment Healthcare Benefits Plan does not issue a stand-alone report, and is not included in the report of a Public Employee Retirement System or another entity.

Funding Policy. For the Postemployment Health Care Benefits Plan, contribution requirements of the District are established by the Board. The District has not advance-funded or established a funding methodology for the annual Other Post Employment Benefit (OPEB) costs or the net OPEB obligation. For the 2009-10 fiscal year, 1,022 retirees received postemployment health care benefits. The District provided required contributions of \$2,683,000 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees for claims expenses (net of reinsurance), administrative expenses, and reinsurance premiums, and net of retiree contributions totaling \$2,740,000.

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Annual OPEB Cost and Net OPEB Obligation. The District's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with parameters of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The following table shows the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation for Postemployment Health Care Benefits:

Description	Amount
Normal Cost (service cost for one year)	\$ 1,094,000
Amortization of Unfunded Actuarial Accrued Liability	1,228,000
Interest on Normal Cost and Amortization	104,000
Annual Required Contribution	2,426,000
Interest on Net OPEB Obligation	5,000
Adjustment to Annual Required Contribution	(4,000)
Annual OPEB Cost (Expense)	2,427,000
Contribution Toward the OPEB Cost	(2,683,000)
Decrease in Net OPEB Obligation	(256,000)
Net OPEB Obligation, Beginning of Year	115,000
Net OPEB Obligation, End of Year	\$ (141,000)

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year 2007-08, 2008-09, and 2009-10 were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Beginning Balance, 10-1-07	\$		\$
2007-08	2,612,000	95.3%	122,000
2008-09	2,694,000	100.3%	115,000
2009-10	2,427,000	110.5%	(141,000)

Funded Status and Funding Progress. As of July 1, 2009, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$32,163,000 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$32,163,000. The covered payroll (annual payroll of active participating employees) was \$196,502,045 for the 2009-10 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 16.4 percent.

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Actuarial Methods and Assumptions. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and termination, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes are based on the substantive plan provisions, as understood by the employer and participating members, and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and participating members. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The OPEB actuarial valuation was completed for the period July 1, 2009, through June 30, 2010, which was the plan year for the District's Employee Benefit Program.

The District's initial OPEB actuarial valuation as of July 1, 2009, used the projected unit credit method to estimate the unfunded actuarial liability, and the unit credit method to estimate the District's 2009-10 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4.5 percent rate of return on invested assets, which is the District's long-term expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 3.5 percent per year, and an annual healthcare cost trend rate of 11 percent initially for the 2009-10 fiscal year, reduced by 0.5 percent per year, to an ultimate rate of 5 percent. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization is 27 years.

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19. CONSTRUCTION CONTRACT COMMITMENTS

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

Project	Contract Amount	Completed to Date	Balance Committed
Bailey Middle HVAC Renovation			
Architect/Engineer	\$ 65,576	\$ 43,275	\$ 22,301
Contractor	416,459	90,461	325,998
Ferry Pass Middle New Gymnasium			
Architect/Engineer	260,574	186,387	74,187
Contractor	2,271,800	190,855	2,080,945
Bailey Middle General Renovations			
Architect/Engineer	85,906	69,798	16,108
Contractor	971,200	727,581	243,619
Warrington Middle New Gymnasium/Renovations			
Architect/Engineer	229,918	223,084	6,834
Contractor	2,201,465	1,952,793	248,672
Contractor	674	569	105
Ransom Middle Classrooms Addition			
Architect/Engineer	180,888	128,510	52,378
Contractor	1,946,000	-	1,946,000
Bellview Elementary Classrooms Addition			
Architect/Engineer	8,600	-	8,600
Architect/Engineer	205,107	147,643	57,464
Contractor	2,198,100	109,865	2,088,235
Workman Middle Classrooms Addition			
Architect/Engineer	185,125	131,173	53,952
Contractor	1,596,000	-	1,596,000
McArthur Elementary Classrooms Addition			
Architect/Engineer	127,613	94,934	32,679
Contractor	1,233,800	-	1,233,800
New Downtown Elementary School			
Architect/Engineer	1,629,135	1,201,103	428,032
Architect/Engineer	79,121	72,661	6,460
Contractor	10,855,573	708,542	10,147,031
Contractor	5,724,667	173,545	5,551,122
Total	<u>\$ 32,473,301</u>	<u>\$ 6,252,779</u>	<u>\$ 26,220,522</u>

Total other construction contract commitments (individually below \$250,000) amounted to \$1,147,001 at June 30, 2010.

