

**ESCAMBIA COUNTY
DISTRICT SCHOOL BOARD**

Financial and Federal Single Audit

For the Fiscal Year Ended
June 30, 2008



BOARD MEMBERS AND SUPERINTENDENT

Escambia County District School Board members and the Superintendent who served during the 2007-08 fiscal year are listed below:

	<i>District No.</i>
<i>Jeffrey W. Bergosh</i>	<i>1</i>
<i>Gerald W. Boone</i>	<i>2</i>
<i>Claudia S. Curry</i>	<i>3</i>
<i>Patricia Hightower, Chair</i>	<i>4</i>
<i>Peter R. Gindl, Sr., Vice-Chair</i>	<i>5</i>
 <i>Jim Paul, Superintendent</i>	

The Auditor General conducts audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

The audit team leader was Edward H. Brewton, CPA, and the audit was supervised by James W. Kiedinger, Jr., CPA. For the information technology portion of this audit, the audit team leader was Stephanie J. Hogg, CISA, and the supervisor was Nancy Reeder, CPA, CISA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Manager, by e-mail at gregcenters@aud.state.fl.us or by telephone at (850) 487-9039.

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

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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

Our audit disclosed that the District's basic financial statements were presented fairly, in all material respects, in accordance with prescribed financial reporting standards.

Summary of Report on Internal Control and Compliance

Our audit did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses; however, we consider Finding No. 1, of our operational audit report No. 2009-029, to be a significant deficiency in internal control over financial reporting.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Child Nutrition Cluster and the Special Education Cluster were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that were applicable to the major Federal programs tested.

Audit Objectives and Scope

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

- Presented the District's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements or on a major Federal program;
- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements, and those applicable to the District's major Federal programs; and
- Taken corrective actions for findings included in previous audit reports.

The scope of this audit included an examination of the District's basic financial statements and the Schedule of Expenditures of Federal Awards as of and for the fiscal year ended June 30, 2008. We obtained an understanding of the District's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements and Federal awards. We also examined various transactions to determine whether they were executed, both in manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements. The results of our operational audit of the District are included in our report No. 2009-029.

Audit Methodology

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



David W. Martin, CPA
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The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Escambia County District School Board as of and for the fiscal year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of The Escambia County Public Schools Foundation for Excellence, Inc., a discretely presented component unit, were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Escambia County District School Board as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General 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 a report on our consideration of the Escambia County District School Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The **MANAGEMENT'S DISCUSSION AND ANALYSIS** (pages 3 through 10) 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 Escambia County District School Board's basic financial statements. The accompanying **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is presented for purposes of additional analysis as required by the United States Office of Management and Budget *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Respectfully submitted,



David W. Martin, CPA
November 24, 2008

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, 2008. 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 found on pages 11 through 55.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2007-08 fiscal year are as follows:

- The assets of the District exceeded its liabilities at June 30, 2008, by \$321.7 million (net assets).
- The District's total net assets increased by \$19.4 million. A significant portion of the increase is attributable to Capital Outlay Class Size Reduction funds, Local Capital Improvement property tax dollars generated for capital improvements, and sales tax revenues which have not been spent this fiscal year.
- At June 30, 2008, the District's governmental funds reported combined fund balances of \$159.8 million, an increase of \$10.0 million from the prior fiscal year.
- At June 30, 2008, the unreserved fund balance for the General Fund was \$24.8 million, or 7.8 percent of total General Fund Expenditures.
- The District's total long-term debt (Bonds Payable and Certificates of Participation) decreased by \$2.1 million, or 3.2 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 and business-type activities of the primary government presented on the accrual basis of accounting. The statement of net assets provides information about the government's financial position, its assets and liabilities, using an economic resources measurement focus. The difference between the assets and liabilities, the net assets, is a measure of the financial health of the District. The statement of activities presents information about the change in the District's net assets, the results of operations, during the fiscal year. An increase or decrease in net assets is an indication of whether the District's financial health is improving or deteriorating.

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

- Governmental activities – This represents most of the District’s services, including its educational programs: basic, vocational, adult, and exceptional education. Support functions such as transportation and administration are also included. Local property taxes and the State’s education finance program provide most of the resources that support these activities.
- Business-type activities – The District charges fees to cover the cost of certain services it provides. These activities include the operations of the Panhandle Management Development Network consortium which performs, contracts for, and purchases certain services to be used by school systems including, but not limited to, in-service training. The District is a member of the consortium and acts as its fiscal agent. Therefore, its financial activities are reported in the District’s financial statements.
- Component units – The District presents aggregate financial information for the following seven separate legal entities in this report: Escambia Charter School, Inc., Beulah Academy of Science, Inc., Pensacola Beach Elementary School, Inc., Byrnesville Elementary School, Inc., Dr. Ruby J. Gainer School for Reaching Your Dream, 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, Capital Projects – Local Capital Improvement Fund, 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. A budgetary comparison statement has been provided for the General 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. Two types of proprietary funds are maintained:

- Enterprise funds are used to report the same functions as business-type activities in the government-wide financial statements. The District uses an enterprise fund to account for the activities of the Panhandle Management Development Network.
- 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 District's only enterprise fund accounts for the activities of the Panhandle Management Development Network and is considered to be a nonmajor fund. 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, 2008, compared to net assets as of June 30, 2007:

Net Assets, End of Year

	Governmental		Business-Type		Total	
	Activities		Activities			
	6-30-08	6-30-07	6-30-08	6-30-07	6-30-08	6-30-07
Current and Other Assets	\$ 224,355,845	\$ 218,652,059	\$	\$ 12,755	\$ 224,355,845	\$ 218,664,814
Capital Assets	252,129,370	245,619,124			252,129,370	245,619,124
Total Assets	476,485,215	464,271,183		12,755	476,485,215	464,283,938
Long-Term Liabilities	134,449,464	136,267,562			134,449,464	136,267,562
Other Liabilities	20,344,503	25,748,248			20,344,503	25,748,248
Total Liabilities	154,793,967	162,015,810			154,793,967	162,015,810
Net Assets:						
Invested in Capital Assets -						
Net of Debt	188,476,535	178,915,643			188,476,535	178,915,643
Restricted	141,958,454	128,677,400			141,958,454	128,677,400
Unrestricted (Deficit)	(8,743,741)	(5,337,670)		12,755	(8,743,741)	(5,324,915)
Total Net Assets	\$ 321,691,248	\$ 302,255,373	\$	\$ 12,755	\$ 321,691,248	\$ 302,268,128

The largest portion of the District’s net assets, \$188.5 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, \$142 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 \$43 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, 2008, and June 30, 2007, are as follows:

	Operating Results for the Year					
	Governmental Activities		Business-Type Activities		Total	
	6-30-08	6-30-07	6-30-08	6-30-07	6-30-08	6-30-07
Program Revenues:						
Charges for Services	\$ 7,122,221	\$ 7,290,363	\$	\$ 68,770	\$ 7,122,221	\$ 7,359,133
Operating Grants and Contributions	22,893,049	23,196,783			22,893,049	23,196,783
Capital Grants and Contributions	12,787,860	14,393,520			12,787,860	14,393,520
General Revenues:						
Property Taxes, Levied for Operational Purposes	85,413,366	81,045,039			85,413,366	81,045,039
Property Taxes, Levied for Capital Projects	29,869,892	27,507,116			29,869,892	27,507,116
Local Sales Taxes	20,655,828	21,969,232			20,655,828	21,969,232
Grants and Contributions Not Restricted to Specific Programs	224,459,137	225,973,513			224,459,137	225,973,513
Unrestricted Investment Earnings	5,787,426	8,754,067		375	5,787,426	8,754,442
Miscellaneous	4,756,160	3,015,536			4,756,160	3,015,536
Insurance Loss Recoveries	4,464,012				4,464,012	
Transfers	4,755		(4,755)			
Total Revenues and Transfers	418,213,706	413,145,169	(4,755)	69,145	418,208,951	413,214,314
Functions/Program Expenses:						
Instruction	210,699,076	200,035,407			210,699,076	200,035,407
Pupil Personnel Services	17,159,487	17,710,197			17,159,487	17,710,197
Instructional Media Services	5,591,263	5,877,497			5,591,263	5,877,497
Instruction and Curriculum Development Services	11,812,859	11,939,007			11,812,859	11,939,007
Instructional Staff Training	7,787,869	7,408,236			7,787,869	7,408,236
Instruction Related Technology	3,267,448	2,777,732			3,267,448	2,777,732
Board of Education	1,212,416	1,063,256			1,212,416	1,063,256
General Administration	1,525,336	1,369,805			1,525,336	1,369,805
School Administration	15,674,843	15,866,203			15,674,843	15,866,203
Facility Services	31,604,053	37,396,130			31,604,053	37,396,130
Fiscal Services	2,386,653	2,255,833			2,386,653	2,255,833
Food Services	18,578,045	18,952,187			18,578,045	18,952,187
Central Services	5,103,314	4,160,563			5,103,314	4,160,563
Pupil Transportation Services	17,894,762	17,173,433			17,894,762	17,173,433
Operation of Plant	28,308,033	27,270,568			28,308,033	27,270,568
Maintenance of Plant	11,875,929	13,854,263			11,875,929	13,854,263
Administrative Technology Services	3,813,897	3,712,180			3,813,897	3,712,180
Community Services	897,108	709,533			897,108	709,533
Interest on Long-Term Debt	3,251,291	3,650,125			3,251,291	3,650,125
Loss on Disposal of Capital Assets	334,149	3,653,313			334,149	3,653,313
Panhandle Management Development Network			8,000	65,894	8,000	65,894
Total Functions/Program Expenses	398,777,831	396,835,468	8,000	65,894	398,785,831	396,901,362
Increase (Decrease) in Net Assets Before Extraordinary Item	19,435,875	16,309,701	(12,755)	3,251	19,423,120	16,312,952
Extraordinary Item - Loss Recoveries		20,181,553				20,181,553
Increase (Decrease) in Net Assets	\$ 19,435,875	\$ 36,491,254	\$ (12,755)	\$ 3,251	\$ 19,423,120	\$ 36,494,505

