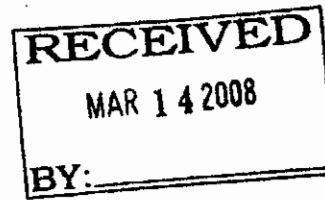
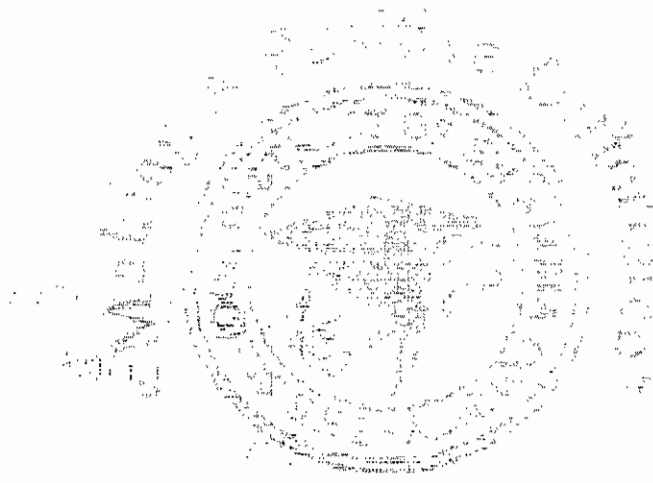


**DISTRICT SCHOOL BOARD OF
ESCAMBIA COUNTY, FLORIDA**

**Financial Statements
for the year ended
June 30, 2007**





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DISTRICT SCHOOL BOARD OF ESCAMBIA COUNTY, FLORIDA

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DISTRICT SCHOOL BOARD OF ESCAMBIA COUNTY, FLORIDA

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Report of Independent Auditors

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the District School Board of Escambia County, Florida (the "District"), as of and for the year ended June 30, 2007, 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 these component units, is based solely on the reports of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the District School Board of Escambia County, Florida, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 5, 2008 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or 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 and budgetary comparison information on pages 4 through 15, 53 and 54 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Cherry, Bekaert & Holland, L.L.P.

Orlando, Florida
February 5, 2008

Management's Discussion and Analysis

As management of the District School Board of Escambia County, Florida, (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with our financial statements. All amounts, unless otherwise indicated, are expressed in millions of dollars.

Financial Highlights

Key financial highlights for fiscal year 2006-07 are as follows:

- The assets of the District exceeded its liabilities at June 30, 2007 by \$302.3 (net assets).
- The District's total net assets increased by \$36.5. A significant portion of the increase is attributable to Capital Outlay Class Size Reduction funds, property tax 2 mil dollars generated for capital improvements and sales tax which have not been spent this fiscal year and an increase in assets attributable to relocatables purchased to meet class size and building construction provided by insurance recoveries.
- At June 30, 2007, the District's governmental funds reported combined fund balances of \$149.7, an increase of \$21.5 in comparison with the prior year.
- At June 30, 2007 the unreserved fund balance for the General Fund was \$20.5 or 6.4 percent of total General Fund expenditures.
- The District's total bonded debt (Bonds Payable and Certificates of Participation) decreased by \$3.5 or 5.1 percent during the current fiscal year. The key factor in this decrease was the payment of principal.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements.

Government-Wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities provides information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in the future fiscal periods (e.g., uncollected taxes and earned but unused vacation and sick leave).

Both of the government-wide financial statements distinguish activities of the District that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the District include such functions as instruction, pupil personnel services, administration, pupil transportation, maintenance, and other items. The business-type activity of the District includes the Panhandle Management Development Network.

The government-wide financial statements include not only the District (known as the primary government), but also six charter schools and The Escambia County Public Schools Foundation for Excellence, Inc., for which the District is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government. The District is a member of and acts as fiscal agent 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. Therefore, its financial activities are reported in the District's financial statements.

Fund 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, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be put into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on near-term inflows and outflows of spendable resources, as well as, on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains 10 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund and each major fund. One special revenue fund and two capital projects fund are considered to be major funds. Data from the other 7 governmental funds are combined into a single, aggregated presentation.

The District adopts an annual budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

Proprietary Funds. The District maintains two different types of proprietary funds. The enterprise fund is used to report the same functions as business-type activities in the government-wide financial statements. The District uses the enterprise fund to account for the activities of the Panhandle Management Development Network. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District uses internal service funds to account for risk management, employee benefits, and warehouse activities. Since these services predominantly benefit governmental rather than business-type functions, they have been included within the governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Panhandle Management Network. The Panhandle Management Network is the only enterprise fund and is considered to be a nonmajor fund of the District. Conversely, the three internal service funds are combined in a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the notes to the financial statements.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The District only has agency funds that are classified as fiduciary funds. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs.

Notes to the Basic Financial Statements. The notes provide additional information that is essential to fully understand the data provided in the government-wide and fund financial statements.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceed liabilities by \$302.3, at June 30, 2007.

By far, the largest portion of the District's net assets, \$178.9 (59.2 percent) 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 used to acquire those assets that is still outstanding. The District uses these capital assets to house and educate the students of Escambia County, Florida; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The following is a summary of the District's net assets as of June 30, 2007 compared to net assets as of June 30, 2006:

District School Board of Escambia County, Florida's Net Assets
As of June 30, 2007 and June 30, 2006
(amounts express in thousands)

	Governmental activities		Business-type activities		Total	
	2007	2006	2007	2006	2007	2006
Current assets	\$ 218,652	\$ 183,241	\$ 13	\$ 10	\$ 218,665	\$ 183,251
Capital assets	245,619	236,445			245,619	236,445
Total assets	464,271	419,686	13	10	464,284	419,696
Long-term liabilities	136,267	131,451			136,267	131,451
Other liabilities	25,748	22,471			25,748	22,471
Total liabilities	162,015	153,922	-	-	162,015	153,922
Net assets:						
Invested in capital assets, net of related debt	178,915	165,457			178,915	165,457
Restricted	128,677	104,744	13	10	128,690	104,754
Unrestricted	(5,337)	(4,437)			(5,337)	(4,437)
Total net assets	\$ 302,255	\$ 265,764	\$ 13	\$ 10	\$ 302,268	\$ 265,774

An additional portion of the District's net assets, \$128.6 (42.6 percent), 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 \$41.8 will be paid over future years when vested employees are paid for their leave upon separation from the District.

There was an increase of \$23.9 in restricted net assets reported in connection with the District's governmental activities. This increase was the result of construction funds received by the District for future use in the construction program and state categorical funds which carry over.

The key elements of the changes in the District's net assets for the fiscal years ended June 30, 2007, and June 30, 2006, are as follows:

District School Board of Escambia County, Florida's Operating Results and Changes in Net Assets
For the Fiscal Years Ending June 30, 2007 and June 30, 2006
(amounts expressed in thousands)

	Governmental activities		Business-type activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program revenues						
Charge for services	\$ 7,290	\$ 6,996	\$ 69	\$ 48	\$ 7,359	\$ 7,044
Operating grants & contributions	23,197	23,187	-	-	23,197	23,187
Capital grants & contributions	14,394	6,626	-	-	14,394	6,626
General revenues:						
Property taxes- operations	81,045	65,457	-	-	81,045	65,457
Property taxes- capital projects	27,507	21,703	-	-	27,507	21,703
Local sales taxes	21,989	22,770	-	-	21,989	22,770
Grants and contracts - unrestricted	225,973	221,883	-	-	225,973	221,883
Unallocated investment earnings	8,754	6,556	-	-	8,754	6,556
Miscellaneous	3,016	2,941	-	-	3,016	2,941
Total revenues	413,145	378,119	69	48	413,214	378,167
Expenses:						
Instruction	200,035	184,675	-	-	200,035	184,675
Pupil personnel services	17,710	16,290	-	-	17,710	16,290
Instructional media services	5,878	5,472	-	-	5,878	5,472
Instruction & curriculum development	11,939	10,325	-	-	11,939	10,325
Instructional staff training	7,408	7,157	-	-	7,408	7,157
Instruction related technology	2,778	2,677	-	-	2,778	2,677
Board of education	1,063	1,064	-	-	1,063	1,064
General administration	1,370	1,742	-	-	1,370	1,742
School administration	15,866	14,577	-	-	15,866	14,577
Facility services - non capitalized	37,396	37,322	-	-	37,396	37,322
Fiscal services	2,256	2,104	-	-	2,256	2,104
Food services	18,952	18,022	-	-	18,952	18,022
Central services	4,161	3,441	-	-	4,161	3,441
Pupil transportation services	17,173	15,593	-	-	17,173	15,593
Operation of plant	27,271	23,119	-	-	27,271	23,119
Maintenance of plant	13,854	19,021	-	-	13,854	19,021
Community services	710	694	-	-	710	694
Administrative technology services	3,712	3,671	-	-	3,712	3,671
Interest on long-term debt	3,650	3,182	-	-	3,650	3,182
Loss on disposal of capital assets	3,653	1,007	-	-	3,653	1,007
Panhandle management consortium	-	-	66	48	66	48
Total expenses	396,835	371,155	66	48	396,901	371,203
Change in net assets						
Before extraordinary item	16,310	6,964	3	-	16,313	6,964
Extraordinary item	20,181	22,011	-	-	20,181	22,011
Change in net assets	36,491	28,975	3	-	36,494	28,975
Net assets, beginning	265,764	236,789	10	10	265,774	236,799
Net assets, ending	\$ 302,255	\$ 265,764	\$ 13	\$ 10	\$ 302,268	\$ 265,774

The net assets of the government increased by \$36.5 during the current fiscal year. All of this increase represents the degree to which increases in ongoing revenues have outpaced increases in ongoing expenses.

Governmental Activities. Governmental activities increased the District's net assets by \$36.5. Key elements of the increase are as follows:

- Governmental activities revenue increased \$35.0. The largest increase was in State Sources primarily because of increased Florida School Finance Program Funding and revenues for Class Size Reduction.
- 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 \$13.5 and Restricted Net Assets for Capital Projects increased by \$19.3 from the previous year.
- For the most part, increases in expenses closely paralleled inflation.

Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$149.7, an increase of \$21.5 in comparison with the prior year. Unreserved fund balance of \$116.0 represents 77.5 percent of the ending fund balances and is available to meet the District's short-term spending needs. The remainder of fund balance is reserved to indicate that it is not available for new spending, because it has already been committed: 1) to liquidate contracts and purchase orders outstanding at year-end of \$24.5; 2) to reserve inventory of \$2.4; 3) to fund state categorical programs of \$5.2; and 4) for other purposes of \$1.6.

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, the unreserved fund balance of the General Fund was \$20.5, while total fund balance reached \$39.8. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total expenditures. Unreserved fund balance represents 6.4 percent of total General Fund expenditures, while total fund balance represents 12.5 percent of that same amount.

During the current fiscal year, the fund balance of the General Fund increased by approximately \$0.3 million. Key factors in this increase are as follows:

- The property taxes supporting the operating budget are budgeted at 95 percent of the taxable assessed valuation. The actual collections for the current fiscal year were \$2.6 under the budgeted revenues primarily because the District must budget for taxes which are under litigation and currently not collectable.
- Approximately \$3.7 less in State (Florida Education Finance Program) revenues were received under the initial projection, partially due to the actual student decrease (456) under the initial State projection (42,504).
- Actual expenditures were less than the appropriations. These decreased revenues referenced above were offset by reduced expenditures.

The Special Revenue – Other Federal Programs Fund has a fund balance of \$5.1 thousand, all of which is reserved for special revenue. The decrease in fund balance during the current fiscal year was \$.7 thousand. This decrease was the result of related expenditures over revenues collected for ongoing grants.

The Capital Projects – Capital Improvement Fund has a fund balance of \$8.4. The \$2.2 increase was due to the increased collection of 2 mil property taxes.

The Capital Projects – Other Fund has a fund balance of \$84.2. The fund balance increased by \$15.1. This increase was due primarily to the increase in Class Size Reduction funds from the state and 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 unrestricted net assets were \$12.8 thousand at the end of the current fiscal year.

General Fund Budgetary Highlights

During the current fiscal year, the District received approximately \$3.7 million of State formula revenues less than the initially budgeted amounts. This decrease was partially due to the over projection of students (full time equivalent). The projected student decrease for the year (upon which the budget was based) was 181. The actual student population for the year decreased in comparison to the projected student population by 456.

The final budget exceeded the final expenditures by \$27.6 million. The unexpended appropriations were composed of the following: (1) \$11.2million in encumbrances; (2) \$5.2 million in State categorical and other earmarked funds; (3) \$10.4 million in locally restricted funds; (4) \$1.6 million in other unexpended budget items; and (5) \$1.4 million for inventory. Items 1 through 5 have been re-appropriated or placed in reserve in the subsequent year's budget.

