AUDITOR GENERAL

WILLIAM O. MONROE, CPA

ESCAMBIA COUNTY
DISTRICT SCHOOL BOARD

Financial and Federal Single Audit

For the Fiscal Year Ended June 30, 2005

Escambia County District School Board members and the Superintendent of Schools who served during the 2004-05 fiscal year are shown in the following tabulation:

	District No.
Gary Bergosh, Chair from 11-16-04	*1*
Cary Stidham, Chair to 11-15-04	*2*
Ronnie L. Clark to 3-11-05 (1)	*3*
Dr. Charles E. Glover, Sr., from 3-23-05	*3*
Dr. John DeWitt to 11-15-04, Vice-Chair	*4*
Patricia Hightower from 11-16-04, Vice-Chair	*4*
Linda Finkelstein to 11-15-04	*5*
Peter R. Gindle, Sr., from 11-16-04	*5*

Jim Paul, Superintendent

(1) Board member resigned. Position remained vacant until filled.

AUDITOR GENERAL

The Auditor General provides independent, unbiased, timely, and relevant information to the Legislature, entity management, and the citizens of the State of Florida which can be used to improve the operations and accountability of public entities.

ESCAMBIA COUNTY DISTRICT SCHOOL BOARD

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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

The Escambia County District School Board prepared its basic financial statements for the fiscal year ended June 30, 2005, in accordance with prescribed financial reporting standards. Club and class activity funds of the individual schools and the District's discretely presented component units were not included within the scope of our audit.

Summary of Report on Internal Control and Compliance

The District has established and implemented procedures that generally provide for internal control of District operations. The District generally complied with significant provisions of laws, administrative rules, regulations, contracts, and grant agreements. However, we did note an internal control finding that is summarized below.

Finding No. 1: Payment and Performance Bonds

Contrary to Section 255.05, Florida Statutes, during the emergency period subsequent to Hurricane Ivan, the District did not obtain payment and performance bonds from contractors hired to repair hurricane-related damages.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Child Nutrition Cluster, Title I Grants to Local Educational Agencies, and Public Assistance Grant programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that were applicable to the major Federal programs tested. However, we did note compliance and internal control findings that are summarized below.

Federal Awards Finding No. 1: Special Tests and Provisions - Verifications

Federal regulations require school districts to select a sample of applications for free and reduced-price meals to verify the eligibility of students receiving the free or reduced-price meals. The District used one of the sampling methods (focused sampling) authorized by Federal regulations; however, District personnel did not properly select the sample of applications following the requirements for this sampling method.

Federal Awards Finding No. 2: Special Tests and Provisions - Competitive Food Sales

Contrary to Federal regulations and State Board of Education rules, two of four high schools included in our testing had vending machines that contained carbonated beverages in the immediate proximity of the school cafeteria and that were available to students during lunch hours.

Federal Awards Finding No. 3: Cash Management

The District earned interest of $44,164 on Federal cash advances during the 2004-05 fiscal year and did not remit the earnings to the Florida Department of Education each quarter contrary to Federal regulations. Subsequent to our inquiry, District personnel remitted these interest earnings in October 2005.

Federal Awards Finding No. 4: Suspension and Debarment

Except for food service vendors, the District did not determine if vendors were suspended or debarred from receiving Federal funds. Our tests disclosed $4,575,805 in payments to vendors for which the District should have determined if the vendors had been suspended or debarred.

Federal Awards Finding No. 5: Activities Allowed or Unallowed

The District used Title I funds totaling $9,000 to pay for software training at six non-Title I schools. These payments are considered questioned costs subject to disallowance by the grantor.

Federal Awards Finding No. 6: Special Tests and Provisions – Identifying Schools Needing Improvement

Federal regulations require school districts to directly notify the parents of students enrolled in schools identified as needing improvement and provide specific information about the identification and the parents' options regarding their child's education. Our review disclosed several deficiencies in the District's notifications to parents that may have limited the ability of the parents to make informed decisions regarding the educational choices available to the children.

Federal Awards Finding No. 7: Matching, Level of Effort, Earmarking – Targeting Funds for Choice Related Transportation

The District did not offer middle school students attending schools identified as needing improvement the choice of being transported to other qualifying District schools. If middle school students had been offered the choice of transferring to other qualifying District schools, we estimate that the cost to transport these students would have been approximately $68,000. These costs are considered questioned costs subject to disallowance by the grantor.

Federal Awards Finding No. 8: Special Tests and Provisions – Highly Qualified Paraprofessionals

The District used $14,311 in Title I funds to pay the salaries and benefits of two paraprofessionals. The District determined that one of these paraprofessionals did not have the qualifications to work in the Title I program and had not determined if the other paraprofessional was properly qualified. These payments are considered questioned costs subject to disallowance by the grantor.