Governmental Activities increased the District’s net assets by \$19.4 million. Key elements of the increase are as follows:

- Property tax revenue increased by \$6.7 million, or 6.2 percent, during the 2007-08 fiscal year, as a result of an increase in the taxable assessed value.
- 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 \$9.6 million, and Restricted Net Assets for Capital Projects increased by \$13.6 million from the previous fiscal year.

The decrease in net assets for the business-type activities was the result of the Panhandle Management Development Network ceasing operations during the 2007-08 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 \$24.8 million, while the total fund balance is \$37.2 million. The unreserved fund balance increased by \$4.3 million, while the total fund balance decreased by \$2.7 million during the fiscal year. Key factors for these changes are as follows:

- Although State and local tax revenues were \$11.2 million less than initially budgeted or projected, total General Fund revenues increased \$6.9 million from the previous fiscal year. State revenues were lower than projected because State revenues based on student enrollment were reduced due to a reduction in full-time equivalent (FTE) students (382) from the initial State projection (44,567) and due to other State revenue reductions. Property taxes were less than budgeted because certain beach property taxes were in litigation, and currently, are not collectible. 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 \$12.2 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 \$2.3 million less than the previous fiscal year.

The Capital Projects – Local Capital Improvement Fund has a fund balance of \$17.1 million. The fund balance increased by \$8.6 million due to an increase in local capital improvement property taxes collected and a reduction in expenditures incurred during the 2007-08 fiscal year.

The Capital Projects – Other Fund has a fund balance of \$87 million. The fund balance increased by \$2.9 million due primarily to revenue from local sales tax collections in excess of expenditures.

Proprietary Funds

The District's business-type activities provide the same type of information found in the government-wide financial statements. The Panhandle Management Development Network dissolved during the 2007-08 fiscal year.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the course of the 2007-08 fiscal year, the District experienced several reductions in State funding from the Florida Department of Education. These reductions were the result of a Statewide economic downturn, which resulted in revenue collections that were significantly lower than originally projected when the State's 2007-08 fiscal year budget was developed. As a result of the reductions, the District received State funding of \$10 million less than originally projected which was a 4.7 percent reduction. A portion of the reduction in State funding to the District was the result of a continuing decline in student population. The measure of student population used for calculation of State revenues is full-time equivalent (FTE). The projected 2007-08 budget for State revenues was based on weighted FTE of 44,567. Collected State revenues were based on actual weighted FTE of 44,185, a decrease of 382 (0.86 percent).

In addition to the overall economic downturn, the State Board of Administration Local Government Surplus Funds Trust Fund investment pool experienced liquidity problems and a decline in interest revenues. Like many other governmental agencies within the State, the District withdrew its funds from the investment pool and reinvested in money market accounts with local banking institutions. However, the effect of the economic downturn on all interest earnings resulted in the District earning approximately \$0.84 million less interest revenue than originally projected, a decrease of 33.6 percent.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets for its governmental activities as of June 30, 2008, amounts to \$252.1 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 \$6.5 million or 2.7 percent.

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

- Completion of Pensacola High School Gymnasium.
- The addition of new modular classrooms.
- The District has started and completed several major renovation and addition projects.

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

Long-Term Debt

At June 30, 2008, the District has total long-term debt outstanding of \$65.8 million. The District had \$10.2 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 \$2.1 million. The remainder of this debt represents \$53.5 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 2008-09 FISCAL YEAR BUDGETS AND RATES

These factors were considered in preparing the District budget for the 2008-09 fiscal year:

- The unemployment rate for Escambia County, Florida is currently 5.5 percent, which is an increase from the rate of 3.8 percent a year ago. Escambia County's unemployment rate is equal to the State's average unemployment rate of 5.5 percent.

In the General Fund, the District plans to use \$7.4 million of unreserved fund balance to cover planned expenditures during the 2008-09 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, 2009, will be in excess of the Board target of 2.5 percent (of the anticipated revenue).

Although the amount of designated fund balance in the General Fund increased by \$3.6 million to \$14 million in the 2007-08 fiscal year, the District plans to spend all of the designated fund balance at June 30, 2008, during the 2008-09 fiscal year.

REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A, and financial statements and notes thereto, or requests for additional financial information should be addressed to the Assistant Superintendent 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 ESCAMBIA COUNTY, FLORIDA
STATEMENT OF NET ASSETS
 June 30, 2008

	<i>Primary Government</i>		<i>Component Units</i>	
	<i>Governmental Activities</i>	<i>Business-Type Activities</i>		<i>Total</i>
ASSETS				
Current Assets:				
Cash	\$ 112,184,594	\$	\$ 112,184,594	\$ 2,203,939
Investments	88,681,149		88,681,149	1,313,935
Accounts Receivable	865,441		865,441	45,208
Interest Receivable	65,829		65,829	
Deposits Receivable	5,300		5,300	616
Prepaid Items				61,081
Due from Other Agencies	17,910,035		17,910,035	78,080
Inventories	2,500,842		2,500,842	
Other Assets				43,307
Total Current Assets	222,213,190		222,213,190	3,746,166
Noncurrent Assets:				
Deferred Charges	2,142,655		2,142,655	
Capital Assets:				
Non-Depreciable Capital Assets	16,666,621		16,666,621	595,663
Depreciable Capital Assets, Net	235,462,749		235,462,749	5,174,270
Total Noncurrent Assets	254,272,025		254,272,025	5,769,933
TOTAL ASSETS	\$ 476,485,215	\$ 0.00	\$ 476,485,215	\$ 9,516,099
LIABILITIES				
Current Liabilities:				
Salaries and Benefits Payable	\$ 201,223	\$	\$ 201,223	\$ 43,909
Payroll Deductions and Withholdings	3,744,372		3,744,372	
Accounts Payable	3,287,723		3,287,723	201,528
Construction Contracts Payable	1,136,517		1,136,517	
Construction Contracts Payable - Retainage	1,201,760		1,201,760	
Due to Other Agencies	3,497,877		3,497,877	31,187
Deposits Payable	17,435		17,435	
Interest Payable	1,323,265		1,323,265	
Unearned Revenue	3,362,625		3,362,625	100,205
Loan Payable	2,571,706		2,571,706	
Long-Term Liabilities -- Portion Due Within One Year:				
Obligations Under Capital Leases	986,670		986,670	93,626
Notes Payable				93,135
Bonds Payable	910,000		910,000	
Estimated Insurance Claims Payable	7,467,682		7,467,682	
Certificates of Participation Payable	2,645,210		2,645,210	
Compensated Absences Payable	4,156,514		4,156,514	18,406
Total Current Liabilities	36,510,579		36,510,579	581,996
Noncurrent Liabilities:				
Long-Term Liabilities -- Portion Due After One Year:				
Obligations Under Capital Leases	1,038,318		1,038,318	370,965
Notes Payable				1,809,361
Bonds Payable	9,323,673		9,323,673	
Estimated Insurance Claims Payable	18,061,530		18,061,530	
Certificates of Participation Payable	50,891,619		50,891,619	
Compensated Absences Payable	38,846,248		38,846,248	11,006
Postemployment Health Care Benefits Payable	122,000		122,000	
Total Noncurrent Liabilities	118,283,388		118,283,388	2,191,332
Total Liabilities	154,793,967		154,793,967	2,773,328
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	188,476,535		188,476,535	3,401,413
Restricted for:				
State Categorical Programs	4,293,074		4,293,074	
Debt Service	4,711,578		4,711,578	
Capital Projects	112,533,692		112,533,692	77,756
Employee Benefits	16,530,303		16,530,303	
Other Purposes	3,889,807		3,889,807	480,225
Unrestricted	(8,743,741)		(8,743,741)	2,783,377
Total Net Assets	321,691,248		321,691,248	6,742,771
TOTAL LIABILITIES AND NET ASSETS	\$ 476,485,215	\$ 0.00	\$ 476,485,215	\$ 9,516,099