Capital Assets and Debt Administration

Capital Assets. The District's investment in capital assets for the governmental activities as of June 30, 2007 amounts to \$245.6 (net of accumulated depreciation). This investment in capital assets includes land; construction in progress; improvements other than buildings; buildings and fixed equipment; furniture, fixtures and equipment; motor vehicles; computer software; and audio visual materials. The total increase in the District's investment in capital assets (net of accumulated depreciation) for the current fiscal year was \$9.2 or 3.9 percent.

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

- The completion of End-User Support Facility.
- The addition of new modular classrooms.
- The District has started and completed several major renovation and addition projects.

The following is a summary of the District's capital assets as of June 30, 2007, and June 30, 2006:

District School Board of Escambia County, Florida Schedule of Capital Assets (net of accumulated depreciation- amounts expressed in thousands)

	Governmental Activities	
	June 30, 2007	June 30, 2006
Land	\$ 6,497	\$ 6,677
Construction in Progress	17,755	4,840
Improvements Other Than Buildings	4,137	4,161
Buildings and Fixed Equipment	186,395	191,754
Furniture, Fixtures, and Equipment	5,593	5,671
Motor Vehicles	20,644	17,910
Property Under Capital Lease	1,117	2,687
Computer Software	3,481	2,745
	\$ 245,619	\$ 236,445
Total Capital Assets	\$ 245,619	\$ 236,445

Additional information on the District's capital assets can be found in note 7 of this report.

Long-Term Debt. At the end of the current fiscal year, the District had total long term debt outstanding of \$68.9. Outstanding at the end of the fiscal year was \$9.8 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. Properties being acquired under capital leases amounted to \$3.1. The remainder of this debt represents \$56.0 in certificates of participation.

The following is a summary of the District's long-term debt as of June 30, 2007, and June 30, 2006:

**District School Board of Escambia County, Florida
Schedule of Outstanding Long-Term Debt
(amounts in thousands)**

	Governmental Activities	
	June 30, 2007	June 30, 2006
State School (SBE) Bonds	\$ 9,764	\$ 10,709
Obligations Under Capital Leases	3,076	4,070
Certificates of Participation	56,046	58,729
Total Outstanding Long-Term Debt	\$ 68,886	\$ 73,508

Additional information on the District's long-term debt can be found in notes 8 through 12 of this report.

Economic Factors and New Year's Budgets and Rates

- The unemployment rate for the District (Escambia County, Florida) is currently 3.8 percent, which is an increase from the rate of 3.5 percent a year ago. This compares favorably to the State's average unemployment rate of 3.5 percent.
- Inflationary trends in the regions compare favorably to national indices.

All of these factors were considered in preparing the District budget for fiscal year 2007-08.

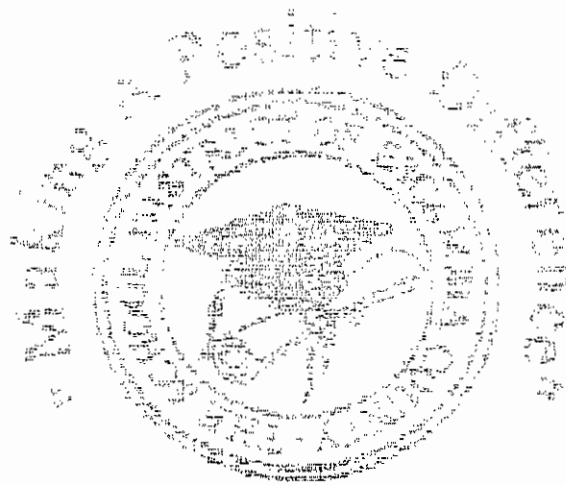
During the current fiscal year, unreserved fund balance in the General Fund decreased by \$.2 to \$20.5 (1.1 percent). The District has appropriated \$8.1 of this amount for spending in the budget for fiscal year 2007-08. It is anticipated that this use of unreserved fund balance will be significantly replenished at year-end through unspent appropriations and operating fund tax revenues in excess of the budgeted 95 percent of the taxable assessed valuation. It is anticipated that the fund balance at June 30, 2008 will be in excess of the Board target of 2.5 percent (of the anticipated revenue).

The Legislature provided the Board with an increase in formula funding of \$13.6 (6.32 percent per student) for fiscal year 2007-08. However, included in that increase is the funding provided to implement the requirements of the new class size amendment, which requires a reduction in class size at all levels over the next several years. After deducting those funds and other earmarked funds, the actual increase, provided to cover the operating fund cost increases, was \$4.5 (3.46 percent per student). These funds along with local cost savings initiatives provide the funding necessary to cover all of the Board's fixed cost increases, to provide reserves for increases in salaries, and to reserve funds equal to 2 percent of state revenue in anticipation of a statewide revenue reduction.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Assistant Superintendent for Finance and Business Services, Escambia County District School Board, 215 West Garden Street, Pensacola, FL 32502.

BASIC FINANCIAL STATEMENTS



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DISTRICT SCHOOL BOARD OF ESCAMBLIA COUNTY, FLORIDA
Statement of Net Assets
June 30, 2007

	Governmental Activities	Business-type Activities	Total Primary Government	Component Units
Assets				
Cash and cash equivalents	\$ 12,518,791	\$ -	\$ 12,518,791	\$ 1,879,404
Investments	168,334,949	12,755	168,347,704	487,768
Accounts receivable, net	1,828,687	-	1,828,687	115,820
Interest receivable	24,913	-	24,913	-
Due from reinsurer	14,936,204	-	14,936,204	-
Deposits receivable	5,300	-	5,300	616
Due from other agencies	16,307,255	-	16,307,255	-
Due from primary government	-	-	-	147,842
Inventory	2,427,227	-	2,427,227	-
Prepaid items	-	-	-	90,321
Deferred charges:				
Issuance costs	2,268,733	-	2,268,733	-
Capital assets:				
Nondepreciable	24,252,840	-	24,252,840	-
Depreciable	221,366,284	-	221,366,284	5,324,967
Total assets	464,271,183	12,755	464,283,938	8,046,738
Liabilities				
Salaries and wages payable	269,751	-	269,751	37,164
Payroll deductions and withholdings	3,207,373	-	3,207,373	30,169
Accounts payable	2,772,567	-	2,772,567	81,862
Construction contracts payable	3,809,120	-	3,809,120	-
Due to fiscal agent	2,131,163	-	2,131,163	231,909
Accrued interest payable	1,230,197	-	1,230,197	-
Other liabilities	-	-	-	163,955
Deposits payable	49,422	-	49,422	-
Due to other agencies	8,893,153	-	8,893,153	-
Due to primary government	-	-	-	12,415
Noncurrent liabilities:				
Portion due within one year:				
Notes payable	-	-	-	131,304
Bonds Payable	840,000	-	840,000	-
Obligations under capital leases	1,051,185	-	1,051,185	48,619
Liability for compensated absences	4,049,396	-	4,049,396	17,033
Certificates of participation payable	2,543,820	-	2,543,820	-
Estimated liability for unpaid claims	9,742,530	-	9,742,530	-
Deferred revenue	3,385,502	-	3,385,502	-
Portion due after one year:				
Notes payable	-	-	-	1,846,813
Bonds Payable	8,924,305	-	8,924,305	-
Obligations under capital leases	2,024,844	-	2,024,844	341,737
Liability for compensated absences	37,798,010	-	37,798,010	18,211
Certificates of participation payable	53,588,059	-	53,588,059	-
Estimated liability for unpaid claims	15,705,413	-	15,705,413	-
Total liabilities	162,015,810	-	162,015,810	2,960,991
Net assets				
Invested in capital assets, net of related debt	178,915,643	-	178,915,643	2,956,694
Restricted for:				
Categorical carryover programs	5,202,838	-	5,202,838	-
Debt service	4,742,564	-	4,742,564	-
Capital projects	98,880,388	-	98,880,388	69,587
Other purposes	19,851,610	-	19,851,610	567,794
Unrestricted	(5,337,670)	12,755	(5,324,915)	1,491,672
Total net assets	\$ 302,255,373	\$ 12,755	\$ 302,268,128	\$ 5,085,747



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DISTRICT SCHOOL BOARD OF ESCAMBIA COUNTY, FLORIDA
Statement of Activities
Year Ended June 30, 2007

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Units
	Expenses	Charges for Services	Operating Grants and Contributions		Governmental Activities	Primary Government Business-type Activities	Total	
			Operating Contributions	Grants and Contributions				
Primary government:								
Governmental activities:								
Instruction	\$ 200,035,407	\$ 1,186,281	\$ -	\$ -	\$ (198,849,126)	\$ -	\$ (198,849,126)	\$ -
Pupil personnel services	17,710,197	-	-	-	(17,710,197)	-	(17,710,197)	-
Instructional media services	5,877,497	-	-	-	(5,877,497)	-	(5,877,497)	-
Instruction and curriculum development services	11,939,007	-	-	-	(11,939,007)	-	(11,939,007)	-
Instructional staff training services	7,408,236	-	-	-	(7,408,236)	-	(7,408,236)	-
Instruction related technology	2,777,732	-	-	-	(2,777,732)	-	(2,777,732)	-
Board	1,063,256	-	-	-	(1,063,256)	-	(1,063,256)	-
General administration	1,369,805	-	-	-	(1,369,805)	-	(1,369,805)	-
School administration	15,866,203	-	-	-	(15,866,203)	-	(15,866,203)	-
Facilities acquisition and construction	37,396,130	-	-	12,835,852	(24,560,278)	-	(24,560,278)	-
Fiscal services	2,255,833	-	-	-	(2,255,833)	-	(2,255,833)	-
Food services	18,952,187	6,104,082	12,051,276	-	(796,829)	-	(796,829)	-
Central services	4,160,563	-	-	-	(4,160,563)	-	(4,160,563)	-
Pupil transportation services	17,173,433	-	11,145,507	-	(6,027,926)	-	(6,027,926)	-
Operation of plant	27,270,568	-	-	-	(27,270,568)	-	(27,270,568)	-
Maintenance of plant	13,854,263	-	-	-	(13,854,263)	-	(13,854,263)	-
Administrative technology services	3,712,180	-	-	-	(3,712,180)	-	(3,712,180)	-
Community services	709,533	-	-	-	(709,533)	-	(709,533)	-
Interest on long-term debt	3,650,125	-	-	1,557,668	(2,092,457)	-	(2,092,457)	-
Less on disposal of assets	3,653,313	-	-	-	(3,653,313)	-	(3,653,313)	-
Total governmental activities	398,935,468	7,290,363	23,196,783	14,393,520	(351,954,802)	-	(351,954,802)	-
Business-type activities:								
Panhandle Management Consortium	65,894	68,770	-	-	-	2,876	2,876	-
Total business-type activities	65,894	68,770	-	-	-	2,876	2,876	-
Total primary government	\$ 399,601,362	\$ 7,359,133	\$ 23,196,783	\$ 14,393,520	\$ (351,954,802)	\$ 2,876	\$ (351,951,926)	\$ -
Component units								
	\$ 6,721,472	\$ 97,851	\$ 647,325	\$ -				\$ (5,976,298)
General revenues:								
Property taxes, levied for operational purposes					81,045,039	-	81,045,039	-
Property taxes, levied for capital projects					27,507,116	-	27,507,116	-
Local sales taxes					21,969,232	-	21,969,232	-
Grants and contributions not restricted to specific programs					225,973,513	-	225,973,513	6,259,189
Investment earnings					8,754,067	375	8,754,442	53,239
Miscellaneous					3,015,536	-	3,015,536	167,716
Total general revenues					368,264,503	375	368,264,878	6,480,144
Extraordinary item					20,181,553	-	20,181,553	-
Change in net assets					36,491,254	3,251	36,494,505	503,848
Net assets - beginning (as restated)					265,764,119	9,504	265,773,623	4,581,898
Net assets - ending					\$ 302,255,373	\$ 12,755	\$ 302,268,128	\$ 5,085,747