20. RISK MANAGEMENT PROGRAMS

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is self-insured for property losses, except that commercial property insurance having a number of different deductibles, sublimits, and policy maximums has been purchased to limit the District's exposure to loss. The District provides a self-insurance program for workers' compensation, automobile liability, and general liability coverage. These activities are accounted for in a Risk Management Fund, a part of the Internal Service Funds reported on the basic financial statements of the District. For automobile and general liability, the District generally relies upon the sovereign immunity limits of Section 768.28, Florida Statutes, which limits the District's liability to \$100,000 for each claimant and \$200,000 in any one occurrence. Workers compensation claims, except for certain claims covered under stop-loss insurance policies purchased in prior years, are fully covered by the District.

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The District also provides commercially purchased life insurance and self-insured dental, prescription drug, and health coverage to its employees, retirees, and their dependents. These activities are accounted for in the Escambia School District Employee Benefit Trust which is reported in the Internal Service Funds on the basic financial statements of the District. The District has entered into agreements with various insurance companies to provide specific excess coverage of health claims that exceed a stated amount per policy period. In addition, third-party administrators have been contracted to assist in the payment and/or processing of dental, prescription drugs, and health claims.

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

For all programs for which the District is self-insured, an undiscounted liability in the amount of \$26,792,678 (\$22,493,982 for workers' compensation, automobile, and general liability claims, and \$4,298,696 for dental, prescription drug, and health insurance claims) was actuarially determined to cover estimated incurred, but not reported claims and insurance claims payable at June 30, 2010.

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
2008-09	\$ 25,529,212	\$ 40,036,723	\$ (39,724,864)	\$ 25,841,071
2009-10	25,841,071	39,629,524	(38,677,917)	26,792,678

21. OTHER LOSS CONTINGENCY

The Escambia County Property Appraiser is involved in ongoing litigation with the Pensacola Beach Leaseholders and Residents Association regarding the appraisals on and taxability of the values of leasehold improvements on Pensacola Beach. During the litigation, some leaseholders have chosen to pay the assessed taxes while others have chosen not to pay the assessed taxes pending the outcome of the litigation. Depending upon the ultimate outcome of this litigation, the District may be entitled to its portion (estimated at \$7,526,048 at June 30, 2010) of the gross taxes uncollected from leaseholders, or the District may be required to return its portion of the gross taxes collected from the leaseholders. At June 30, 2010, the District has received \$9,015,640 in taxes collected from leaseholders.

22. LITIGATION

The District is involved in several pending and threatened legal actions. It is the opinion of District management, after giving consideration to the District's related insurance coverage, as well as statutory limitations on uninsured losses for governmental agencies, that the amount of loss from all such claims and actions would not materially affect the financial condition of the District.

**REQUIRED SUPPLEMENTARY
INFORMATION**

DISTRICT SCHOOL BOARD OF ESCAMBIA COUNTY, FLORIDA
OTHER POSTEMPLOYMENT BENEFITS
FUNDING PROGRESS
June 30, 2010

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent of Covered Payroll [(b-a)/c]
6/30/2008	\$0	\$32,599,000	\$32,599,000	0.00%	\$205,595,499	15.90%
6/30/2009	0	32,983,000	32,983,000	0.00%	199,803,364	16.50%
6/30/2010	0	32,163,000	32,163,000	0.00%	196,502,045	16.37%

COMPLIANCE AND SINGLE AUDIT

DISTRICT SCHOOL BOARD OF ESCAMBIA COUNTY
Schedule of Expenditures of Federal Awards
For the Fiscal year Ended June 30, 2010