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, 2008

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
Instruction	\$ 210,699,076	\$ 1,221,058	\$	\$
Pupil Personnel Services	17,159,487			
Instructional Media Services	5,591,263			
Instruction and Curriculum Development Services	11,812,859			
Instructional Staff Training Services	7,787,869			
Instruction Related Technology	3,267,448			
Board of Education	1,212,416			
General Administration	1,525,336			
School Administration	15,674,843			
Facility Services	31,604,053			11,384,189
Fiscal Services	2,386,653			
Food Services	18,578,045	5,901,163	11,783,067	
Central Services	5,103,314			
Pupil Transportation Services	17,894,762		11,109,982	
Operation of Plant	28,308,033			
Maintenance of Plant	11,875,929			
Administrative Technology Services	3,813,897			
Community Services	897,108			
Interest on Long-Term Debt	3,251,291			1,403,671
Loss on Disposal of Capital Assets	334,149			
Total Governmental Activities	398,777,831	7,122,221	22,893,049	12,787,860
Business-Type Activities:				
Panhandle Management Development Network	8,000			
Total Primary Government	\$ 398,785,831	\$ 7,122,221	\$ 22,893,049	\$ 12,787,860
Component Units				
Charter Schools	\$ 6,611,011	\$ 403,700	\$ 808,875	\$
Escambia County Public Schools Foundation for Excellence, Inc.	846,773			
Total Component Units	\$ 7,457,784	\$ 403,700	\$ 808,875	\$
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				
Insurance Loss Recoveries				
Miscellaneous				
Transfers				
Total General Revenues and Transfers				
Change in Net Assets				
Net Assets, July 1, 2007				
Adjustment to Restate Beginning Net Assets				
Net Assets, July 1, 2007, Restated				
Net Assets, June 30, 2008				

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

Net (Expense) Revenue and Changes in Net Assets

Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Units
\$ (209,478,018)	\$	\$ (209,478,018)	\$
(17,159,487)		(17,159,487)	
(5,591,263)		(5,591,263)	
(11,812,859)		(11,812,859)	
(7,787,869)		(7,787,869)	
(3,267,448)		(3,267,448)	
(1,212,416)		(1,212,416)	
(1,525,336)		(1,525,336)	
(15,674,843)		(15,674,843)	
(20,219,864)		(20,219,864)	
(2,386,653)		(2,386,653)	
(893,815)		(893,815)	
(5,103,314)		(5,103,314)	
(6,784,780)		(6,784,780)	
(28,308,033)		(28,308,033)	
(11,875,929)		(11,875,929)	
(3,813,897)		(3,813,897)	
(897,108)		(897,108)	
(1,847,620)		(1,847,620)	
(334,149)		(334,149)	
<u>(355,974,701)</u>		<u>(355,974,701)</u>	
	<u>(8,000)</u>	<u>(8,000)</u>	
<u>(355,974,701)</u>	<u>(8,000)</u>	<u>(355,982,701)</u>	
			(5,398,436)
			(846,773)
			<u>(6,245,209)</u>
85,413,366		85,413,366	
29,869,892		29,869,892	
20,655,828		20,655,828	
224,459,137		224,459,137	6,869,082
5,787,426		5,787,426	68,164
4,464,012		4,464,012	763,943
4,756,160		4,756,160	209,088
4,755	<u>(4,755)</u>		
<u>375,410,576</u>	<u>(4,755)</u>	<u>375,405,821</u>	<u>7,910,277</u>
<u>19,435,875</u>	<u>(12,755)</u>	<u>19,423,120</u>	<u>1,665,068</u>
<u>302,255,373</u>	<u>12,755</u>	<u>302,268,128</u>	<u>5,085,747</u>
			<u>(8,044)</u>
<u>302,255,373</u>	<u>12,755</u>	<u>302,268,128</u>	<u>5,077,703</u>
<u>\$ 321,691,248</u>	<u>\$</u>	<u>\$ 321,691,248</u>	<u>\$ 6,742,771</u>

DISTRICT SCHOOL BOARD OF ESCAMBIA COUNTY, FLORIDA
DISTRICT SCHOOL BOARD
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2008

	<u>General Fund</u>	<u>Capital Projects - Local Capital Improvement Fund</u>
ASSETS		
Cash	\$ 15,954,044	\$ 5,371,719
Investments	26,588,013	15,044,163
Accounts Receivable	526,548	
Interest Receivable	18,452	14,961
Deposits Receivable	5,300	
Due from Other Funds	4,583,025	
Due from Other Agencies	398,732	
Inventories	1,422,407	
	<u>49,496,521</u>	<u>20,430,843</u>
TOTAL ASSETS	<u>\$ 49,496,521</u>	<u>\$ 20,430,843</u>
 LIABILITIES AND FUND BALANCES		
Liabilities:		
Salaries and Benefits Payable	\$ 178,610	\$
Payroll Deductions and Withholdings	3,744,372	
Accounts Payable	1,788,211	288,823
Construction Contracts Payable		50,568
Construction Contracts Payable - Retainage	167,626	
Due to Other Funds	672,576	3,029,712
Due to Other Agencies	3,193,518	
Deposits Payable	17,435	
Interest Payable		
Loan Payable	2,571,706	
	<u>12,334,054</u>	<u>3,369,103</u>
Total Liabilities	<u>12,334,054</u>	<u>3,369,103</u>
Fund Balances:		
Reserved for State Categorical Programs	4,293,074	
Reserved for Encumbrances	2,352,701	5,084,757
Reserved for Inventories	1,422,407	
Reserved for Debt Service		
Reserved for Legal Restrictions	4,267,982	
Unreserved:		
Designated, Reported in General Fund:		
Designated for Local Carryover Projects	13,994,979	
Undesignated, Reported in:		
General Fund	10,831,324	
Special Revenue Funds		
Debt Service Funds		
Capital Projects Funds		11,976,983
	<u>37,162,467</u>	<u>17,061,740</u>
Total Fund Balances	<u>37,162,467</u>	<u>17,061,740</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 49,496,521</u>	<u>\$ 20,430,843</u>

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

Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
\$ 62,350,174	\$ 9,714,555	\$ 93,390,492
18,558,885	1,410,595	61,601,656
	80,727	607,275
16,443	9,724	59,580
		5,300
	12,665	4,595,690
7,967,734	9,543,569	17,910,035
	1,078,435	2,500,842
<u>\$ 88,893,236</u>	<u>\$ 21,850,270</u>	<u>\$ 180,670,870</u>
\$	\$ 22,613	\$ 201,223
		3,744,372
43,127	724,832	2,844,993
904,938	181,011	1,136,517
905,323	128,811	1,201,760
11,509	694,066	4,407,863
	219,046	3,412,564
		17,435
	1,323,265	1,323,265
		2,571,706
<u>1,864,897</u>	<u>3,293,644</u>	<u>20,861,698</u>
21,028,822	2,279,732	4,293,074
	1,078,435	30,746,012
	231,418	2,500,842
		231,418
		4,267,982
		13,994,979
		10,831,324
	3,889,807	3,889,807
	4,480,160	4,480,160
65,999,517	6,597,074	84,573,574
<u>87,028,339</u>	<u>18,556,626</u>	<u>159,809,172</u>
<u>\$ 88,893,236</u>	<u>\$ 21,850,270</u>	<u>\$ 180,670,870</u>

**DISTRICT SCHOOL BOARD OF ESCAMBIA COUNTY, FLORIDA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2008**

Total Fund Balances - Governmental Funds \$ 159,809,172

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. 252,129,370

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. 2,142,655

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. 16,530,303

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	\$ 2,024,988	
Bonds Payable	10,233,673	
Certificates of Participation	53,536,829	
Postemployment Health Care Benefits Payable	122,000	
Compensated Absences Payable	43,002,762	(108,920,252)

Total Net Assets - Governmental Activities \$ 321,691,248

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

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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, 2008