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

DISTRICT SCHOOL BOARD OF ESCAMBIA COUNTY, FLORIDA

**Balance Sheet
Governmental Funds
June 30, 2007**

	General	Special Revenue Other Federal Programs	Capital Improvement Section 1011.71(2)	Other Capital Projects	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 10,073,181	\$ 4	\$ 10,385	\$ 38,996	\$ 47,699	\$ 10,170,275
Investments	17,468,144	3,368,155	10,649,948	82,321,868	14,755,183	128,563,298
Accounts receivable, net	1,149,932	112,809	-	-	1,113	1,263,654
Interest receivable	23,219	-	-	-	434	23,653
Due from reinsurer	14,936,204	-	-	-	-	14,936,204
Deposits receivable	5,300	-	-	-	-	5,300
Due from other funds	6,046,137	-	-	-	-	6,046,137
Due from Internal funds	32,189	-	-	-	5,737	37,926
Due from other agencies	5,546,125	-	1,207,403	4,995,090	4,558,638	16,307,256
Inventory	1,356,364	-	-	-	1,070,863	2,427,227
Total assets	\$ 56,636,815	\$ 3,480,768	\$ 11,867,736	\$ 87,355,954	\$ 20,439,667	\$ 179,780,940
Liabilities and fund balances						
Liabilities:						
Salaries, benefits and payroll taxes payable	\$ 229,460	\$ 39,288	\$ -	\$ -	\$ 1,003	\$ 269,751
Payroll deductions and withholdings	3,207,373	-	-	-	-	3,207,373
Accounts payable	1,580,559	675,112	90,489	8,885	54,567	2,409,612
Construction contracts payable	1,123,544	-	254,341	2,367,940	63,295	3,809,120
Construction contracts payable - retained percentage	1,284,711	-	6,539	818,915	20,997	2,131,162
Accrued interest payable	-	-	-	-	1,230,197	1,230,197
Deposits payable	49,422	-	-	-	-	49,422
Due to other agencies	6,599,764	2,267,638	-	-	25,751	8,893,153
Due to other funds	2,720,470	493,590	3,075,006	91	1,730,280	8,019,437
Total liabilities	16,795,303	3,475,628	3,426,375	3,195,831	3,126,090	30,019,227
Fund balances:						
Reserved for carryover programs	5,202,838	-	-	-	-	5,202,838
Reserved for encumbrances	11,191,867	-	1,252,210	10,270,369	1,780,668	24,495,114
Reserved for inventories	1,356,364	-	-	-	1,070,863	2,427,227
Reserved for other purposes	1,608,877	-	-	-	-	1,608,877
Unreserved, reported in:						
General fund	20,481,566	-	-	-	-	20,481,566
Special revenue funds	-	5,140	-	-	4,421,048	4,426,188
Debt service funds	-	-	-	-	4,742,564	4,742,564
Capital projects funds	-	-	7,189,151	73,889,754	5,298,434	86,377,339
Total fund balances	39,841,512	5,140	8,441,361	84,160,123	17,313,577	149,761,713
Total liabilities and fund balances	\$ 56,636,815	\$ 3,480,768	\$ 11,867,736	\$ 87,355,954	\$ 20,439,667	\$ 179,780,940

DISTRICT SCHOOL BOARD OF ESCAMBLIA COUNTY, FLORIDA
Reconciliation of the Balance Sheet of Governmental Funds to the
Statement of Net Assets
June 30, 2007

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

Ending fund balance - governmental funds	\$	149,761,713
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.		245,619,124
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		2,268,733
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.		15,425,422
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		
Bonds payable	\$	(9,764,305)
Certificates of participation payable		(56,131,879)
Obligations under capital leases		(3,076,029)
Compensated absences payable		(41,847,406)
		(110,819,619)
Net assets of governmental activities	\$	302,255,373

DISTRICT SCHOOL BOARD OF ESCAMBIA COUNTY, FLORIDA
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2007

	General	Special Revenue Other Federal Programs	Capital Improvement Section 1011.71(2)	Other Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues						
Federal direct	\$ 2,344,543	\$ 187,403	\$ -	\$ -	\$ -	\$ 2,531,946
Federal through state	2,702,400	32,346,156	-	-	11,671,717	46,720,273
State sources	199,562,519	-	-	6,995,090	7,497,148	214,054,757
Local sources	87,787,646	-	28,079,962	28,096,317	6,717,550	148,681,475
Total revenues	<u>292,397,108</u>	<u>32,533,559</u>	<u>28,079,962</u>	<u>33,091,407</u>	<u>25,886,415</u>	<u>411,988,451</u>
Expenditures						
Current:						
Instruction	178,240,603	15,763,376	-	-	-	194,003,979
Pupil personnel services	14,695,148	3,048,883	-	-	-	17,744,031
Instructional media services	5,799,590	87,303	-	-	-	5,886,893
Instruction and curriculum development services	6,506,552	5,012,372	-	-	-	11,518,924
Instructional staff training services	3,207,229	4,200,559	-	-	-	7,407,788
Instruction related technology	1,648,547	1,128,769	-	-	-	2,777,316
Board	1,062,728	-	-	-	-	1,062,728
General administration	693,146	667,259	-	-	-	1,360,405
School administration	15,890,661	9,729	-	-	-	15,900,390
Facilities acquisition and construction	14,773,036	6,467	3,358,073	11,192,975	3,100,494	32,431,045
Fiscal services	2,255,802	-	-	-	-	2,255,802
Food services	439,567	-	-	-	18,247,786	18,687,353
Central services	3,778,297	234,619	-	-	-	4,012,916
Pupil transportation services	15,415,350	452,972	-	-	-	15,868,322
Operation of plant	27,235,956	46,315	-	-	-	27,282,271
Maintenance of plant	12,291,477	1,558	-	-	-	12,293,035
Administrative technology services	3,090,685	52,885	-	-	-	3,143,570
Community services	459,284	250,246	-	-	-	709,532
Capital outlay:						
Facilities acquisition and construction	8,737,227	15,314	8,941,456	6,838,296	61,211	24,593,504
Other capital outlay	2,178,347	1,451,234	-	-	139,223	3,768,804
Debt service:						
Principal	883,277	110,975	-	-	3,461,133	4,455,385
Interest and fees	195,242	13,458	-	-	3,161,572	3,370,272
Debt service - issue costs	-	-	-	-	108,624	108,624
Total expenditures	<u>319,477,751</u>	<u>32,534,295</u>	<u>12,299,529</u>	<u>18,031,271</u>	<u>28,280,043</u>	<u>410,622,859</u>
Excess (deficiency) of revenues over expenditures	<u>(27,080,643)</u>	<u>(736)</u>	<u>15,780,433</u>	<u>15,060,136</u>	<u>(2,393,628)</u>	<u>1,365,562</u>
Other financing sources (uses)						
Transfers in	7,218,490	-	-	-	7,000,019	14,218,509
Transfers out	-	-	(13,568,530)	(19)	(649,960)	(14,218,509)
Total other financing sources (uses)	<u>7,218,490</u>	<u>-</u>	<u>(13,568,530)</u>	<u>(19)</u>	<u>6,350,059</u>	<u>-</u>
Change in fund balances before extraordinary item	(19,862,153)	(736)	2,211,903	15,060,117	3,956,431	1,365,562
Extraordinary item	20,179,497	-	2,056	-	-	20,181,553
Net change in fund balances	<u>317,344</u>	<u>(736)</u>	<u>2,213,959</u>	<u>15,060,117</u>	<u>3,956,431</u>	<u>21,547,115</u>
Fund balance - beginning (as restated)	<u>39,524,168</u>	<u>5,876</u>	<u>6,227,402</u>	<u>69,100,006</u>	<u>13,357,146</u>	<u>128,214,598</u>
Fund balance - ending	<u>\$ 39,841,512</u>	<u>\$ 5,140</u>	<u>\$ 8,441,361</u>	<u>\$ 84,160,123</u>	<u>\$ 17,313,577</u>	<u>\$ 149,761,713</u>

DISTRICT SCHOOL BOARD OF ESCAMBIA COUNTY, FLORIDA
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities
Year Ended June 30, 2007

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

Net change in fund balances - total governmental funds	\$	21,547,115
<p>Governmental funds report capital outlays 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 net capital outlays, (\$23,545,347), in excess of depreciation expense, (\$10,717,496) in the current period.</p>		
		12,827,851
<p>The statement of activities reflects only the gain/loss on the sale of assets, whereas the governmental funds include all proceeds from these sales. Thus, the change in net assets differs from the change in fund balances by the cost of assets sold.</p>		
		(3,653,313)
<p>The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however has any effect on net assets. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is issued, whereas these amounts are deferred and amortized in the statement of activities.</p>		
Repayments	\$ 4,455,385	
Amortization	<u>81,408</u>	4,536,793
<p>Issuance costs on new debt issues are reported when issued as expenditures in the governmental funds, but are deferred and amortized as expenses over the life of the debt in the statement of activities. This is the amount of amortization in the current year.</p>		
		(252,638)
<p>Compensated absences expense reported in the statement of activities does not require the use of current financial resources and, therefore, is not reported as an expenditure in governmental funds.</p>		
		299,081
<p>The internal service fund is used by management to charge the costs of certain activities, such as insurance, to individual funds. The net expense of internal service funds is reported with governmental activities.</p>		
		<u>1,186,365</u>
Change in net assets of governmental activities	\$	<u><u>36,491,254</u></u>

DISTRICT SCHOOL BOARD OF ESCAMBIA COUNTY
Statement of Net Assets
Proprietary Funds
June 30, 2007

	Business-type Activities Enterprise Funds	Governmental Activities - Internal Service Funds
Assets		
Current assets		
Cash and cash equivalents	\$ -	\$ 2,348,516
Investments	12,755	39,771,650
Accounts receivable - net	-	521,821
Interest receivable	-	1,259
Due from other funds	-	2,720,470
Total current assets	<u>12,755</u>	<u>45,363,716</u>
Total assets	<u>\$ 12,755</u>	<u>\$ 45,363,716</u>
Liabilities and net assets		
Current liabilities		
Accounts payable	\$ -	\$ 927,258
Accrued liabilities		35,698
Due to other funds	-	741,893
Deferred revenue	-	3,385,502
Estimated unpaid claims	-	9,142,530
Total current liabilities	<u>-</u>	<u>14,232,881</u>
Noncurrent liabilities		
Estimated unpaid claims	-	15,705,413
Total noncurrent liabilities	<u>-</u>	<u>15,705,413</u>
Total liabilities	<u>-</u>	<u>29,938,294</u>
Net assets		
Restricted	<u>12,755</u>	<u>15,425,422</u>
Total net assets	<u>12,755</u>	<u>15,425,422</u>
Total liabilities and net assets	<u>\$ 12,755</u>	<u>\$ 45,363,716</u>

DISTRICT SCHOOL BOARD OF ESCAMBIA COUNTY
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
Year Ended June 30, 2007

	Business-type Activities Enterprise Funds	Governmental Activities - Internal Service Funds
Operating revenues		
Charges for services	\$ 68,770	\$ 1,068,461
Premium revenue	-	45,668,113
Other operating revenues	-	723,388
Total operating revenues	<u>68,770</u>	<u>47,459,962</u>
Operating expenses		
Salaries	-	1,203,848
Employee benefits	-	424,519
Insurance claims and other	65,862	41,865,479
Energy services	-	4,586
Materials and supplies	32	7,585
Other expenses	-	5,050,302
Total operating expenses	<u>65,894</u>	<u>48,556,319</u>
Operating income (loss)	<u>2,876</u>	<u>(1,096,357)</u>
Nonoperating revenue		
Interest revenue	375	1,928,381
Loss recoveries	-	354,341
Total nonoperating revenue	<u>375</u>	<u>2,282,722</u>
Change in net assets	3,251	1,186,365
Total net assets - beginning	<u>9,504</u>	<u>14,239,057</u>
Total net assets - ending	<u>\$ 12,755</u>	<u>\$ 15,425,422</u>

DISTRICT SCHOOL BOARD OF ESCAMBIA COUNTY
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2007

	Business-type Activities Enterprise Funds	Governmental Activities - Internal Service Funds
Operating activities		
Cash received from customers and users	\$ 68,770	\$ 46,667,278
Cash paid to suppliers	(65,894)	(5,583,488)
Cash paid to employees	-	(1,553,949)
Other receipts (payments)	-	(37,789,191)
Net cash provided by operating activities	2,876	1,740,650
Noncapital financing activities		
Subsidies from operating grants	-	354,341
Net cash provided by noncapital financing activities	-	354,341
Investing activities		
Interest payments received	374	1,928,329
Purchase of investments	(3,535)	(4,978,567)
Net cash used in investing activities	(3,161)	(3,050,238)
Net decrease in cash and cash equivalents	(285)	(955,247)
Cash and cash equivalents		
Beginning of year	285	3,303,763
End of year	\$ -	\$ 2,348,516
Reconciliation of operating income (loss) to net cash provided by operating activities		
Operating income (loss)	\$ 2,876	\$ (1,096,357)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Change in assets and liabilities:		
Accounts receivable	-	178,878
Due from other funds	-	(957,278)
Accounts payable	-	335,955
Accrued liabilities	-	35,698
Due to other funds	-	74,418
Deferred revenues	-	(14,285)
Estimated unpaid claims	-	3,183,621
Total adjustments	-	2,837,007
Net cash provided by operating activities	\$ 2,876	\$ 1,740,650

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

DISTRICT SCHOOL BOARD OF ESCAMBIA COUNTY
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2007

Assets	Total Agency Funds
Cash and cash equivalents	\$ 3,321,031
Total assets	\$ 3,321,031
Liabilities	
Payroll withholdings	\$ 291,656
Due to other funds - governmental	43,213
Internal accounts payable	2,986,162
Total liabilities	\$ 3,321,031

DISTRICT SCHOOL BOARD OF ESCAMBIA COUNTY, FLORIDA

Notes to the Basic Financial Statements

June 30, 2007

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 District School Board of Escambia County, Florida (the "District") is considered part of the Florida system of public education.