Federal Grantor /Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-Through Grantor Number	Amount of Expenditures (1)
United States Department of Agriculture:			
Indirect:			
Child Nutrition Cluster:			
Florida Department of Education:			
School Breakfast Program	10.553	321	\$ 3,104,893
National School Lunch Program	10.555	300	9,370,646
Summer Food Service Program	10.559	323	121,400
Florida Department of Agriculture and Consumer Services:			
Food Donation	10.555 (2)	None	<u>883,047</u>
Total Child Nutrition Cluster			<u>13,479,986</u>
Total United States Department of Agriculture			<u>13,479,986</u>
United States Department of Labor:			
Indirect:			
Escarosa RWDB			
Federal Individual Training Account Agreement	17.255	None	553
Workforce Escarosa, Inc.			
WIA Youth Activities	17.259	None	<u>349,490</u>
Total United States Department of Labor:			<u>350,043</u>
United States Department of Education:			
Direct:			
Federal Student Aid Cluster:			
Federal Supplemental Educational Opportunity Grants	84.007	N/A	7,500
Federal Work-Study Program	84.033	N/A	861
Federal Pell Grant Program	84.063	N/A	<u>907,963</u>
Total Federal Student Aid Cluster:			916,324
Impact Aid	84.041 (3)	N/A	<u>765,872</u>
Total Direct			1,682,196
Indirect:			
Special Education Cluster:			
Florida Department of Education:			
Special Education - Grants to States	84.027A	262, 263	11,066,757
Special Education - Preschool Grants	84.173A	266, 267	340,701
ARRA - Special Education - Grants to States	84.391A	263	5,843,384
ARRA - Special Education - Preschool Grants	84.392A	267	<u>78,240</u>
Total Special Education Cluster			17,329,082
Florida Department of Education:			
Adult Education - Basic Grants to States	84.002A	191	210,304
Title I Grants to Local Educational Agencies	84.010A	212, 222, 223, 226,228	16,435,147
ARRA - Title I Grants to Local Educational Agencies	84.389	212,220,223	5,474,164
Vocational Education - Basic Grants to States	84.048A	151, 161	810,462
Safe and Drug-Free Schools and Communities - State Grants	84.186A	103	188,448
Education for Homeless Children and Youth	84.196A	127	80,000
ARRA - Education for Homeless Children and Youth	84.387	127	13,541
Even Start Family Literacy Program	84.213C	219	209,279
Educational Technology State Grants	84.318	121, 122	112,482
ARRA - Educational Technology State Grants	84.386	121	168,456
Reading First - Title I, Part B, NCLB	84.357A	211	187,598
English Language Acquisition Grants	84.365A	102	69,295
Improving Teacher Quality State Grants	84.367A	224	2,820,927
Title I Part A No Child Left Behind Act 2001	84.377A	126	3,189
ARRA - State Fiscal Stabilization Fund - Education State Grants	84.394	591	12,894,611
ARRA - State Fiscal Stabilization Fund - Government Services	84.397	592	<u>1,410,116</u>
Total Indirect			58,417,101
Total United States Department of Education			60,099,297

DISTRICT SCHOOL BOARD OF ESCAMBIA COUNTY
Schedule of Expenditures of Federal Awards
For the Fiscal year Ended June 30, 2010

Federal Grantor /Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-Through Grantor Number	Amount of Expenditures (1)
United States Department of Health and Human Services:			
Indirect:			
Community Action Community - Head Start			
Head Start / Title I PreSchool	93.600	None	476,087
University of Florida			
Developmental Disabilities Basic Support and Advocacy Grants	93.630	None	199
Total United States Department of Health and Human Services:			476,286
Corporation for National and Community Service:			
Indirect:			
Florida Department of Education:			
Learn and Serve America - School and Community Based Programs	94.004	234	4,400
Total Corporation for National and Community Service:			4,400
United States Department of Homeland Security			
Indirect:			
Florida Department of Community Affairs:			
Public Assistance Grants - Hurricane Ivan	97.036	05-PA-G-01-27-01-540	30,105
Public Assistance Grants - Hurricane Dennis	97.036	06-DN-G-01-27-03-542	8,934
Florida Division of Emergency Management			
Hazard Mitigation Planning Grant	97.039	09HS-81-13-00-22-063	166,000
Florida Department of Education - Office of Domestic Preparedness			
Equipment and Access Control	97.067	None	31,798
Total United States Department of Homeland Security			236,837
United States Department of Defense:			
Direct:			
Army Junior Reserve Officers Training Corps	12	N/A	299,994
Air Force Junior Reserve Officers Training Corps	12	N/A	74,719
Navy Junior Reserve Officers Training Corps	12	N/A	61,125
Total United States Department of Defense			435,838
Total Expenditures of Federal Awards			\$ 75,082,687

(1) Basis of Presentation

The Schedule of Expenditures of Federal Awards represents amounts expended from Federal Programs during the 2009-2010 fiscal year as determined based on the modified accrual basis of accounting. The amounts reported on the Schedule has been reconciled to and are in material agreement with amounts recorded in the District's accounting records from which the general purpose financial statements have been reported.

(2) Noncash Assistance

Food Distribution - represents the amount of donated food used during the 2009-2010 fiscal year. Donated food is valued at fair value as determined at the time of donation by the Florida Department of Agriculture and Consumer Services, Bureau of Food Distribution.