	General Fund	Capital Projects - Local Capital Improvement Fund
Revenues		
Intergovernmental:		
Federal Direct	\$ 2,072,933	\$
Federal Through State	2,053,874	
State	202,149,613	
Local:		
Taxes	85,413,366	29,869,892
Miscellaneous	7,624,047	533,126
	299,313,833	30,403,018
Expenditures		
Current - Education:		
Instruction	190,794,369	
Pupil Personnel Services	14,287,676	
Instructional Media Services	5,389,025	
Instruction and Curriculum Development Services	6,586,676	
Instructional Staff Training Services	3,953,874	
Instruction Related Technology	1,651,904	
Board of Education	1,206,764	
General Administration	675,487	
School Administration	15,387,931	
Facility Services	3,334,871	4,210,726
Fiscal Services	2,350,543	
Food Services	90,623	
Central Services	4,865,438	
Pupil Transportation Services	16,104,709	
Operation of Plant	28,255,764	
Maintenance of Plant	11,547,704	
Administrative Technology Services	3,109,120	
Community Services	526,562	
Fixed Capital Outlay:		
Facilities Acquisition and Construction	4,382,082	3,365,140
Other Capital Outlay	1,605,211	
Debt Service:		
Principal	933,529	
Interest and Fiscal Charges	151,911	
	317,191,773	7,575,866
Excess (Deficiency) of Revenues Over Expenditures	(17,877,940)	22,827,152
Other Financing Sources (Uses)		
Transfers In	10,448,151	
Bonds Issued		
Premium on Sale of Bonds		
Proceeds from Sale of Capital Assets		
Insurance Loss Recoveries	4,750,744	
Transfers Out		(14,206,773)
	15,198,895	(14,206,773)
Net Change in Fund Balances	(2,679,045)	8,620,379
Fund Balances, July 1, 2007	39,841,512	8,441,361
Fund Balances, June 30, 2008	\$ 37,162,467	\$ 17,061,740

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

<u>Capital Projects - Other Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$	\$ 292,410	\$ 2,365,343
	40,435,486	42,489,360
4,657,351	8,244,730	215,051,694
20,655,828		135,939,086
<u>2,741,490</u>	<u>6,211,313</u>	<u>17,109,976</u>
<u>28,054,669</u>	<u>55,183,939</u>	<u>412,955,459</u>
	13,483,837	204,278,206
	2,765,465	17,053,141
	72,634	5,461,659
	5,107,141	11,693,817
	3,775,151	7,729,025
	1,162,795	2,814,699
		1,206,764
	828,902	1,504,389
	2,280	15,390,211
11,570,807	4,603,089	23,719,493
		2,350,543
	18,172,121	18,262,744
	104,899	4,970,337
	392,107	16,496,816
	25,759	28,281,523
		11,547,704
	38,113	3,147,233
	369,468	896,030
13,021,629	616,309	21,385,160
	1,569,057	3,174,268
	3,501,331	4,434,860
	<u>3,056,921</u>	<u>3,208,832</u>
<u>24,592,436</u>	<u>59,647,379</u>	<u>409,007,454</u>
<u>3,462,233</u>	<u>(4,463,440)</u>	<u>3,948,005</u>
	5,000,000	15,448,151
	1,295,000	1,295,000
	46,756	46,756
2,199		2,199
		4,750,744
<u>(596,216)</u>	<u>(640,407)</u>	<u>(15,443,396)</u>
<u>(594,017)</u>	<u>5,701,349</u>	<u>6,099,454</u>
2,868,216	1,237,909	10,047,459
<u>84,160,123</u>	<u>17,318,717</u>	<u>149,761,713</u>
<u>\$ 87,028,339</u>	<u>\$ 18,556,626</u>	<u>\$ 159,809,172</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, 2008**

Net Change in Fund Balances - Governmental Funds \$ 10,047,459

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	\$ 13,552,329	
Capital Outlay - Other Capital Outlay - Capitalized	3,174,268	
Less, Depreciation Expense	<u>(9,647,487)</u>	7,079,110

The undepreciated 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 undepreciated cost of disposed assets.

(568,864)

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	(126,078)	
Amortized Premiums	<u>36,863</u>	(89,215)

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.

Bond Proceeds	(1,295,000)	
Bonds Payable	840,000	
Certificates of Participation	2,543,819	
Capital Leases Payable	<u>1,051,041</u>	3,139,860

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.

(1,155,356)

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

(122,000)

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

1,104,881

Change in Net Assets - Governmental Activities \$ 19,435,875

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, 2008

	General Fund			Variance with Final Budget - Positive (Negative)
	Original Budget Amounts	Final Budget Amounts	Actual Amounts	
Revenues				
Intergovernmental:				
Federal Direct	\$ 1,590,000	\$ 2,072,933	\$ 2,072,933	\$
Federal Through State	1,638,675	2,081,818	2,053,874	(27,944)
State	212,152,701	202,254,048	202,149,613	(104,435)
Local:				
Taxes	86,652,061	85,413,366	85,413,366	
Miscellaneous	5,495,500	7,645,779	7,624,047	(21,732)
Total Revenues	307,528,937	299,467,944	299,313,833	(154,111)
Expenditures				
Current - Education:				
Instruction	193,109,423	201,050,633	190,794,369	10,256,264
Pupil Personnel Services	14,033,788	14,893,206	14,287,676	605,530
Instructional Media Services	5,303,084	5,669,966	5,389,025	280,941
Instruction and Curriculum Development Services	6,618,932	6,841,720	6,586,676	255,044
Instructional Staff Training Services	4,066,802	4,750,500	3,953,874	796,626
Instruction Related Technology	1,573,039	1,691,741	1,651,904	39,837
Board of Education	1,262,232	1,298,845	1,206,764	92,081
General Administration	711,158	688,124	675,487	12,637
School Administration	14,875,888	15,572,096	15,387,931	184,165
Facility Services	1,835,069	3,464,514	3,334,871	129,643
Fiscal Services	2,326,141	2,520,872	2,350,543	170,329
Food Services	159,915	128,218	90,623	37,595
Central Services	5,587,254	5,747,433	4,865,438	881,995
Pupil Transportation Services	16,115,240	17,177,790	16,104,709	1,073,081
Operation of Plant	29,108,859	29,579,375	28,255,764	1,323,611
Maintenance of Plant	12,465,166	15,094,947	11,547,704	3,547,243
Administrative Technology Services	3,207,749	3,388,791	3,109,120	279,671
Community Services	662,779	711,084	526,562	184,522
Fixed Capital Outlay:				
Facilities Acquisition and Construction	5,022,471	5,356,412	4,382,082	974,330
Other Capital Outlay	1,592,381	2,717,433	1,605,211	1,112,222
Debt Service:				
Principal	938,265	938,119	933,529	4,590
Interest and Fiscal Charges	150,583	151,911	151,911	
Total Expenditures	320,726,218	339,433,730	317,191,773	22,241,957
Deficiency of Revenues Over Expenditures	(13,197,281)	(39,965,786)	(17,877,940)	22,087,846
Other Financing Sources				
Transfers In	7,298,500	10,448,151	10,448,151	
Insurance Loss Recoveries		4,750,744	4,750,744	
Total Other Financing Sources	7,298,500	15,198,895	15,198,895	
Net Change in Fund Balances	(5,898,781)	(24,766,891)	(2,679,045)	22,087,846
Fund Balances, July 1, 2007	39,841,512	39,841,512	39,841,512	
Fund Balances, June 30, 2008	\$ 33,942,731	\$ 15,074,621	\$ 37,162,467	\$ 22,087,846

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, 2008

	Business-Type Activities - Enterprise Fund	Governmental Activities - Internal Service Funds
	Panhandle Management Development Network	
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$	\$ 18,794,101
Investments		27,079,493
Accounts Receivable		233,607
Interest Receivable		6,248
Due From Other Funds		565,443
TOTAL ASSETS	\$ 0.00	\$ 46,678,892
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$	\$ 442,730
Due to Other Funds		728,709
Due to Other Agencies		85,313
Unearned Revenue		3,362,625
Estimated Insurance Claims Payable		7,467,682
Total Current Liabilities		12,087,059
Noncurrent Liabilities:		
Estimated Insurance Claims Payable		18,061,530
Total Liabilities		30,148,589
NET ASSETS		
Restricted for Employee Benefits		16,530,303
TOTAL LIABILITIES AND NET ASSETS	\$ 0.00	\$ 46,678,892

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, 2008

	<u>Business-Type Activities - Enterprise Fund Panhandle Management Development Network</u>	<u>Governmental Activities - Internal Service Funds</u>
OPERATING REVENUES		
Charges for Services	\$	\$ 1,130,585
Premium Revenues		45,357,697
Other Operating Revenues		847,079
Total Operating Revenues		47,335,361
OPERATING EXPENSES		
Salaries		1,249,769
Employee Benefits		546,722
Purchased Services	8,000	3,502,204
Energy Services		4,060
Materials and Supplies		7,307
Capital Outlay		335
Insurance Claims		40,730,594
Other Expenses		1,893,859
Total Operating Expenses	8,000	47,934,850
Operating Loss	(8,000)	(599,489)
NONOPERATING REVENUES		
Interest		1,290,428
Loss Recoveries		413,942
Total Nonoperating Revenues		1,704,370
Income (Loss) Before Transfers	(8,000)	1,104,881
Transfers Out	(4,755)	
Change in Net Assets	(12,755)	1,104,881
Total Net Assets, July 1, 2007	12,755	15,425,422
Total Net Assets, June 30, 2008	\$ 0.00	\$ 16,530,303