The governing body of the District is the School Board of Escambia County, Florida that 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 that 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 (the "Trust") has been established to administer the District's employee group health and life 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 units columns in the basic financial statements include the financial data of the District's other component units.

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. Section 1001.453, Florida Statutes, requires the Foundation to be authorized and approved by the District. The mission of the Foundation is to enhance the quality of education in Escambia County Public Schools through raising and distributing funds and in-kind contributions, fostering involvement in the public schools by business and community, and by providing recognition and rewards for outstanding contributions to and performance within the public school system. 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 and the Foundation does not provide services entirely or nearly entirely to the District.

DISTRICT SCHOOL BOARD OF ESCAMBIA COUNTY, FLORIDA

Notes to the Basic Financial Statements (Continued)

June 30, 2007

Charter schools are separate not-for-profit corporations organized pursuant to Chapter 617, Florida Statutes, the Florida Not for Profit Corporation Act. The District sponsors the charter schools and is responsible for monitoring and reviewing the charter schools' progress toward meeting the goals established in the schools' charters. Pursuant to Section 1002.33, Florida Statutes, 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. Escambia Charter School, Inc., is a separate not-for-profit entity with a separate board of directors.

Beulah Academy of Science, Inc. was established to provide an agriculture and science program for middle school students. Beulah Academy of Science, Inc., is a separate not-for-profit entity with a separate board of directors.

Byrneville Elementary School, Inc. was established to provide education, training, and related services for elementary students. Byrneville Elementary School, Inc. is a separate not for profit entity with a separate board of directors.

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. Dr. Ruby J. Gainer School for Reaching Your Dream, operated by Reaching Your Dream, Inc., is a separate not-for-profit entity with a separate board of directors.

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 with a separate board of directors.

Pensacola Beach Elementary School, Inc. was established to provide education, training and related services for elementary students. Pensacola Beach Elementary School, Inc., is a separate not-for-profit entity with a separate board of directors.

Complete financial information for the component units can be obtained directly from the Foundation and the individual charter schools.

• **Measurement Focus, Basis of Presentation, and Financial Statement Presentation**

Government-wide Financial Statements - Government-wide financial statements, including the statement of net assets and statement of activities, present information about the School District as a whole. These statements include the non-fiduciary financial activity of the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on charges for services. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

DISTRICT SCHOOL BOARD OF ESCAMBIA COUNTY, FLORIDA

Notes to the Basic Financial Statements (Continued)

June 30, 2007

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 expenses are allocated to functions/programs of the primary government.

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

The effects of interfund activities have been eliminated from the government-wide financial statements, except for transfers between governmental activities and business-type activities. The only interfund transactions, other than transfers between the governmental and business 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 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. The General Fund is the District's primary operating fund.
- Special Revenue – Other Federal Programs - to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes.
- Capital Projects Fund – Capital Improvement Section 1011.71(2) - to account for funds received locally from the assessment of property taxes (maximum levy is 2 mills) and other local revenue for the construction and maintenance of schools and other facilities.
- Capital Projects Fund – Other Fund - to account for various financial resources restricted for educational capital outlay needs, including new construction and 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.

DISTRICT SCHOOL BOARD OF ESCAMBIA COUNTY, FLORIDA

Notes to the Basic Financial Statements (Continued)

June 30, 2007

- 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 resources of the school internal funds which are used to administer moneys collected at the school in connection with school, student athletic, class, and club activities.

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 economic resource measurement focus and the accrual basis of accounting, as are the proprietary funds, which include enterprise and internal service 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 that 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, which include the general, special revenue, debt service, and capital projects funds, are prepared using the current financial resource measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are generally recognized when the related fund liability is incurred. The principal exceptions to this general rule are: (a) prepaid items are generally not accrued; (b) interest on general long-term debt is recognized as expenditures when due; and (c) expenditures related to long-term liabilities are recognized when due. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Revenues can be classified into two kinds of transactions: (a) exchange and exchange-like transactions, in which each party receives and gives up essentially equal value and (b) non-exchange transactions, in which a government gives (or receives) value without directly receiving (or giving) equal value in exchange. Revenues resulting from exchange transactions are recorded on the accrual basis when exchanges take place.

Revenues resulting from non-exchange transactions are further classified into (a) derived tax revenues, (b) imposed non-exchange revenues, (c) government-mandated non-exchange transactions, and (d) voluntary non-exchange transactions. Derived tax revenues (e.g. sales taxes) are recorded when the exchange transactions occur. Imposed non-exchange transactions (e.g. property taxes) are recorded when use of the resource is required or first permitted by time requirements (for example, for property taxes, the period for which they are levied). Government-mandated and voluntary non-exchange transactions, (e.g. Federal mandates, grants, and donations) are recorded when all eligibility requirements have been met.

When applying the "susceptible to accrual" concept under the modified accrual basis, resources also should be available in order to be accrued. 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 property and sales taxes to be available if they are collected within 60 days of the end of the current fiscal year. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made.

DISTRICT SCHOOL BOARD OF ESCAMBIA COUNTY, FLORIDA

Notes to the Basic Financial Statements (Continued)

June 30, 2007

Agency (fiduciary) Funds are purely custodial in nature (assets equal liabilities) and as such do not have a measurement focus. Agency Funds use the accrual basis of accounting to recognize receivables and payables.

Private-sector standards of accounting and financial reporting issued by the Financial Accounting Standards Board prior to December 1, 1989, generally are followed in both the government-wide and proprietary funds financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitations. The District has elected not to follow subsequent private-sector guidance.

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 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, and then unrestricted resources as they are needed.

Each of the charter schools, included as discretely presented component units, implemented the requirements of the GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments*, concurrently with the District.

The Foundation, 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**

Banks that qualify as public depositories under Florida law hold cash deposits, totaling \$12,518,791 at June 30, 2007. All deposits are insured by federal depository insurance and/or collateralized with securities held in Florida's multiple financial institution collateral pool as required by Chapter 280, Florida Statutes. For the enterprise and internal service funds, the statements of cash flows consider cash and cash equivalents as those accounts deposited in demand deposit accounts and all highly liquid investments with an original maturity of three months or less.

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

The SBA Local Government Surplus Funds Trust Fund investment pool operates under investment guidelines established by Section 215.47, Florida Statutes. The District's investments totaling \$166,861,676 in the Local Government Surplus Funds Trust Fund, a Securities and Exchange Commission Rule 2a7-like external investment pool, are reported at amortized cost.

DISTRICT SCHOOL BOARD OF ESCAMBIA COUNTY, FLORIDA
Notes to the Basic Financial Statements (Continued)
June 30, 2007

The District's investment in the SBA Debt Service Account totaling \$245,768 at June 30, 2007, are administered by the State Board of Education to provide for debt service payments on bonded debt issued by the State Board of Administration for the benefit of the District. These investments consist of United States Treasury securities, with maturity dates of six months or less, and are reported at fair value. The District has no formal policy for managing interest rate risk or credit risk for this account, but relies on policies developed by the State Board of Administration. Disclosures for the debt service account are included in the notes to the financial statements of the State of Florida's Comprehensive Annual Financial Report.

Investments made locally consisting of \$1,240,260 in money market mutual funds are reported at fair value. Types and amounts of investments held at fiscal year-end are described in a subsequent note on investments.

- **Receivables and Payables**

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statement as internal balances.

- **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. Textbook inventories are stated at cost. United States Department of Agriculture surplus commodities are stated at their fair value as determined at the time of donation to 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. For financial reporting purposes, 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. Donated assets are recorded at fair value at the date of donation. All land purchases are capital assets regardless of cost.

The costs of normal maintenance and repairs that do not add to the values of the assets or materially extend assets lives are not capitalized. Interest costs incurred during construction of capital assets are not considered material and are not capitalized as part of the cost of construction.

DISTRICT SCHOOL BOARD OF ESCAMBIA COUNTY, FLORIDA
Notes to the Basic Financial Statements (Continued)
June 30, 2007

Capital assets of the primary government, excluding land and construction in progress, 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 - 20 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 premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the related debt. Bonds and certificates of participation 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 bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued and premiums are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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

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

DISTRICT SCHOOL BOARD OF ESCAMBIA COUNTY, FLORIDA
Notes to the Basic Financial Statements (Continued)
June 30, 2007

- **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 that 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 funds financial statements for the unencumbered balance of categorical educational program resources.

The State allocates gross receipt taxes, generally known as Public Education Capital Outlay money, to the District on an annual basis. The District is authorized to expend these funds only upon applying for and receiving an encumbrance authorization from the Department.

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

- **District Property Taxes**

The 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. The Escambia County Property Appraiser determines the real and personal property values within the District. The Escambia County Tax Collector then collects the taxes and remits them to the District.

The Board adopted the 2006 tax levy on September 14, 2006. Taxes become an enforceable lien on property as of January 1; tax bills are mailed in October and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to 4 percent for early payment.

Taxes become delinquent on April 1 of the year following the year of assessment. State law provides for enforcement of collection of personal property taxes by seizure of the property to satisfy unpaid taxes, and for enforcement of collection of real property taxes by the sale of interest-bearing tax certificates to satisfy unpaid taxes. The procedures result in the collection of essentially all taxes prior to June 30 of the year following the year of assessment.

DISTRICT SCHOOL BOARD OF ESCAMBIA COUNTY, FLORIDA
Notes to the Basic Financial Statements (Continued)
June 30, 2007

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 the District receives taxes, except the revenue that is accrued for taxes collected by the Escambia County Tax Collector at fiscal year-end but not yet remitted to the District. Because any delinquent taxes collected after June 30 would not be material, delinquent taxes receivable are not accrued and no delinquent tax revenue deferral is recorded.

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

- **Federal Revenues 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 for 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. RESTATEMENT OF BEGINNING NET ASSETS AND FUND BALANCES

The beginning fund balance of Total Governmental Funds in the Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds has been restated to reflect adjustments from two capital outlay and debt service refundings that occurred during the years ended June 30, 2006 and 2005, resulting in a total decrease of \$710,638. The beginning net assets in the Statement of Activities have been reduced by \$2,094,531 to reflect these changes.

3. DEFICIT UNRESTRICTED NET ASSETS

The District reports a deficit unrestricted net asset balance of \$5,337,670. The deficit results primarily from the recognition of a liability for accumulated employee annual and sick leave balances, reported as compensated absences on the Statement of Net Assets. Additional disclosures relating to compensated absences are included in the Long-Term Liabilities section of the summary of significant accounting policies and Note 12. This liability, totaling \$41,847,406 will be paid from future appropriations.

4. BUDGETARY COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

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 functional activity (e.g., instruction, pupil personnel services, and school administration) and may be amended by resolution at any Board meeting prior to the due date for the annual financial report. This object level is the legal level of budgetary control.

DISTRICT SCHOOL BOARD OF ESCAMBIA COUNTY, FLORIDA
Notes to the Basic Financial Statements (Continued)
June 30, 2007

- 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.

5. INVESTMENTS

As of June 30, 2007, the District had the following investments and maturities:

<u>Investments</u>	<u>Fair Value</u>	<u>Investment Maturities</u>		
		<u>Are Less than</u>		
		<u>6 months</u>	<u>1 Year</u>	<u>2 Years</u>
State Board of Administration - Debt Service Account	\$ 245,768	\$ 245,768	\$ -	\$ -
State Board of Administration - Local Government Surplus Funds Trust Fund	166,861,676	166,861,676	-	-
Money Market Funds	<u>1,240,260</u>	<u>-</u>	<u>-</u>	<u>1,240,260</u>
Total Investments, Primary Government	<u>\$ 168,347,704</u>	<u>\$ 167,107,444</u>	<u>\$ -</u>	<u>\$ 1,240,260</u>

Section 218.415, Florida Statutes, limits the types of investments that a District can invest in unless specifically authorized in District policy.