(3) Impact Aid

Impact Aid expenditures reported include the following:

Grant number / program S041B-2010-1245 \$765,872



**Independent Auditors' 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***

The Honorable Members of the School Board
The School District of Escambia County, Florida
Pensacola, Florida

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the School District of Escambia County, Florida as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 21, 2011. We did not audit the financial statements of the aggregate discretely presented component units; those financial statements were audited by 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 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 District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District'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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of 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.

Compliance and Other Matters

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

We noted certain other matters that we reported to management of the District in a separate letter dated January 21, 2011.

This report is intended for the information and use of the District's management, the Board, and applicable federal and state agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Cherry, Beckett & Holland, U.P.

Orlando, Florida
January 21, 2011



**Independent Auditors' Report on Compliance with Requirements That
Could Have a Direct and Material Effect on Each Major Program and on
Internal Control Over Compliance in Accordance With OMB Circular A-133**

The Honorable Members of the School Board
The School District of Escambia County, Florida
Pensacola, Florida

Compliance

We have audited the compliance of the School District of Escambia County, Florida ("the District") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The District's major federal programs are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination 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 could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the 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 the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended for the information and use of the District's management, the Board, applicable federal and state agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Cherry, Beckett & Holland, L.L.P.

Orlando, Florida
January 21, 2011

DISTRICT SCHOOL BOARD OF ESCAMBIA COUNTY, FLORIDA
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

Part I - Summary of Audit Results

1. The auditors' report on the financial statements expresses unqualified opinions.
2. No significant deficiencies relating to the audit of the financial statements are reported in the Independent Auditors' 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*.
3. No instances of noncompliance material to the financial statements of the District were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal awards programs are reported in the Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for the District expresses an unqualified opinion.
6. The programs tested as major programs were:

Name of Program	CFDA #
Title I, Part A Cluster	84.010A
	84.389
Special Education Cluster	84.027A
	84.173A
	84.391A
	84.392A
State Fiscal Stabilization Fund Cluster	84.394
	84.397
Improving Teacher Quality State Grants	84.367A
Education Technology State Grants	84.318
	84.386

7. The threshold for distinguishing Types A and B programs was \$2,252,481.
8. The District was determined to be a low risk auditee.

Part II - Financial Statement Findings Section

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*.

None reported.

Part III - Federal Award Finding and Questioned Costs Section

None reported.

DISTRICT SCHOOL BOARD OF ESCAMBIA COUNTY, FLORIDA
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2010

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
None				

OTHER INFORMATION



Independent Auditors' Management Letter

The Honorable Members of the School Board
The School District of Escambia County, Florida
Pensacola, Florida

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the District School Board of Escambia County, Florida (the "District") as of and for the year ended June 30, 2010, and have issued our report thereon dated January 21, 2011. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the charter schools, reported as discretely presented component units; these financial statements were audited by other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have issued our Report on Internal Control over Financial Reporting and on Compliance and Other Matters, Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance, and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated January 21, 2011 should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.800, Rules of the Auditor General, which govern the conduct of district school board audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditor's reports or schedule.

Section 10.804(1)(f)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. No recommendations were made in the preceding annual financial audit report.

Section 10.804(1)(f)2., Rules of the Auditor General, requires a statement be included as to whether or not the district school board has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific conditions met. In connection with our audit, the results of our tests did not indicate that the District met any of the conditions described in Section 218.503(1), Florida Statutes. However, our audit does not provide a legal determination of the District's compliance with this requirement.

Section 10.804(1)(f)3., Rules of the Auditor General, requires our audit to include a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, the results of our tests did not indicate that the District was in noncompliance with Section 218.415 regarding the investment of public funds. However, our audit was not directed toward obtaining knowledge regarding the District's compliance with this requirement.

Section 10.804(1)(f)4., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit we did not have any such recommendations.

Section 10.804(1)(f)5., Rules of the Auditor General, requires that we address violations of provisions of contracts or grant agreements or abuse that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.

Section 10.804(1)(f)6., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on the financial statement considering both quantitative and qualitative factors: (a) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, and (b) control deficiencies that are not significant deficiencies. In connection with our audit we did not have any such recommendations.

Pursuant to Sections 10.804(1)(f)7.a. and 10.805(6), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the District's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by the same.

Pursuant to Chapter 119, Florida Statutes, this management letter is public record and its distribution is not limited. Auditing Standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of management, and the Florida Auditor General, applicable federal and state agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Cherry, Bevant & Holland, U.P.

Orlando, Florida
January 21, 2011