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, 2008

	<u>Business-Type Activities - Enterprise Fund Panhandle Management Development Network</u>	<u>Governmental Activities - Internal Service Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Board Funds and Participants	\$	\$ 49,755,725
Cash Payments to Suppliers for Goods and Services	(8,000)	(5,238,543)
Cash Payments to Employees for Services		(1,813,810)
Cash Payments for Insurance Claims		(40,649,325)
Net Cash Provided (Used) by Operating Activities	(8,000)	2,054,047
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Loss Recoveries		413,942
Transfer to Other Funds	(4,755)	
Net Cash Provided (Used) by Noncapital Financing Activities	(4,755)	413,942
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments		(34,057,686)
Sale of Investments	12,755	46,749,844
Interest Income		1,285,438
Net Cash Provided by Investing Activities	12,755	13,977,596
Net Increase in Cash and Cash Equivalents		16,445,585
Beginning Cash and Cash Equivalents		2,348,516
Ending Cash and Cash Equivalents	\$	\$ 18,794,101
 Reconciliation of Operating Loss to Net Cash Provided (Used) by Operating Activities:		
Operating Loss	\$ (8,000)	\$ (599,489)
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities:		
Changes in Assets and Liabilities:		
Decrease in Accounts Receivable		288,214
Decrease in Due From Other Funds		2,155,027
Increase in Due To Other Agencies		85,313
Decrease in Accrued Liabilities		(35,698)
Decrease in Accounts Payable		(484,528)
Decrease in Due To Other Funds		(13,184)
Decrease in Unearned Revenue		(22,877)
Increase in Estimated Insurance Claims Payable		681,269
Total Adjustments		2,653,536
Net Cash Provided (Used) by Operating Activities	\$ (8,000)	\$ 2,054,047

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, 2008

	<u>Agency Funds</u>
ASSETS	
Cash	\$ <u><u>2,939,234</u></u>
LIABILITIES	
Payroll Deductions and Withholdings	\$ 213,252
Due to Other Funds	24,561
Internal Accounts Payable	<u>2,701,421</u>
Total Liabilities	<u><u>\$ 2,939,234</u></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, 2008**

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.

**DISTRICT SCHOOL BOARD OF
ESCAMBIA COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2008**

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

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

Dr. Ruby J. Gainer School for Reaching Your Dream was established to provide dropout prevention/alternative programs of education, training, and related services for secondary students who are considered "at risk" of academic failure.

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, 2008, are conducted by independent certified public accountants and are filed in the District's administrative office at 215 West Garden Street, Pensacola, Florida.

➤ **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. The statements distinguish between governmental activities of the District and those that are considered business-type activities.

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 and for each segment of the business-type 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, except for the net residual amounts between governmental and business-type activities. The only interfund transactions, other than transfers between the governmental and business-type 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.

Fund Financial Statements - Fund financial statements report detailed information about the District in the governmental, proprietary, and fiduciary funds. The focus of governmental fund

**DISTRICT SCHOOL BOARD OF
ESCAMBIA COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2008**

financial statements is on major funds rather than reporting funds by type. Each major fund is reported in a separate column. Nonmajor funds are aggregated and reported in a single column. Because the focus of governmental fund financial statements differs from the focus of government-wide financial statements, a reconciliation is presented with each of the governmental fund financial statements.

The District reports the following major governmental funds:

- General Fund – to account for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.
- Capital Projects – Local Capital Improvement Fund – to account for the financial resources generated by the local capital improvement tax levy to be used for educational capital outlay needs, including new construction, renovation and remodeling projects, and debt service payments on capital leases.
- 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.
- Enterprise Fund – to account for the activities of the Panhandle Management Development Network for which the District is a fiscal agent.
- 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

**DISTRICT SCHOOL BOARD OF
ESCAMBIA COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2008**

determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made. Under the modified accrual basis of accounting, expenditures are generally recognized when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, and compensated absences, which are recognized when due. Allocations of cost, such as depreciation, are not recognized in governmental funds.

The Proprietary Funds are accounted for as proprietary activities under standards issued by the Financial Accounting Standards Board through November 1989 and applicable standards issued by the Governmental Accounting Standards Board. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds' principal ongoing operations. 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. Operating expenses include insurance claims and excess coverage premiums. The principal operating revenues of the District's enterprise fund are charges for membership and services to consortium participants. 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.

**DISTRICT SCHOOL BOARD OF
 ESCAMBIA COUNTY, FLORIDA
 NOTES TO FINANCIAL STATEMENTS (Continued)
 June 30, 2008**

➤ **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.

➤ **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.

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

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

**DISTRICT SCHOOL BOARD OF
ESCAMBIA COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2008**

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.

➤ **State Revenue Sources**

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

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

The State allocates gross receipts taxes, generally known as Public Education Capital Outlay money, to the District on an annual basis. The District 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 2007 tax levy on September 18, 2007. 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.

**DISTRICT SCHOOL BOARD OF
ESCAMBIA COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2008**

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.

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 ten 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.

2. BUDGETARY COMPLIANCE AND ACCOUNTABILITY

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

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

**DISTRICT SCHOOL BOARD OF
 ESCAMBIA COUNTY, FLORIDA
 NOTES TO FINANCIAL STATEMENTS (Continued)
 June 30, 2008**

3. INVESTMENTS

As of June 30, 2008, the District has the following investments and maturities:

Investment	Maturities	Fair Value
The Reserve Primary Fund - Liquidity Class I	51 Day Average	\$ 46,147,183
Morgan Stanley Institutional Liquidity Funds - Government Portfolio	40 Day Average	41,123,369
Columbia Treasury Reserves (1)	3 Day Average	1,179,177
State Board of Administration Debt Service Accounts	6 Months	<u>231,420</u>
Total Investments, Primary Government		<u>88,681,149</u>
Component Units:		
Certificates of Deposit		<u>1,313,935</u>
Total Investments, Reporting Entity		<u><u>\$ 89,995,084</u></u>

Note: (1) These investments are held under trust agreements in connection with the Certificates of Participation, Series 1996, 2002, 2004, 2005, and 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.

Credit Risk

- The District's investment policy limits authorized investments to the types of investments described above.
- The District's investments in the Local Government Surplus Funds Trust Fund are rated AAAM by Standard & Poor's.
- The District's investments in The Reserve Primary Fund – Liquidity Class I are rated AAAM by Standard & Poor's. In September 2008, the District withdrew all moneys invested in this money market account.
- The District's investments in the Morgan Stanley Institutional Liquidity Funds – Government Portfolio are rated AAAM by Standard & Poor's and Aaa by Moody's Investors Service. In September 2008, the District withdrew all moneys invested in this money market account.
- The District's investments in the Columbia Treasury Reserves are rated AAAM by Standard & Poor's and Aaa by Moody's Investors Service.

**DISTRICT SCHOOL BOARD OF
ESCAMBIA COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2008**

- The District's investments in the State Board of Administration Debt Service accounts are to provide for debt service payments on bond debt issued by the State Board of Education for the benefit of the District. The District relies on policies developed by the State Board of Administration for managing credit risk for this account.

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.

**DISTRICT SCHOOL BOARD OF
 ESCAMBIA COUNTY, FLORIDA
 NOTES TO FINANCIAL STATEMENTS (Continued)
 June 30, 2008**

5. CHANGES IN CAPITAL ASSETS

Changes in capital assets are presented in the table below.

	Balance 7-1-07	Additions	Deletions	Balance 6-30-08
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	\$ 6,496,963	\$ 78,568	\$	\$ 6,575,531
Construction in Progress	17,755,877	14,470,488	22,135,275	10,091,090
Total Capital Assets Not Being Depreciated	24,252,840	14,549,056	22,135,275	16,666,621
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	6,919,939	1,285,545		8,205,484
Buildings and Fixed Equipment	291,093,523	20,781,161	26,179	311,848,505
Furniture, Fixtures, and Equipment	14,277,670	1,521,611	794,876	15,004,405
Motor Vehicles	30,643,081	209,672	1,609,968	29,242,785
Property Under Capital Leases	11,313,019			11,313,019
Audio Visual Materials and Computer Software	7,698,437	514,827		8,213,264
Total Capital Assets Being Depreciated	361,945,669	24,312,816	2,431,023	383,827,462
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	2,783,124	508,234		3,291,358
Buildings and Fixed Equipment	104,698,837	5,958,950	14,040	110,643,747
Furniture, Fixtures, and Equipment	8,684,969	964,806	554,637	9,095,138
Motor Vehicles	9,999,202	1,533,787	1,293,482	10,239,507
Property Under Capital Leases	10,195,986	178,955		10,374,941
Audio Visual Materials and Computer Software	4,217,267	502,755		4,720,022
Total Accumulated Depreciation	140,579,385	9,647,487	1,862,159	148,364,713
Total Capital Assets Being Depreciated, Net	221,366,284	14,665,329	568,864	235,462,749
Governmental Activities Capital Assets, Net	\$ 245,619,124	\$ 29,214,385	\$ 22,704,139	\$ 252,129,370

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

**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	\$ 6,039,885
Pupil Personnel Services	40,118
Instructional Media Services	124,858
Instruction and Curriculum Development Services	44,332
Instructional Staff Training Services	19,347
Instruction Related Technology	452,269
Board of Education	1,138
General Administration	12,145
School Administration	122,007
Facility Services	49,283
Fiscal Services	1,808
Food Services	305,583
Central Services	118,830
Pupil Transportation Services	1,373,766
Operation of Plant	1,145
Maintenance of Plant	311,755
Administrative Technology Services	<u>629,218</u>
 Total Depreciation Expense - Governmental Activities	 <u><u>\$ 9,647,487</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. 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.