DISTRICT SCHOOL BOARD OF ESCAMBIA COUNTY, FLORIDA
Notes to the Basic Financial Statements (Continued)
June 30, 2007

Interest Rate Risk

District policies limit the length of investments to the type of investments to those authorized by Florida Statutes.

As of June 30, 2007, the District had the following investments by fund and interest rate risk:

<u>Investments by Fund</u>	<u>Fair Value</u>	<u>Investment Maturities</u> <u>Are Less than</u>		
		<u>6 months</u>	<u>1 Year</u>	<u>2 Years</u>
Major Governmental Funds:				
General Fund	\$ 17,468,144	\$ 17,468,144	\$ -	\$ -
Special Revenue Fund:				
Other Federal Programs	3,368,156	3,368,156	-	-
Capital Projects Funds:				
Capital Improvement	10,649,948	10,649,948	-	-
Other Capital Projects	82,321,868	82,321,868	-	-
Nonmajor Governmental Funds	14,755,183	13,514,923	-	1,240,260
Proprietary Funds:				
Enterprise:				
Panhandle Management Dev Network	12,755	12,755	-	-
Internal Service Funds	39,771,650	39,771,650	-	-
Total Investments, Primary Government	<u>\$ 168,347,704</u>	<u>\$ 167,107,444</u>	<u>\$ -</u>	<u>\$ 1,240,260</u>

Credit Risk

District policies allow for investments in:

- Mutual (or money market) funds. As of June 30, 2007, the District had investments of \$1,240,260 in the Nations Treasury Reserve money market fund. The trust investments are managed by the Trustee for the Certificates of Participation Series 1996 and 2002. The Nations Treasury Reserve money market fund in which these trust investments are held invests primarily in United States Treasury obligation, repurchase and reverse repurchase agreements secured by United States Treasury and United States Government obligations, and obligations whose principal and interest are backed by the United States Government. The fund was rated Aaa by Moody's Investors Service. The District relies on the Trustee to manage credit risks for these trust investments.
- Investments totaling \$166,861,676 in the State Board of Administration Local Government Surplus Funds Trust Fund are unrated and reported at amortized cost.
- Investments in the State Board of Administration Debt Service Account totaling \$245,768 are administered by the State Board of Education to provide for debt service payments on bonded debt issued by the State Board of Administration for the benefit of the District. These investments consist of United States Treasury securities, with maturity dates of six months or less and are reported at fair value. The District has no formal policy for managing interest rate risk or credit risk for this account, but relies on policies developed by the State Board of Administration.

DISTRICT SCHOOL BOARD OF ESCAMBIA COUNTY, FLORIDA
Notes to the Basic Financial Statements (Continued)
June 30, 2007

Custodial Credit Risk

Chapter 280, Florida Statutes, requires local governments to deposit funds only in financial institutions designated as qualified public depositories by the Chief Financial Officer of the State of Florida. Chapter 280 creates the Public Deposits Trust Fund, a multiple financial institution pool with the ability to access its member financial institutions of collateral shortfalls if a default or insolvency has occurred. On June 30, 2007, the District's deposits were in qualified public depositories.

6. 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 accounts receivable is accrued.

7. CHANGES IN CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2007, is as follows:

Primary Government

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2007</u>
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	\$ 6,676,895	\$ -	\$ 179,932	\$ 6,496,963
Construction in Progress	4,840,581	16,740,561	3,825,265	17,755,877
Total Capital Assets Not Being Depreciated	<u>11,517,476</u>	<u>16,740,561</u>	<u>4,005,197</u>	<u>24,252,840</u>
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	6,573,362	453,705	107,128	6,919,939
Buildings and Fixed Equipment	292,447,410	3,313,616	4,667,503	291,093,523
Furniture, Fixtures, and Equipment	14,138,042	1,360,890	1,221,262	14,277,670
Motor Vehicles	26,508,865	4,286,311	152,095	30,643,081
Property under Capital Leases	11,313,019	-	-	11,313,019
Audio-Visual and Computer Software	6,482,909	1,215,528	-	7,698,437
Total Capital Assets Being Depreciated	<u>357,463,607</u>	<u>10,630,050</u>	<u>6,147,988</u>	<u>361,945,669</u>
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	2,412,665	463,898	93,439	2,783,124
Buildings and Fixed Equipment	100,693,672	5,787,995	1,782,830	104,698,837
Furniture, Fixtures, and Equipment	8,466,662	922,668	704,361	8,684,969
Motor Vehicles	8,599,037	1,494,142	93,977	9,999,202
Property under Capital Leases	8,626,203	1,569,783	-	10,195,986
Audio-Visual and Computer Software	3,738,257	479,010	-	4,217,267
Total Accumulated Depreciation	<u>132,536,496</u>	<u>10,717,496</u>	<u>2,674,607</u>	<u>140,579,385</u>
Total Capital Assets Being Depreciated, Net	<u>224,927,111</u>	<u>(87,446)</u>	<u>3,473,381</u>	<u>221,366,284</u>
Governmental Activities Capital Assets, Net	<u>\$236,444,587</u>	<u>\$16,653,115</u>	<u>\$7,478,578</u>	<u>\$245,619,124</u>

DISTRICT SCHOOL BOARD OF ESCAMBIA COUNTY, FLORIDA
Notes to the Basic Financial Statements (Continued)
June 30, 2007

Depreciation expense was charged to the following functions/programs of the primary government as follows:

<u>FUNCTION/PROGRAM</u>	<u>AMOUNT</u>
GOVERNMENTAL ACTIVITIES	
Instruction	\$ 6,155,462
Instructional Media Services	18,157
Instruction & Curriculum Development	448,807
Instructional Staff Training Services	10,535
Instruction Related Technology	494
Board of Education	1,265
General Administration	9,496
School Administration	21,638
Facility Services - Non-Capitalized	149,076
Fiscal Services	1,808
Food Service	285,398
Central Services	155,828
Pupil Transportation Services	1,314,954
Maintenance of Plant	1,570,356
Administrative Technology Services	574,222
	<hr/>
Total Depreciation Expense - Governmental Activities	<u>\$ 10,717,496</u>

8. 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
ERATE Fiber Optics	1,419,930
Software- Koch Financial	554,427
	<hr/>
Total	<u>\$ 11,313,019</u>

DISTRICT SCHOOL BOARD OF ESCAMBIA COUNTY, FLORIDA
Notes to the Basic Financial Statements (Continued)
June 30, 2007

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

Fiscal Year Ending June 30	Total	Principal	Interest
2008	\$ 1,201,782	\$ 1,051,185	\$ 150,597
2009	1,077,336	986,650	90,686
2010	696,342	658,955	37,387
2011	315,349	301,265	14,084
2012	79,000	77,974	1,026
Total Minimum Lease Payments	\$ 3,369,809	\$ 3,076,029	\$ 293,780

The stated interest rates range from 5.27 to 5.89 percent.

9. CERTIFICATES OF PARTICIPATION

The Board entered into financing arrangements with the Florida School Boards Association, Inc., pursuant to which the District has authorized several Certificates of Participation issues, characterized as lease-purchase agreements. The following schedule describes the status at June 30, 2007 of these issues:

Issue	Original	Principal		Refunded By		Balance 6/30/2007
	Amount	Paid	Refunded	Issue	Amount	
1992	\$ 55,830,000	\$ 15,030,000	\$ 24,510,000	1996-1	\$ 26,740,000	\$ -
			16,290,000	2002	16,745,000	-
1996-1	26,740,000	3,395,000	19,145,000	2005/2006	20,000,000	4,200,000
1996-2	21,645,000			2004	22,725,000	
2002	16,745,000	7,615,000				9,130,000
2004	22,725,000	405,000				22,320,000
2005	10,000,000	45,754				9,954,246
2006	10,000,000	140,379				9,859,621
						\$ 55,463,867

As a condition of the financing arrangements, the Board has given ground leases on District property to the Florida School Boards Association Inc., with a rental fee of \$10 per year. The ground lease on the property associated with the Series 1996-1 and 2002 Certificates ends on the earlier of the date on which the Certificates have been paid in full, or June 30, 2018. The ground lease on the property associated with the Series 1996-2 Certificates (as assigned to the 2004 Certificates) ends on the earlier of the date on which the Certificates have been paid in full, or June 30, 2032. The properties covered by the ground lease are, together with the improvements constructed thereon from the financing proceeds, leased back to the District. If the District fails to renew the lease and to provide for the rent payments through to term, the District may be required to surrender the sites included under the ground leases for the benefit of the securers of the Certificates and until the end of the respective ground leases.

DISTRICT SCHOOL BOARD OF ESCAMBIA COUNTY, FLORIDA
Notes to the Basic Financial Statements (Continued)
June 30, 2007

The District properties included in the ground leases noted above are as follows:
The 1996-1 and 2002 Issues

- 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
- Escambia Westgate Center – Pre-Kindergarten Classroom Renovation
- Holm Elementary School – Classroom/Media Addition
- 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
- 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

Certificates of Participation Series 2004 (Refunding Series 1996-2)

- 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

DISTRICT SCHOOL BOARD OF ESCAMBIA COUNTY, FLORIDA
Notes to the Basic Financial Statements (Continued)
June 30, 2007

The lease payments are payable by the District, semiannually, on August 1 and February 1 at interest rates ranging from 2.5 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, 2007:

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 4,959,756	\$ 2,543,820	\$ 2,415,936
2009	4,948,369	2,645,210	2,303,160
2010	4,944,814	2,761,000	2,183,815
2011	4,945,453	2,889,850	2,055,602
2012	4,941,173	3,018,855	1,922,317
2013 - 2017	25,797,846	18,371,824	7,426,022
2018 - 2022	<u>26,205,616</u>	<u>23,233,308</u>	<u>2,972,308</u>
 Total Minimum Lease Payments	 76,743,027	 55,463,867	 21,279,160
 Unamortized Premiums	 <u>668,012</u>	 <u>668,012</u>	 <u>-</u>
 Total Minimum Lease Payments	 <u>\$ 77,411,039</u>	 <u>\$ 56,131,879</u>	 <u>\$ 21,279,160</u>

10. INTEREST RATE SWAP AGREEMENTS

Objectives of the Interest Rate Swap Agreements – In order to protect against the potential of rising interest rates, the District entered into a pay-fixed, receivable-variable interest rate swap agreements with Bank of America for the \$10,000,000 Series 2005 and \$10,000,000 Series 2006 Certificates of Participation, at a cost less than what the District would have paid to issue all fixed rate debt at the time of issuance. The intention of the swap agreements was to effectively change the District's variable interest rate on the Series 2005 and 2006 certificates of participation to synthetically fixed rates of 4.22% and 4.106%, respectively.

Terms – The variable rate Series 2005 Certificate of Participation and related cancelable swap agreement mature on February 1, 2018. The swap's notional amount of \$10,000,000 matches the \$10,000,000 variable-rate certificates of participation. The swap agreement was entered into at the same time the certificates of participation were issued (December 2005). Starting in fiscal year 2007, the notional value of the swap and the principal amount of the associated debt decline. Under the swap agreement, the District pays the counterparty a fixed payment of 3.896% and receives a variable interest payment computed as 63.7% of the London Interbank Offered Rate (LIBOR) plus .065%. The District has the right to cancel the swap on six specific dates beginning May 1, 2015 and ending August 1, 2017.

The variable rate Series 2006 Certificate of Participation and related swap agreement mature on February 1, 2015. The swap's notional amount of \$10,000,000 matches the \$10,000,000 variable-rate certificates of participation. The swap agreement was entered into at the same time the certificates of participation were issued (May 2006). Starting in fiscal year 2007, the notional value of the swap and the principal amount of the associated debt decline. Under the swap agreement, the District pays the counterparty a fixed payment of 4.106% and receives a variable interest payment computed as 63.7% of the London Interbank Offered Rate (LIBOR) plus .065%.

DISTRICT SCHOOL BOARD OF ESCAMBIA COUNTY, FLORIDA
Notes to the Basic Financial Statements (Continued)
June 30, 2007

Fair Value – Because interest rates have declined since inception of the swaps, the swap related to the Series 2005 Certificates of Participation has a negative fair value of \$222,590 as of June 30, 2007 and the swap related to the Series 2006 Certificates of Participation has a fair value of \$7,151 as of June 30, 2007. Bank of America, using a proprietary valuation model, estimated the fair value. The model calculates future cash flows by projecting forward rates, and then discounts those cash flows at their present value. All rates used in the valuation are mid-market levels (mid-way between bid and ask), or are model-based mid-market levels when mid-market levels are not available. The fair values provided take certain factors into consideration, including liquidity of the swap market and the uniqueness of the deal structure as documented in the Agreements.

Basis risk - The District is exposed to basis risk on the swap agreements when the relationship between 63.7% of the 1-month LIBOR plus .065% and the actual rates on the associated certificates of participation diverge. In this situation, the expected savings may not be realized. From the start of the fiscal year ended June 30, 2007, the stated rates on the Series 2005 and Series 2006 certificates of participation were 3.896% and 4.106%, respectively, while 63.7% of the average 1-month LIBOR plus .065% was approximately 3.39%, and the District's interest cost on its certificates of participation exceeded its floating-rate swap receipts by approximately \$141,525 during that period.

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

11. BONDS PAYABLE

Bonds payable at June 30, 2007 are as follows:

Bond Type	Amount Issued	Amount Outstanding	Remaining Interest Rates (Percent)	Annual Maturity To
State School Bonds:				
Series 1998-A	\$ 650,000	\$ 25,000	4.500 - 5.500	2018
Series 2002-B	6,475,000	5,335,000	3.375 - 5.375	2015
Series 2003-A	750,000	690,000	3.000 - 5.000	2023
Series 2004-A	250,000	235,000	3.000 - 4.625	2023
Series 2005-A	115,000	115,000	3.000 - 5.000	2024
Series 2005-A (R) (Refunding)	2,935,000	2,830,000	3.000 - 5.000	2017
Series 2005-B	325,000	325,000	3.000 - 5.000	2018
Subtotal	\$ 11,500,000	\$ 9,555,000		
Unamortized Premiums (Discounts), Net	-	209,305		
Total Bonds Payable	<u>\$ 11,500,000</u>	<u>\$ 9,764,305</u>		

DISTRICT SCHOOL BOARD OF ESCAMBIA COUNTY, FLORIDA
Notes to the Basic Financial Statements (Continued)
June 30, 2007

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

The State Board of Education issued the bonds 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.

Annual requirements to amortize all bonded debt outstanding as of June 30, 2007 are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
<u>State School Bonds</u>			
2008	\$ 1,294,941	\$ 840,000	\$ 454,941
2009	1,292,585	870,000	422,585
2010	1,313,273	925,000	388,273
2011	1,330,310	990,000	340,310
2012	1,349,056	1,060,000	289,056
2013-2017	4,898,960	4,245,000	653,960
2018-2022	562,123	470,000	92,123
2023-2027	164,138	155,000	9,138
Subtotal	12,205,386	9,555,000	2,650,386
Unamortized Premiums (Discounts), Net	209,305	209,305	-
Total Bonds Payable	<u>\$ 12,414,691</u>	<u>\$ 9,764,305</u>	<u>\$ 2,650,386</u>

12. CHANGES IN LONG-TERM DEBT

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

<u>Description</u>	<u>Balance</u> <u>07/01/2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/2007</u>	<u>Due in</u> <u>One Year</u>
GOVERNMENTAL ACTIVITIES					
Bonds Payable	\$ 10,470,000	\$ -	\$ 915,000	\$ 9,555,000	\$ 840,000
Unamortized Premiums (Discounts), Net	239,356	-	30,051	209,305	-
Total Bonds Payable	10,709,356	-	945,051	9,764,305	840,000
Certificates of Participation Payable	58,010,000	-	2,546,133	55,463,867	2,543,820
Unamortized Premiums	719,389	-	51,357	668,012	-
Total Certificates of Participation Payable	58,729,369	-	2,597,490	56,131,879	2,543,820
Obligations Under Capital Leases	4,070,281	-	994,252	3,076,029	1,051,185
Estimated Insurance Claims Payable	21,664,322	41,357,608	37,573,987	25,447,943	9,742,530
Compensated Absences Payable	42,146,487	4,408,733	4,707,814	41,847,406	4,049,396
Total Governmental Activities	<u>\$ 137,319,815</u>	<u>\$ 45,766,341</u>	<u>\$ 46,818,594</u>	<u>\$ 136,267,562</u>	<u>\$ 18,226,931</u>

For the governmental activities, compensated absences are generally liquidated with resources of the General Fund. There are no long-term liabilities associated with the business-type activities.

DISTRICT SCHOOL BOARD OF ESCAMBIA COUNTY, FLORIDA
Notes to the Basic Financial Statements (Continued)
June 30, 2007

13. RESERVE FOR ENCUMBRANCES

Appropriations in governmental funds are encumbered upon issuance of purchase orders for goods and services. Even though appropriations lapse at the end of the fiscal year, unfilled purchase orders of the current year are carried forward and the next year's appropriations are likewise encumbered.

The Florida Department of Education requires that fund balances be reserved at fiscal year-end to report an amount likely to be expended from fiscal year 2007-08 budget as a result of purchase orders outstanding at June 30, 2007.

14. INTERFUND RECEIVABLES, PAYABLE, AND TRANSFERS

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

Funds	Interfund	
	Receivables	Payables
Major Funds:		
General	\$ 6,078,336	\$ 2,720,470
Special Revenue - Other Federal Programs	-	493,590
Capital Improvement	-	3,075,006
Capital Projects - Other	-	91
Nonmajor Governmental Funds	5,737	1,730,280
Internal Service Funds	2,720,470	741,893
Fiduciary Funds	-	43,213
Total	<u>\$ 8,804,543</u>	<u>\$ 8,804,543</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 Governmental Funds:		
General	\$ 7,218,490	\$ -
Capital Improvement	-	13,568,530
Capital Projects - Other	-	19
Nonmajor Governmental Funds	7,000,019	649,960
Total	<u>\$ 14,218,509</u>	<u>\$ 14,218,509</u>

Transfers to the General Fund were made to assist in financing maintenance operations and the purchase or lease of instructional equipment. Transfers to the Nonmajor Governmental Funds were to facilitate the payment of debt service principal and interest.

DISTRICT SCHOOL BOARD OF ESCAMBIA COUNTY, FLORIDA
Notes to the Basic Financial Statements (Continued)
June 30, 2007

15. SCHEDULE OF STATE REVENUE SOURCES

The following is a schedule of the District's State revenue for fiscal year 2006-07:

Source	Amount
Florida Education Finance Program	\$ 123,195,784
Categorical Educational Programs:	
Class Size Reduction	31,574,723
Transportation	11,145,507
Instructional Material	4,159,215
Discretionary Lottery Funds	1,586,871
Other	26,045,282
Workforce Development	5,432,193
Gross Receipts Tax (Public Education Capital Outlay)	5,493,269
Motor Vehicle License Tax (Capital Outlay and Debt Service)	1,648,321
Pari-Mutuel Tax	446,500
Food Service Supplement	371,943
Child Evaluation Program	373,674
Charter School Capital Outlay	602,636
Adults With Disabilities	292,671
Learning for Life	180,000
Provider Support Services	183,057
Shelter Retrofit Grant	471,246
Law Enforcement - General	104,800
Mobile Home License Tax	71,999
Wee Read School Readiness	70,000
Diagnostic and Learning Resource Centers	63,576
Miscellaneous	541,490
Total	\$ 214,054,757

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

DISTRICT SCHOOL BOARD OF ESCAMBIA COUNTY, FLORIDA
Notes to the Basic Financial Statements (Continued)
June 30, 2007

16. PROPERTY TAXES

The following is a summary of millages and taxes levied on the 2006 tax roll for fiscal year 2006-07:

	Millages	Taxes Levied
GENERAL FUND		
Nonvoted School Tax:		
Required Local Effort	5.134	\$ 76,110,612
Basic Discretionary Local Effort	0.510	7,560,657
Supplemental Discretionary Local Effort	0.250	3,706,204
CAPITAL PROJECTS FUNDS		
Nonvoted Tax:		
Local Capital Improvements	2.000	29,649,634
Total	7.894	\$ 117,027,107

17. STATE RETIREMENT PROGRAM

Florida Retirement System. The Florida Retirement System covers all regular employees of the District. The Florida Retirement System offers employees a defined benefit retirement plan and a defined contribution program. The District is required to make contributions in accordance with rates established by the Florida Legislature. Essentially, all regular employees of participating employers are eligible and must enroll as members of the Florida Retirement System.

Defined Benefit Plan. All regular employees working for the District are covered by a State-administered, cost-sharing, multiple-employer, defined benefit retirement plan (Plan) under the Florida Retirement System. Plan provisions are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code, wherein Plan eligibility, contributions, and benefits are defined and described in detail. Benefits in the plan vest at six years service. The Plan also includes an early retirement provision, but imposes a penalty for each year a member retires before the normal retirement date. The Plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments as well as supplements for certain employees to cover social security benefits lost by virtue of retirement system membership.

A Deferred Retirement Option Program (DROP), subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with a Florida Retirement System employer. An employee may participate in the DROP for a period not to exceed 60 months after electing to participate, except that certain instructional personnel may participate for up to 96 months. During the period of DROP participation, deferred monthly benefits are held in the Florida Retirement System Trust Fund and accrue interest.

DISTRICT SCHOOL BOARD OF ESCAMBLIA COUNTY, FLORIDA
Notes to the Basic Financial Statements (Continued)
June 30, 2007

Funding Policy. The contribution rates for members are established, and may be amended, by the State of Florida. During fiscal year 2006-07, contribution rates were as follows:

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

Note: (A) Employer rates include 1.11 percent for the post-employment health insurance supplement. Also employer rates, other than for DROP participants, include 0.05 percent for administrative costs of the Public Employee Optional Retirement Program.

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

The District's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the District. The District's contributions (including employee contributions) for the fiscal years ending June 30, 2005, June 30, 2006, and June 30, 2007, totaled \$12,629,634, \$14,919,364 and \$19,489,904 respectively, which were equal to the required contributions for each fiscal year.

Defined Contribution Plan. Pursuant to Section 121.4501, Florida Statutes, the Florida Legislature created a defined contribution program called the Public Employee Optional Retirement Program (PEORP). This program is administered by the Florida Retirement System as an option to the defined benefit plan, and is self-directed by employees. The employees have the responsibility of selecting how their funds are invested within the approved set of investment choices and may take their funds when they leave the Florida Retirement System. Employer contributions are defined by law, but the ultimate benefit depends in part on the performance of investments funds. The PEORP is funded by employer contributions that are based on salary and membership class (Regular Class, Special Risk Class, etc.). Required employer contributions made to the program for the fiscal years ending June 30, 2005, June 30, 2006, and June 30, 2007, totaled \$739,155, \$857,449 and \$1,428,853 respectively.

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

DISTRICT SCHOOL BOARD OF ESCAMBIA COUNTY, FLORIDA
Notes to the Basic Financial Statements (Continued)
June 30, 2007

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 \$547,954 during the 2006-07 year for retirement incentive pay.

19. OTHER POSTEMPLOYMENT BENEFITS

Plan Description - The Escambia School District Employee Benefit Trust (the "Trust") provides life, health, and dental benefits covering substantially all active and retired employees of the District School Board of Escambia County, Florida (the "District") and their covered dependents. The Trust is a single-employer defined contribution revocable trust. The District issues a publicly available financial report that includes financial statements and required supplementary information for the Trust. The financial report may be obtained by writing to the Assistant Superintendent for Finance and Business Services, District School Board of Escambia County, 215 West Garden Street, Pensacola, FL 32502.

Basis of Accounting - The financial statements of the Trust are prepared using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing or the related cash flows.

Method Used to Value Investments - All investments are with the State Board of Administration Local Government Surplus Funds Trust Fund investment pool and are recorded at amortized cost, which approximates fair value.

DISTRICT SCHOOL BOARD OF ESCAMBIA COUNTY, FLORIDA
Notes to the Basic Financial Statements (Continued)
June 30, 2007

20. CONSTRUCTION CONTRACTS COMMITMENTS

The following is a summary of major construction contract commitments remaining at fiscal year-end. Total other construction contract commitments (individually below \$250,000) amounted to \$5,371,509 at June 30, 2007.