7. OBLIGATIONS UNDER CAPITAL LEASES

The classes and amounts of property being acquired under capital leases are as follows:

	<u>Asset Balance</u>
Energy Performance	\$ 9,338,662
E-Rate Fiber Optics	1,419,930
Software	<u>554,427</u>
 Total	 <u><u>\$ 11,313,019</u></u>

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

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 1,077,363	\$ 986,670	\$ 90,693
2010	696,342	658,948	37,394
2011	315,349	301,258	14,091
2012	<u>79,140</u>	<u>78,112</u>	<u>1,028</u>
Total Minimum Lease Payments	<u>\$2,168,194</u>	<u>\$2,024,988</u>	<u>\$ 143,206</u>

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, 2008:

<u>Issue</u>	<u>Original</u>		<u>Principal</u>		<u>Refunded By Series</u>	<u>Balance 6/30/2008</u>
	<u>Amount</u>	<u>Paid</u>	<u>Refunded</u>			
Series 1992	\$ 55,830,000	\$ 15,030,000	\$ 40,800,000		1996-1, 2002	\$
Series 1996-1	26,740,000	4,110,000	19,145,000		2005, 2006	3,485,000
Series 1996-2	21,645,000		21,645,000		2004	
Series 2002	16,745,000	9,300,000				7,445,000
Series 2004	22,725,000	460,000				22,265,000
Series 2005	10,000,000	93,282				9,906,718
Series 2006	10,000,000	181,670				9,818,330

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.

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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

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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:

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 4,948,370	\$ 2,645,210	\$ 2,303,160
2010	4,944,815	2,761,000	2,183,815
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
2014-2018	25,858,706	19,194,241	6,664,465
2019-2022	<u>21,008,625</u>	<u>19,055,000</u>	<u>1,953,625</u>
Total Minimum Lease Payments	71,783,271	52,920,048	18,863,223
Plus: Unamortized Premium	<u>616,781</u>	<u>616,781</u>	
Total Certificates of Participation	<u>\$ 72,400,052</u>	<u>\$ 53,536,829</u>	<u>\$ 18,863,223</u>

9. INTEREST RATE SWAP AGREEMENTS

The District is a party to two interest rate swap agreements that are not recorded in the financial statements. The following paragraphs disclose key aspects of these agreements.

Objectives of the Interest Rate Swap Agreements – 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

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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 agreement, 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.

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 \$281,990 as of June 30, 2008, and the swap agreement related to the Series 2006 Certificates of Participation has a negative fair value of \$451,919 as of June 30, 2008. 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

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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, 2008, 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, variable rate bond interest payments and net swap payments will vary.

Fiscal Year Ending June 30	Series 2005 Principal	Interest (1)	Swaps, Net (2)	Total
2009	\$ 48,319	\$ 163,561	\$ 228,838	\$ 440,718
2010	51,245	162,763	226,655	440,663
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
2014-2018	9,642,214	586,830	817,782	11,046,826
Total	\$ 9,906,718	\$ 1,396,234	\$ 1,947,036	\$ 13,249,988

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
2009	\$ 41,891	\$ 162,101	\$ 247,758	\$ 451,750
2010	44,755	161,410	245,586	451,751
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
2014-2015	6,637,025	163,464	248,711	7,049,200
Total	\$ 9,818,329	\$ 966,647	\$ 1,472,978	\$ 12,257,954

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.

Credit Risk – Credit risk is the risk that the counterparty will not fulfill its obligations. As of June 30, 2008, 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 AA.

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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, 2008, 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	\$ 4,780,000	3.500-5.375	2015
Series 2003-A	750,000	670,000	3.00-4.25	2023
Series 2004-A	250,000	230,000	3.250-4.625	2024
Series 2005-A	115,000	110,000	4.0-5.0	2025
Series 2005-A (Refunding)	2,935,000	2,600,000	4.0-5.0	2017
Series 2005-B (Refunding)	325,000	325,000	5.0	2018
Series 2008-A	<u>1,295,000</u>	<u>1,295,000</u>	3.25-5.00	2028
Subtotal	12,085,000	10,010,000		
Unamortized Premiums (Discounts), Net	<u>345,840</u>	<u>223,673</u>		
Total Bonds Payable	<u>\$ 12,430,840</u>	<u>\$ 10,233,673</u>		

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

➤ **State School Bonds**

These bonds are issued by the State Board of Education on behalf of the District. The bonds mature serially, and are secured by a pledge of the District's portion of the State-assessed motor vehicle license tax. The State's full faith and credit is also pledged as security for these bonds. Principal and interest payments, investment of Debt Service Fund resources, and compliance with reserve 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, 2008, are as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2009	\$ 1,402,310	\$ 910,000	\$ 492,310
2010	1,406,554	960,000	446,554
2011	1,422,410	1,025,000	397,410
2012	1,439,931	1,095,000	344,931
2013	1,453,331	1,155,000	298,331
2014-2018	4,144,505	3,460,000	684,505
2019-2023	1,073,334	825,000	248,334
2024-2028	<u>650,731</u>	<u>580,000</u>	<u>70,731</u>
Subtotal	12,993,106	10,010,000	2,983,106
Unamortized Premiums (Discounts), Net	<u>223,673</u>	<u>223,673</u>	
Total Bonds Payable	<u>\$13,216,779</u>	<u>\$10,233,673</u>	<u>\$2,983,106</u>

11. CHANGES IN LONG-TERM LIABILITIES

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

Description	Balance 7-1-07	Additions	Deductions	Balance 6-30-08	Due in One Year
GOVERNMENTAL ACTIVITIES					
Bonds Payable	\$ 9,555,000	\$ 1,295,000	\$ 840,000	\$ 10,010,000	\$ 910,000
Unamortized Premiums (Discounts), Net	<u>209,305</u>	<u>46,756</u>	<u>32,388</u>	<u>223,673</u>	
Total Bonds Payable	<u>9,764,305</u>	<u>1,341,756</u>	<u>872,388</u>	<u>10,233,673</u>	<u>910,000</u>
Certificates of Participation Payable	55,463,867		2,543,819	52,920,048	2,645,210
Unamortized Premium	<u>668,012</u>		<u>51,231</u>	<u>616,781</u>	
Total Certificates of Participation Payable	<u>56,131,879</u>		<u>2,595,050</u>	<u>53,536,829</u>	<u>2,645,210</u>
Obligations Under Capital Leases	3,076,029		1,051,041	2,024,988	986,670
Estimated Insurance Claims Payable	25,447,943	40,730,594	40,649,325	25,529,212	7,467,682
Compensated Absences Payable	41,847,406	5,248,064	4,092,708	43,002,762	4,156,514
Postemployment Health Care Benefits Payable		<u>122,000</u>		<u>122,000</u>	
Total Governmental Activities	<u>\$ 136,267,562</u>	<u>\$ 47,442,414</u>	<u>\$ 49,260,512</u>	<u>\$ 134,449,464</u>	<u>\$ 16,166,076</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	\$ 4,583,025	\$ 672,576
Capital Projects:		
Local Capital Improvement		3,029,712
Other		11,509
Nonmajor Governmental	12,665	694,066
Internal Service	565,443	728,709
Agency		24,561
Total	<u>\$ 5,161,133</u>	<u>\$ 5,161,133</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	\$ 10,448,151	\$
Capital Projects:		
Local Capital Improvement		14,206,773
Other		596,216
Enterprise:		
Panhandle Management		
Development Network Consortium		4,755
Nonmajor Governmental	<u>5,000,000</u>	<u>640,407</u>
Total	<u>\$ 15,448,151</u>	<u>\$ 15,448,151</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.

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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 2008-09 fiscal year budget as a result of purchase orders outstanding at June 30, 2008.

14. ADJUSTMENT TO NET ASSETS – COMPONENT UNITS

The decrease of \$8,044 in beginning net assets on the statement of activities related to the Escambia Charter School, Inc., and was made to correct a prior year error relating to the capitalization of a software maintenance contract that should have been expensed.