<u>PROJECT</u>	<u>CONTRACT AMOUNT</u>	<u>COMPLETED TO DATE</u>	<u>BALANCE COMMITTED</u>
<u>Weis Elementary School Covered Bus Canopy & Sitework</u>			
Architect/Engineer	\$ 29,188	\$ 16,168	\$ 13,020
Contractor	285,000	-	285,000
<u>Pine Forest High School Re-paving</u>			
Architect/Engineer	37,800	22,660	15,140
Contractor	358,276	-	358,276
<u>West Florida High School Athletic Facilities</u>			
Contractor	537,700	-	537,700
<u>Escambia High School Athletic Facilities</u>			
Architect/Engineer	37,796	9,954	27,842
Contractor	587,000	-	587,000
<u>Pensacola High School Athletic Facilities</u>			
Architect/Engineer	252,961	19,844	233,117
Contractor	51,489	-	51,489
<u>Washington High School Athletic Facilities</u>			
Architect/Engineer	61,182	32,426	28,756
Contractor	544,800	-	544,800
Contractor	36,320	-	36,320
<u>Bratt Elementary School New Media Center</u>			
Contractor	1,490,000	429,056	1,060,944
<u>Escambia High School Additions & Renovations</u>			
Architect/Engineer	158,142	108,260	49,882
Contractor	1,571,200	415,692	1,155,508
Contractor	2,230	-	2,230
<u>Semmes Elementary School Additions & Renovations</u>			
Contractor	1,027,077	512,286	514,791
Contractor	10,546	-	10,546
Contractor	9,710	-	9,710
Contractor	3,080	-	3,080
<u>Ferry Pass Elementary Renovations/Sitework</u>			
Architect/Engineer	182,702	138,473	44,229
Contractor	1,370,000	333,552	1,036,448
<u>Jim Allen Elementary School Window AC Units Replacement</u>			
Architect/Engineer	122,462	77,155	45,307
Contractor	1,012,135	657,873	354,262
Contractor	15,373	-	15,373
Contractor	4,818	4,321	497
<u>Scenic Heights Elementary School Window AC Units Replacement</u>			
Architect/Engineer	97,793	68,322	29,471
Contractor	963,500	236,584	726,916
Contractor	1,270	1,245	25

DISTRICT SCHOOL BOARD OF ESCAMBIA COUNTY, FLORIDA
Notes to the Basic Financial Statements (Continued)
June 30, 2007

<u>PROJECT - Continued</u>	<u>CONTRACT AMOUNT</u>	<u>COMPLETED TO DATE</u>	<u>BALANCE COMMITTED</u>
<u>Pensacola High School Gym & Auditorium</u>			
Architect/Engineer	33,507	33,297	210
Contractor	10,493,231	6,661,313	3,831,918
Contractor	15,749	-	15,749
<u>Tate High School Hurricane Repairs</u>			
Architect/Engineer	53,732	53,640	92
Contractor	860,978	502,348	358,630
<u>Pine Forest High School Hurricane Repairs</u>			
Architect/Engineer	13,831	13,602	229
Contractor	627,210	625,000	2,210
Contractor	273,362	1,817	271,545
<u>Northview High School Roofing</u>			
Architect/Engineer	193,731	107,667	86,064
Contractor	1,859,654	540,832	1,318,822
Total	<u>\$ 25,286,535</u>	<u>\$ 11,623,387</u>	<u>\$ 13,663,148</u>

21. CONSORTIUM

The District is a member of and fiscal agent for the Panhandle Management Development Network (the "Consortium") which performs, contracts for, and purchases certain services to be used by respective school systems, including, but not limited to, in-service training. The Consortium is governed by a Board of Directors composed of superintendents of participating school districts. Consortium activities are accounted for as an Enterprise Fund in the basic financial statements of 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. Coverage for these risks is provided for in a variety of different ways. 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 drug, and health claims.

DISTRICT SCHOOL BOARD OF ESCAMBLIA COUNTY, FLORIDA
Notes to the Basic Financial Statements (Continued)
June 30, 2007

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 in which the District is self-insured, and undiscounted liability in the amount of \$25,447,943 (\$18,979,491 for workers' compensation, automobile, and general liability claims, and \$6,468,452 for dental, prescription drug, and health insurance claims) was actuarially determined to cover estimated incurred, but not reported, insurance claims payable at June 30, 2007.

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

Fiscal Year	Beginning-of- Fiscal- Year Liability	Current-Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-End
2005-06	\$ 20,316,182	\$ 36,692,673	\$ 35,344,533	\$ 21,664,322
2006-07	21,664,322	41,357,608	37,573,987	25,447,943

23. INTERNAL SERVICE FUNDS

The following is a summary of financial information as reported in the Internal Service Funds for the 2006-2007 fiscal year.

	Total	Risk Management	Employee Benefit Trust	Other - Warehouse
Total Assets	\$ 45,363,716	\$ 19,441,561	\$ 25,922,155	\$ -
Liabilities and Net Assets:				
Accounts Payable	\$ 362,956	\$ -	\$ 362,956	\$ -
Deferred Revenue	3,385,501	-	3,385,501	-
Estimated Insurance Claims Payable	25,447,943	18,979,491	6,468,452	-
Due To Other Funds	741,894	462,070	279,824	-
Restricted Net Assets	15,425,422	-	15,425,422	-
Total Liabilities and Net Assets	\$ 45,363,716	\$ 19,441,561	\$ 25,922,155	\$ -
Revenues:				
Premiums	\$ 45,668,113	\$ 5,769,756	\$ 39,898,357	\$ -
Charges for Services	1,068,461	-	-	1,068,461
Other Operating Revenue	723,389	-	723,389	-
Non-Operating Revenue-Loss Recoveries	354,341	354,341	-	-
Interest Income	1,928,380	771,661	1,156,719	-
Total Revenues	49,742,684	6,895,758	41,778,465	1,068,461
Total Expenses	(48,556,319)	(6,895,758)	(40,592,100)	(1,068,461)
Change in Net Assets	\$ 1,186,365	\$ -	\$ 1,186,365	\$ -

DISTRICT SCHOOL BOARD OF ESCAMBIA COUNTY, FLORIDA
Notes to the Basic Financial Statements (Continued)
June 30, 2007

24. EXTRAORDINARY ITEM

In September 2004, the District suffered significant damage from Hurricane Ivan then subsequent damage from Dennis and Katrina. The \$20,181,553 extraordinary item represents hurricane damage loss recoveries as of June 30, 2007. Expenditures associated with these recoveries are accounted for in the District's financial statements as period costs.

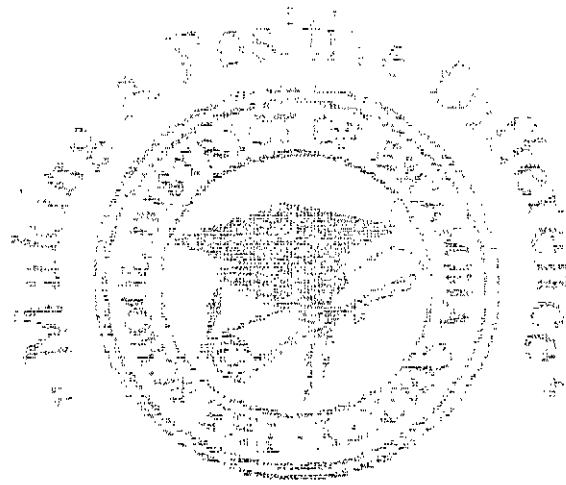
25. LOSS CONTINGENCY

The Escambia County Property Appraiser is involved in ongoing litigation with the Pensacola Beach leaseholders and Residents Association regarding the appraisals on and taxability of the values of leasehold improvements on Pensacola Beach. During the litigation, some leaseholders have chosen to pay the assessed taxes while others have chosen not to pay the assessed taxes pending the outcome of the litigation. Depending upon the ultimate outcome of this litigation, the District may be entitled to its portion (estimated at \$10,552,352 at June 30, 2007) of the gross taxes uncollected from leaseholders, or the District may be required to return its portion of the gross taxes collected from the leaseholders. At June 30, 2007, the District has received \$3,280,838 in taxes collected from leaseholders, of which \$810,516 is from the local capital improvement tax.

26. LITIGATION

The School Board is a defendant in numerous lawsuits as of June 30, 2007. It is the opinion of management, after giving consideration to the District's related insurance coverage, as well as the Florida Statutory limitations on governmental liabilities on uninsured risks, that the amount of loss resulting from litigation would not be material to the financial position of the District.

REQUIRED SUPPLEMENTARY INFORMATION



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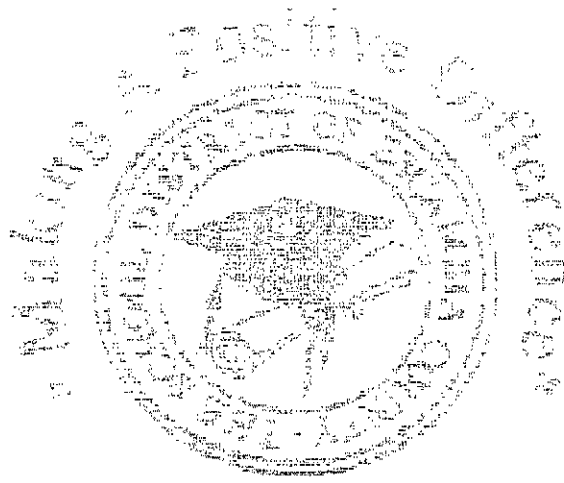
DISTRICT SCHOOL BOARD OF ESCAMBIA COUNTY, FLORIDA
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
General Fund
Year Ended June 30, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Federal direct	\$ 1,370,000	\$ 2,344,543	\$ 2,344,543	\$ -
Federal through state	1,000,000	2,846,327	2,702,400	(143,927)
State sources	201,960,251	199,624,820	199,562,519	(62,301)
Local sources	89,126,151	87,787,646	87,787,646	-
Total revenues	<u>293,466,402</u>	<u>292,603,336</u>	<u>292,397,108</u>	<u>(206,228)</u>
Expenditures				
Current:				
Instruction	188,890,883	189,156,670	178,240,603	10,916,067
Pupil personnel services	15,218,609	15,181,093	14,695,148	485,945
Instructional media services	5,469,786	6,016,067	5,799,590	216,477
Instruction and curriculum development services	5,793,692	6,740,847	6,506,552	234,295
Instructional staff training services	2,895,149	3,411,274	3,207,229	204,045
Instruction related technology	1,453,154	1,677,102	1,648,547	28,555
Board	1,215,574	1,227,070	1,062,728	164,342
General administration	827,783	693,166	693,146	20
School administration	16,128,953	16,201,647	15,890,661	310,986
Facilities acquisition and construction	2,366,973	16,907,510	14,773,036	2,134,474
Fiscal services	2,311,305	2,390,411	2,255,802	134,609
Food services	197,980	439,577	439,567	10
Central services	5,147,983	5,540,149	3,778,297	1,761,852
Pupil transportation services	16,233,416	15,842,965	15,415,350	427,615
Operation of plant	29,851,993	29,155,285	27,235,956	1,919,329
Maintenance of plant	15,500,321	14,933,952	12,291,477	2,642,475
Administrative technology services	3,373,206	3,254,468	3,090,685	163,783
Community services	947,742	915,284	459,284	456,000
Capital outlay - facilities acquisition and construction	1,617,096	13,452,094	8,737,227	4,715,467
Capital outlay - other capital outlay	1,376,487	3,070,925	2,178,347	892,578
Debt service:				
Principal	886,124	887,867	883,277	4,590
Interest and fees	193,803	195,242	195,242	-
Total expenditures	<u>317,920,012</u>	<u>347,291,265</u>	<u>319,477,751</u>	<u>27,813,514</u>
Deficiency of revenues over expenditures	<u>(24,463,610)</u>	<u>(54,687,929)</u>	<u>(27,080,643)</u>	<u>27,607,286</u>
Other financing sources				
Transfers in	6,765,095	7,218,490	7,218,490	-
Total other financing sources	<u>6,765,095</u>	<u>7,218,490</u>	<u>7,218,490</u>	<u>-</u>
Change in fund balance before extraordinary item	(17,698,515)	(47,469,439)	(19,862,153)	27,607,286
Extraordinary item	36,450	20,215,947	20,179,497	(36,450)
Net change in fund balances	<u>(17,662,065)</u>	<u>(27,253,492)</u>	<u>317,344</u>	<u>27,570,836</u>
Fund balance - beginning	<u>39,524,168</u>	<u>39,524,168</u>	<u>39,524,168</u>	<u>-</u>
Fund balance - ending	<u>\$ 21,862,103</u>	<u>\$ 12,270,676</u>	<u>\$ 39,841,512</u>	<u>\$ 27,570,836</u>

DISTRICT SCHOOL BOARD OF ESCAMBIA COUNTY, FLORIDA
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Special Revenue Other Federal Fund
Year Ended June 30, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Federal direct	\$ 493,524	\$ 262,642	\$ 187,403	\$ (75,239)
Federal through state	35,092,898	36,671,362	32,346,156	(4,325,206)
Total revenues	<u>35,586,422</u>	<u>36,934,004</u>	<u>32,533,559</u>	<u>(4,400,445)</u>
Expenditures				
Current:				
Instruction	17,865,747	17,527,462	15,763,376	1,764,086
Pupil personnel services	3,136,239	3,228,567	3,048,883	179,684
Instructional media services	57,779	70,176	67,303	2,873
Instruction and curriculum development services	4,276,268	6,026,889	5,012,372	1,014,517
Instructional staff training services	5,086,864	4,790,416	4,200,559	589,857
Instruction related technology	1,048,358	1,166,303	1,128,769	37,534
Board	600	-	-	-
General administration	477,995	673,867	667,259	6,608
School administration	61,185	14,425	9,729	4,696
Facilities acquisition and construction	27,815	11,800	6,467	5,333
Fiscal services	1,500	-	-	-
Food services	2,000	-	-	-
Central services	228,263	241,948	234,619	7,329
Pupil transportation services	702,189	799,946	452,972	346,974
Operation of plant	77,455	48,861	46,315	2,546
Maintenance of plant	7,915	3,158	1,558	1,600
Administrative technology services	82,965	52,970	52,885	85
Community services	470,410	323,584	250,248	73,336
Capital outlay - facilities acquisition and construction	174,266	18,913	15,314	3,599
Capital outlay - other capital outlay	1,682,051	1,816,162	1,451,234	364,928
Debt service:				
Principal	104,803	110,975	110,975	-
Interest and fees	19,631	13,458	13,458	-
Total expenditures	<u>35,592,298</u>	<u>36,939,880</u>	<u>32,534,295</u>	<u>4,405,585</u>
Excess (deficiency) of revenues over expenditures	<u>(5,876)</u>	<u>(5,876)</u>	<u>(736)</u>	<u>5,140</u>
Net change in fund balances	<u>(5,876)</u>	<u>(5,876)</u>	<u>(736)</u>	<u>5,140</u>
Fund balance - beginning	<u>5,876</u>	<u>5,876</u>	<u>5,876</u>	<u>-</u>
Fund balance - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,140</u>	<u>\$ 5,140</u>

COMPLIANCE AND SINGLE AUDIT



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DISTRICT SCHOOL BOARD OF ESCAMBIA COUNTY, FLORIDA
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2007

Grantor/Program	CFDA Number	Pass-Through Grantor Number	Amount of Expenditures	Amount Provided to Subrecipients
United States Department of Agriculture:				
Indirect:				
Florida Department of Agriculture and Consumer Services:				
Food Distribution	10.550 ⁽²⁾	None	\$ 827,471	\$ -
Florida Department of Education:				
Child Nutrition Cluster:				
School Breakfast Program	10.553	321	2,428,365	-
National School Lunch Program	10.555	300	8,415,882	-
Total Child Nutrition Cluster			10,844,247	-
Total United States Department of Agriculture			11,671,718	-
United States Department of Labor:				
Indirect:				
Workforce Escarosa, Inc.:				
WIA Youth Activities	17.259	None	221,229	-
Total United States Department of Labor			221,229	-
United States Department of Education:				
Direct:				
Federal Student Aid Cluster:				
Federal Supplemental Educational Opportunity Grants	84.007	N/A	10,725	-
Federal Work-Study Program	84.033	N/A	1,298	-
Federal Pell Grant Program	84.063	N/A	175,388	-
Total Student Financial Assistance Programs Cluster			187,411	-
Impact Aid	84.041	N/A	1,152,581	-
Total Direct			1,339,992	-
Indirect:				
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027A	262, 263	11,230,308	-
Special Education - Preschool Grants	84.173A	266, 267	429,230	-
University of Florida:				
Special Education - Grants to States	84.027	None	49	-
Leon County District School Board:				
Special Education - Grants to States	84.027	None	147	-
Washington County District School Board (PAEC):				
Special Education - Preschool Grants	84.173	None	42	-
Total Special Education Cluster			11,659,776	-
Adult Education - State Grant Program	84.002A	191	115,624	-
Title I Grants to Local Educational Agencies	84.010A	212, 222, 223, 226, 228	12,509,628	-
Vocational Education - Basic Grants to States	84.048A	151, 152	642,398	-
Safe and Drug-Free Schools and Communities - State Grants	84.186A	103	240,381	-
Education for Homeless Children and Youth	84.196A	127	84,986	-
Even Start - State Educational Agencies	84.213C	219	17,552	-
Charter Schools	84.282	298	25,000	25,000
State Grants for Innovative Programs	84.298A	113	74,166	-
Education Technology State Grants	84.318	121, 122	536,106	-

DISTRICT SCHOOL BOARD OF ESCAMBIA COUNTY, FLORIDA
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2007

Grantor/Program	CFDA Number	Pass-Through Grantor Number	Amount of Expenditures	Amount Provided to Subrecipients
United States Department of Education (continued):				
Indirect (continued):				
Reading First - Title I, Part B, NCLB	84.357A	211	2,376,925	
Voluntary Public School Choice	84.361	299	81,187	
English Language Acquisition Grants	84.365A	102	75,153	-
Mathematics and Science Partnerships	84.366B	235	477,866	
Improving Teacher Quality State Grants	84.367A	224	3,083,360	-
Katrina-Rita Assistance for Homeless Youth	84.938B	104	30,352	-
Total Indirect			<u>32,030,460</u>	<u>25,000</u>
Total United States Department of Education			<u>33,370,452</u>	<u>25,000</u>
United States Department of Health and Human Services:				
Indirect:				
University of Florida:				
Developmental Disabilities Basic Support and Advocacy Grants	93.630	None	61	-
Corporation for National and Community Service:				
Indirect:				
Florida Department of Education:				
Learn and Serve America - School and Community Based Programs	94.004	234	1,270	-
United States Department of Homeland Security:				
Indirect:				
Florida Department of Education:				
State Domestic Preparedness Equipment Support Program	97.004	5325A	93,864	-
Florida Department of Community Affairs:				
Public Assistance Grants - Hurricane Ivan	97.036	05-PA-G-01-27-01-540	2,490,394	-
Public Assistance Grants - Hurricane Dennis	97.036	06-DN-G-01-27-03-542	701,571	-
Total United States Department of Homeland Security			<u>3,285,829</u>	-
United States Department of Defense:				
Direct:				
Army Junior Reserve Officers Training Corps	None	N/A	64,162	-
Air Force Junior Reserve Officers Training Corps	None	N/A	53,959	-
Navy Junior Reserve Officers Training Corps	None	N/A	298,943	-
Total United States Department of Defense			<u>417,064</u>	-
Total Expenditures of Federal Awards			<u>\$48,967,623</u>	<u>\$ 25,000</u>

⁽¹⁾ **Basis of Presentation**

The Schedule of Expenditures of Federal Awards represents amounts expended from Federal Programs during the 2006-2007 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 financial statements have been reported.

⁽²⁾ **Noncash Assistance**

(A) Food Distribution - Represents the amount of donated food used during the 2006-2007 fiscal year. Donated food is valued at fair value as determined at the time of donation by the Florida Department of Agriculture and Consumer Services, Bureau of Food Distribution.



**Independent Auditors' Report on Internal Control over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards***

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

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 District School Board of Escambia County, Florida (the "District") as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 5, 2008. We did not audit the financial statements of the aggregate discretely presented component units; those financial statements were audited by other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A 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. 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 the 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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

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

Cherry, Bekart + Holland, L.L.P.

Orlando, Florida
February 5, 2008



**Independent Auditors' Report on Compliance
with Requirements Applicable to Each Major
Program and Internal Control over Compliance
in Accordance with OMB Circular A-133**

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

Compliance

We have audited the compliance of the District School Board of Escambia County (the "District") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with 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 School Board of Escambia County's internal control over compliance.

A *control deficiency* in an Entity'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 Entity'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 Entity'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 Entity'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.

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

Cherry, Bekant & Holland, L.L.P.

Orlando, Florida
February 5, 2008

District School Board of Escambia County, Florida
Schedule of Findings and Questioned Costs
Year Ended June 30, 2007

Part I - Summary of Audit Results

1. The auditors' report on the financial statements expresses unqualified opinions.
2. No significant deficiencies or material weaknesses relating to the audit of the financial statements are reported in the Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of the District were disclosed during the audit.
4. No significant deficiencies or material weaknesses relating to the audit of the major federal awards programs are reported in the Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for the District expresses an unqualified opinion.
6. The programs tested as major programs were:

<u>Name of Program</u>	<u>CFDA #</u>
Child Nutrition Cluster:	
School Breakfast Program	10.553
National School Lunch Program	10.555
 Improving Teacher Quality	 84.367

The threshold for distinguishing Type A programs was \$1,469,029.

The District was determined to be a low risk auditee.

Part II - Financial Statement Findings Section

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with paragraphs 5.18 through 5.20 of *Government Auditing Standards*.

None reported.

Part III - Federal Award Finding and Questioned Costs Section

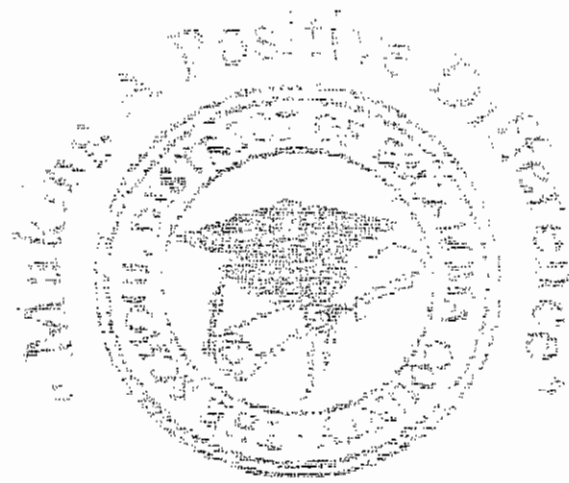
None reported.

DISTRICT SCHOOL BOARD OF ESCAMBIA COUNTY, FLORIDA
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2007

**Audit Report No.
and Federal
Awards Finding No.**

Program/Area	Brief Description	Status	Comments
05-04 & 06-01 Child Nutrition Cluster [School Breakfast Program (CFDA 10.553) and National School Lunch Program (CFDA 10.555)], Special Education Cluster [Grants to States (CFDA 84.027) and Preschool Grants (84.173)], Title I Grants to Local Educational Agencies (CFDA 84.010), Reading First (84.357), and Public Assistance Grants (CFDA 97.036) - Suspension and Debarment	The District did not verify that vendors receiving payments were not suspended or debarred from receiving Federal funds.	Complete	The District has established procedures to verify, prior to contracting with applicable vendors, that the vendors are not suspended or debarred or otherwise excluded from receiving Federal funds, either having vendors sign a <i>Certification Regarding Debarment, Suspension, Ineligibility and Voluntary Exclusion - Lower Tier Covered Transactions</i> form or visually verifying they were not listed on the <i>Excluded Parties List System</i> website.

OTHER INFORMATION



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Independent Auditors' Management Letter

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

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 District School Board of Escambia County, Florida (the "District") as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 5, 2008. 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.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We have issued our Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* dated February, 5, 2008, and it should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.800, Rules of the Auditor General. Those rules (Section 10.804(1)(d)1.) require that we address in the management letter, if not already addressed in the auditors' report on internal controls over financial reporting and on compliance and other matters, whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report. Recommendations made in the prior year annual financial audit have been followed.

As required by the Rules of the Auditor General (Section 10.804(1)(d)2.), the scope of our audit included a review of the provisions of Section 218.503(1), Florida Statutes, regarding financial emergencies. In connection with our audit of the financial statements of the District, the results of our tests did not indicate that the District met any of the conditions of a financial emergency contained in Section 218.503(1), Florida Statutes. However, our audit does not provide a legal determination on the District's compliance with this requirement.

The Rules of the Auditor General (Section 10.804(1)(d)3.) require disclosure of recommendations to address deteriorating financial conditions pursuant to Section 218.39(5), Florida Statutes. There were no such recommendations.

The Rules of the Auditor General (Section 10.804(1)(d)4.) state that a management letter shall include a statement as to whether or not the District complied with Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit of the financial statements of the District, the results of our tests did not indicate that the District was in noncompliance with Section 218.415 regarding the investment of public funds. However, our audit was not directed toward obtaining knowledge regarding the District's compliance with this requirement.

The Rules of the Auditor General (Section 10.804(1)(d)5.) allow for the following matters that are inconsequential to the financial statements, considering both quantitative and qualitative factors, to be reported based on professional judgment: (a) violations of laws, rules, regulations, and contractual provisions or abuse that have occurred, or are likely to have occurred that were discovered within the scope of the financial audit; (b) improper expenditures discovered within the scope of the financial audit; (c) deficiencies in internal control of inconsequential effect in relation to the financial statements and other recommendations to improve the District's present financial management, accounting procedures, and accounting controls. There were no such recommendations.

In planning and performing our audit of the financial statements for the year ended June 30, 2007, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

We wish to thank the District's finance and accounting personnel and others involved in the conduct of the audit for their courtesy and cooperation.

This report is intended for the information of the District School Board, applicable management, and applicable federal and state agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Cherry, Bekant & Holland, L.L.P.

Orlando, Florida
February 5, 2008