15. SCHEDULE OF STATE REVENUE SOURCES

The following is a schedule of the District’s State revenue for the 2007-08 fiscal year:

<u>Source</u>	<u>Amount</u>
Florida Education Finance Program	\$ 119,465,949
Categorical Educational Programs:	
Class Size Reduction/Operating Funds	38,609,221
Transportation	11,109,982
Supplemental Academic Instruction	11,060,523
Instructional Materials	4,142,385
Class Size Reduction/Capital Funds	4,061,135
Excellent Teaching	1,720,829
Comprehensive K-12 Reading Plan	1,665,913
School Recognition Funds	1,661,782
Safe Schools	1,239,234
Voluntary Prekindergarten Program	1,022,492
Florida Teacher Lead Program	756,789
Gross Receipts Tax (Public Education Capital Outlay)	6,231,986
Workforce Development Program	5,272,821
Discretionary Lottery Funds	1,880,022
Motor Vehicle License Tax (Capital Outlay and Debt Service)	1,653,929
Wee Read School Readiness	698,767
Charter School Capital Outlay	596,216
Food Service Supplement	367,566
Adults with Disabilities	270,706
Learning for Life	182,390
Performance Based Incentives	154,358
Succeed Florida Grant	141,471
Law Enforcement - General	92,600
Mobile Home License Tax	72,061
Miscellaneous	920,567
	<hr/>
Total	<u>\$ 215,051,694</u>

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

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16. PROPERTY TAXES

The following is a summary of millages and taxes levied on the 2007 tax roll for the 2007-08 fiscal year:

	<u>Millages</u>	<u>Taxes Levied</u>
<u>GENERAL FUND</u>		
Nonvoted School Tax:		
Required Local Effort	4.960	\$ 79,108,189
Basic Discretionary Local Effort	0.510	8,134,108
Supplemental Discretionary Local Effort	0.250	3,987,308
<u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	2.000	31,898,463
Total	7.720	\$ 123,128,068

17. 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

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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.

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 580 District participants during the 2007-08 fiscal year. Required contributions made to PEORP totaled \$1,849,473.

FRS Retirement Contribution Rates

The Florida Legislature establishes, and may amend, contribution rates for each membership class of FRS. During the 2007-08 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, 2006, June 30, 2007, and June 30, 2008, totaled \$14,919,364, \$19,489,904, and \$18,653,539, respectively, which were equal to the required contributions for each fiscal year.

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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.

18. 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 \$389,094 during the 2007-08 fiscal year for retirement incentive pay.

19. POSTEMPLOYMENT HEALTH CARE BENEFITS

Effective for the 2007-08 fiscal year, the District implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for certain postemployment health care benefits provided by the District. The requirements of this Statement are being implemented prospectively, with the actuarially determined liability of \$32,599,000 at the October 1, 2007, date of transition amortized over 30 years. Accordingly, for financial reporting purposes, no liability is reported for the postemployment health care benefits liability at the date of transition.

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

**DISTRICT SCHOOL BOARD OF
 ESCAMBIA COUNTY, FLORIDA
 NOTES TO FINANCIAL STATEMENTS (Continued)
 June 30, 2008**

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 2007-08 fiscal year, 1,214 retirees received postemployment health care benefits. The District provided required contributions of \$2,490,000 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 \$5,894,000.

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:

<u>Description</u>	<u>Amount</u>
Normal Cost (service cost for one year)	\$ 1,244,000
Amortization of Unfunded Actuarial Accrued Liability	1,244,000
Interest on Normal Cost and Amortization	<u>124,000</u>
Annual Required Contribution	2,612,000
Interest on Net OPEB Obligation	
Adjustment to Annual Required Contribution	<u> </u>
Annual OPEB Cost (Expense)	2,612,000
Contribution Toward the OPEB Cost	<u>(2,490,000)</u>
Increase in Net OPEB Obligation	122,000
Net OPEB Obligation, Beginning of Year	<u> </u>
Net OPEB Obligation, End of Year	<u><u>\$ 122,000</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

**DISTRICT SCHOOL BOARD OF
 ESCAMBIA COUNTY, FLORIDA
 NOTES TO FINANCIAL STATEMENTS (Continued)
 June 30, 2008**

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

Funded Status and Funding Progress. As of October 1, 2007, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$32,599,000 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$32,599,000. The covered payroll (annual payroll of active participating employees) was \$205,595,499 for the 2007-08 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 15.9 percent.

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 initial OPEB actuarial valuation was completed for the period October 1, 2007, through September 30, 2008, which was the plan year for the District's Employee Benefit Program.

The District's initial OPEB actuarial valuation as of October 1, 2007, used the unit credit method to estimate the unfunded actuarial liability, and the unit credit method to estimate the District's 2007-08 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 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 4 percent per year, and an annual healthcare cost trend rate of 11 percent initially for the 2007-08 fiscal year, reduced by 0.5 percent per year, to an ultimate rate of 6 percent. The unfunded

**DISTRICT SCHOOL BOARD OF
ESCAMBIA COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2008**

actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization is 29 years.

20. CONSTRUCTION CONTRACT COMMITMENTS

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

**DISTRICT SCHOOL BOARD OF
 ESCAMBIA COUNTY, FLORIDA
 NOTES TO FINANCIAL STATEMENTS (Continued)
 June 30, 2008**

Project	Contract Amount	Completed to Date	Balance Committed
Longleaf Elementary School Modular Classrooms:			
Architect/Engineer	\$ 11,500	\$ 5,750	\$ 5,750
Contractor	352,004		352,004
McArthur Elementary School Modular Classrooms:			
Architect/Engineer	11,500	5,750	5,750
Contractors	353,643		353,643
Cordova Park Elementary School Classrooms Addition:			
Architect/Engineer	188,658	128,581	60,077
Contractor	1,961,000	103,230	1,857,770
Warrington Elementary School Additions/Renovations:			
Architect/Engineer	115,664	86,947	28,717
Contractor	1,253,000		1,253,000
Pensacola High School Athletic Facilities:			
Architect/Engineer	252,961	205,471	47,490
Contractor	2,198,000	399,054	1,798,946
Lipscomb Elementary School Access Road:			
Architect/Engineer	105,290	91,944	13,346
Contractor	694,938	188,278	506,660
Brown-Barge Middle School Media Center Addition:			
Architect/Engineer	91,846	68,451	23,395
Contractors	636,692	125,325	511,367
Washington High School Auditorium:			
Architect/Engineer	524,609	374,257	150,352
Contractor	4,077,257		4,077,257
Bellview Elementary School Media Center Addition/Art Renovations:			
Architect/Engineer	116,041	80,182	35,859
Contractor	1,440,800		1,440,800
Escambia Westgate Classrooms and Media Center:			
Architect/Engineer	191,007	165,340	25,667
Contractors	2,345,517	1,710,647	634,870
Ferry Pass Middle School HVAC Renovations:			
Architect/Engineer	91,238	61,427	29,811
Contractor	724,287	365,410	358,877
Montclair Elementary School HVAC Renovations:			
Architect/Engineer	81,427	55,701	25,726
Contractor	790,250	188,276	601,974
Transportation Fueling Facility:			
Architect/Engineer	77,000	60,540	16,460
Contractor	920,000		920,000
Navy Point Elementary School HVAC and General Renovations:			
Architect/Engineer	215,064	162,767	52,297
Contractors	1,852,284	209,731	1,642,553
Bellview Middle School HVAC Renovations:			
Contractors	533,537	83,404	450,133
Brown Barge Middle School HVAC Renovations:			
Architect/Engineer	74,362	49,697	24,665
Contractors	911,595	677,985	233,610
Bellview Middle School General Renovations:			
Architect/Engineer	159,868	119,297	40,571
Contractors	862,765	187,004	675,761
Hellen Caro Elementary School General Renovations:			
Architect/Engineer	24,970	24,870	100
Contractors	262,983		262,983
Warrington Middle School Cafeteria Expansion/Renovations:			
Architect/Engineer	10,375		10,375
Contractors	1,525,451	1,066,718	458,733
Total	\$ 26,039,383	\$ 7,052,034	\$ 18,987,349

**DISTRICT SCHOOL BOARD OF
ESCAMBIA COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2008**

21. CONSORTIUM

During the 2007-08 fiscal year, the District was a member and fiscal agent for the Panhandle Management Development Network (Consortium) which performed, contracted for, and purchased certain services to be used by member school districts. The Consortium activities were accounted for as an Enterprise Fund in the financial statements of the District. During the 2007-08 fiscal year, the Consortium was dissolved and all existing assets of the Consortium were transferred to the District.

22. 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.

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 \$25,529,212 (\$21,174,540 for workers' compensation, automobile, and general liability claims, and \$4,354,672 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, 2008.

**DISTRICT SCHOOL BOARD OF
 ESCAMBIA COUNTY, FLORIDA
 NOTES TO FINANCIAL STATEMENTS (Continued)
 June 30, 2008**

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
2006-07	\$21,664,322	\$41,357,608	\$(37,573,987)	\$25,447,943
2007-08	25,447,943	40,730,594	(40,649,325)	25,529,212

23. INTERNAL SERVICE FUNDS

The following is a summary of financial information as reported in the Internal Service Funds for the 2007-08 fiscal year:

	Total	Risk Management	Employee Benefit Trust	Warehouse
Total Assets	\$ 46,678,892	\$ 21,720,900	\$ 24,957,992	\$
Liabilities and Net Assets:				
Accounts Payable	\$ 442,730	\$	\$ 442,730	\$
Due to Other Funds	728,709	461,047	267,662	
Due to Other Agencies	85,313	85,313		
Estimated Insurance Claims Payable	25,529,212	21,174,540	4,354,672	
Unearned Revenue	3,362,625		3,362,625	
Restricted Net Assets	16,530,303		16,530,303	
Total Liabilities and Net Assets	\$ 46,678,892	\$ 21,720,900	\$ 24,957,992	\$
Revenues:				
Operating:				
Premium Revenues	\$ 45,357,697	\$ 5,545,445	\$ 39,812,252	\$
Charges for Services	1,130,585			1,130,585
Other Operating Revenues	847,079		847,079	
Nonoperating:				
Interest Income	1,290,428	555,162	735,266	
Loss Recoveries	413,942	413,942		
Total Revenues	49,039,731	6,514,549	41,394,597	1,130,585
Total Expenses	(47,934,850)	(6,514,549)	(40,289,716)	(1,130,585)
Change in Net Assets	\$ 1,104,881	\$	\$ 1,104,881	\$

**DISTRICT SCHOOL BOARD OF
ESCAMBIA COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2008**

24. 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 their portion (estimated at \$7,624,603 at June 30, 2008) of the gross taxes uncollected from leaseholders, or the District may be required to return their portion of the gross taxes collected from the leaseholders. At June 30, 2008, the District has received \$2,915,467 in taxes collected from leaseholders.

25. 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.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**ESCAMBIA COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2008**

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 Agriculture and Consumer Services: National School Lunch Program	10.555(2)	None	\$ 799,575
Florida Department of Education: School Breakfast Program	10.553	321	2,500,788
National School Lunch Program	10.555	300	8,038,784
Summer Food Service Program for Children	10.559	323	71,684
Total Child Nutrition Cluster			11,410,831
Total United States Department of Agriculture			11,410,831
United States Department of Labor:			
Indirect:			
Workforce Escarosa, Inc.: WIA Youth Activities	17.259	None	273,505
Florida's Great Northwest, Inc.: WIA Pilots, Demonstrations, and Research Projects	17.261	None	104,877
Total United States Department of Labor			378,382
United States Department of Education:			
Direct:			
Student Financial Assistance Cluster:			
Federal Supplemental Educational Opportunity Grants	84.007	N/A	18,762
Federal Work-Study Program	84.033	N/A	2,250
Federal Pell Grant Program	84.063	N/A	270,753
Total Student Financial Assistance Cluster			291,765
Impact Aid	84.041(3)	N/A	1,183,926
Total Direct			1,475,691
Indirect:			
Special Education Cluster:			
Florida Department of Education: Special Education - Grants to States	84.027	262, 263	9,756,138
Special Education - Preschool Grants	84.173	266, 267	413,890
University of Florida: Special Education - Grants to States	84.027	None	396
Total Special Education Cluster			10,170,424
Washington County District School Board: Migrant Education - State Grant Program	84.011	None	120,410
Florida Department of Education:			
Adult Education - Basic Grants to States	84.002	191	171,375
Title I Grants to Local Educational Agencies	84.010	212, 222, 223, 226, 228	11,980,636
Career and Technical Education - Basic Grants to States	84.048	151	736,711
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	223,110
Education for Homeless Children and Youth	84.196	127	85,000
Twenty-First Century Community Learning Centers	84.287	244	265,863
State Grants for Innovative Programs	84.298	113	76,036
Education Technology State Grants	84.318	121, 122	117,049
Reading First State Grants	84.357	211	1,230,567
Voluntary Public School Choice	84.361	299	29,829
English Language Acquisition Grants	84.365	102	58,761
Mathematics and Science Partnerships	84.366	235	904,378
Improving Teacher Quality State Grants	84.367	224, 225	2,688,375
Hurricane Education Recovery	84.938	104	11,250
Total Indirect			28,869,774
Total United States Department of Education			30,345,465

**ESCAMBIA COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
For the Fiscal Year Ended June 30, 2008**

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)
Corporation for National and Community Service:			
Indirect:			
Florida Department of Education:			
Learn and Serve America - School and Community Based Programs	94.004	234	<u>\$ 1,182</u>
United States Department of Homeland Security:			
Indirect:			
Florida Department of Community Affairs:			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	05-PA-G-01-27-01-540, 06-DN-G-01-27-03-542	<u>75,225</u>
United States Department of Defense:			
Direct:			
Army Junior Reserve Officers Training Corps	None	N/A	68,420
Air Force Junior Reserve Officers Training Corps	None	N/A	58,506
Navy Junior Reserve Officers Training Corps	None	N/A	<u>321,938</u>
Total United States Department of Defense			<u>448,864</u>
Total Expenditures of Federal Awards			<u>\$ 42,659,949</u>

- Notes:
- (1) Basis of Presentation. The Schedule of Expenditures of Federal Awards represents amounts expended from Federal programs during the 2007-08 fiscal year as determined based on the modified accrual basis of accounting. The amounts reported on the Schedule have been reconciled to and are in material agreement with amounts recorded in the District's accounting records from which the basic financial statements have been reported.
 - (2) Noncash Assistance - National School Lunch Program. Represents the amount of donated food received during the 2007-08 fiscal year. Commodities are valued at fair value as determined at the time of donation.
 - (3) Impact Aid. Expenditures include \$945,267 for grant number/program year S041B-2008-1245, \$91,097 for grant number/program year S041B2007-1245, and \$147,562 for grant number/program year S041B-2005-1245.



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

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Escambia County District School Board as of and for the fiscal year ended June 30, 2008, which collectively comprise the District's basic financial statements, and have issued our report thereon included under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the basic financial statements was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the aggregate discretely presented component units, as described in our report on the Escambia County District School Board's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of The Escambia County Public Schools Foundation for Excellence, Inc., were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions 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 *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial

statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider Finding No. 1, of our operational audit report No. 2009-029, to be a significant deficiency in internal control over financial reporting. In the operational finding, we noted that District's management of information technology access privileges needed improvement.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described in Finding No. 1 of our operational audit report No. 2009-029 is not a material weakness.

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, rules, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain operational matters that we reported to District management in our audit report No. 2009-029.

Pursuant to Section 11.45(4), Florida Statutes, this report is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this report is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, Federal and other granting agencies, and applicable management and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



David W. Martin, CPA

November 24, 2008



David W. Martin, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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

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

Compliance

We have audited the Escambia County District School Board's compliance with the types of compliance requirements described in the United States Office of Management and Budget's (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the fiscal year ended June 30, 2008. The District's major Federal programs are identified in the **SUMMARY OF AUDITOR'S RESULTS** section of the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of the District's major Federal programs is the responsibility of District management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

District management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing

our audit, we considered the District's internal control over compliance with 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, 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 *control deficiency* in the District's internal control over compliance 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 noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the District's internal control.

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 that might be 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.

Pursuant to Section 11.45(4), Florida Statutes, this report is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this report is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, Federal and other granting agencies, and applicable management and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



David W. Martin, CPA

November 24, 2008

**ESCAMBIA COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued:	Unqualified
Internal control over financial reporting:	
Material weakness identified?	No
Significant deficiency identified that is not considered to be a material weakness?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness identified?	No
Significant deficiency identified that is not considered to be a material weakness?	None reported
Type of report the auditor issued on compliance for major programs:	Unqualified for all major programs
Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB <i>Circular A-133</i> ?	No
Identification of major programs:	Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559) and Special Education Cluster (CFDA Nos. 84.027 and 84.173)
Dollar threshold used to distinguish between Type A and Type B programs:	\$1,279,798
Auditee qualified as low-risk auditee?	No

**ESCAMBIA COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no audit findings on Federal programs required to be reported under OMB *Circular A-133*, Section __.510.

PRIOR AUDIT FOLLOW-UP

The District had taken corrective actions for findings included in previous audit reports.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

*ESCAMBIA COUNTY
 DISTRICT SCHOOL BOARD
 SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - FEDERAL AWARDS
 For the Fiscal Year Ended June 30, 2008*

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
Cherry, Bekaert & Holland, LLP		There were no prior Federal audit findings.		