Audit Objectives and Scope

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

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

The scope of this audit included an examination of the District's basic financial statements and the Schedule of Expenditures of Federal Awards as of and for the fiscal year ended June 30, 2005. We obtained an understanding of internal control and assessed control risk necessary to plan the audit of the basic financial statements and Federal awards. We also examined various transactions to determine whether they were executed, both in manner and substance, in accordance with governing provisions of laws, administrative rules, regulations, contracts, and grant agreements.

Audit Methodology

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

This audit was conducted by Kenneth C. Danley, CPA, and supervised by James W. Kiedinger, Jr., CPA. Please address inquiries regarding this report to David W. Martin, CPA, Audit Manager, via e-mail at davidmartin@aud.state.fl.us or by telephone at (850) 487-9039.

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

FINDINGS AND RECOMMENDATIONS

Reportable Condition

Finding No. 1: Construction Contract Administration – Payment and Performance Bonds

Section 255.05, Florida Statutes, requires that contractors furnish a payment and performance bond to the District when constructing or repairing District facilities and when project costs exceed $200,000. A payment bond guarantees payment of the contractor's obligation under the contract for subcontractors, laborers, and material suppliers associated with the project. A performance bond guarantees performance of the terms of the contract and protects the District from financial loss should the contractor fail to perform the contract in accordance with its terms and conditions.

In September 2004, Hurricane Ivan caused major damage to District property and facilities. District personnel indicated that, for a period of time immediately after the hurricane, the District did not obtain payment and performance bonds from contractors hired to repair this damage due to the emergency nature of the purchases. For example, the District entered into an agreement with a contractor for various restoration, repair, and clean-up services at several District facilities that were damaged by the hurricane. Purchase orders issued under this agreement totaled approximately $11.4 million. However, contrary to the requirements of the Florida Statutes noted above, the District did not obtain a payment and performance bond from this contractor. The District has since received a demand letter from one of the subcontractors of this contractor in the amount of $2.9 million, which may result in legal action if the parties are unable to reach a resolution. Failure to obtain payment and performance bonds increases the risk that the District may be held liable for a contractor's failure to perform its contractual obligations or to properly pay all subcontractors engaged on the projects.

Recommendation: The District should ensure that payment and performance bonds are obtained from all contractors who construct or repair District facilities as required by law.

MANAGEMENT RESPONSE

In accordance with the provisions of Section 11.45(4)(d), Florida Statutes, a list of audit findings and recommendations was submitted to members of the Escambia County District School Board and the Superintendent. The Superintendent's written response to the audit findings and recommendations included in this report is shown on pages 69 through 74.

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS

BASIC FINANCIAL STATEMENTS

EXHIBIT – A *Statement of Net Assets.*

EXHIBIT – B *Statement of Activities.*

EXHIBIT – C *Balance Sheet – Governmental Funds.*

EXHIBIT – D *Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets.*

EXHIBIT – E *Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.*

EXHIBIT – F *Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities.*

EXHIBIT – G *Statement of Net Assets – Proprietary Funds.*

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

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

EXHIBIT – J *Statement of Fiduciary Assets and Liabilities – Fiduciary Funds.*

EXHIBIT – K *Notes to Financial Statements.*

OTHER REQUIRED SUPPLEMENTARY INFORMATION

EXHIBIT – L *Budgetary Comparison Schedule – General Fund.*

AUDITOR GENERAL
STATE OF FLORIDA

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AUDITOR GENERAL

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

INDEPENDENT AUDITOR'S
REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Escambia County District School Board as of and for the fiscal year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed on page 2. 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.

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

Pursuant to State Board of Education Rule 6A-1.0013(5), Florida Administrative Code, the District is required to otherwise provide for audits of its direct-support organization, the Escambia County Public Schools Foundation for Excellence, Inc. (Foundation). Also, pursuant to Section 1002.33(9)(g), Florida Statutes, the District's six charter schools included in the District's reporting entity are required to provide for an annual financial audit in accordance with Section 218.39, Florida Statutes. Accordingly, our audit did not extend to the Foundation and the charter schools reported as aggregate discretely presented component units on the accompanying basic

financial statements. These financial activities represent 100 percent of the transactions and account balances of the component units columns.

Pursuant to State Board of Education Rule 6A-1.087, Florida Administrative Code, the District is required to otherwise provide for audits of the school and activity funds, commonly called the school internal funds. Accordingly, our audit did not extend to the school internal funds reported as Agency Funds on the accompanying basic financial statements. These financial activities represent 6 percent and 10 percent of the assets and liabilities, respectively, of the aggregate remaining fund information.

Because the charter schools' and the Foundation's financial statements have not been audited, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements of the aggregate discretely presented component units as of and for the fiscal year ended June 30, 2005.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the school internal funds been audited, the financial statements referred to above present fairly, in all material respects, the financial position of the aggregate remaining fund information of the Escambia County District School Board as of June 30, 2005, and the changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Escambia County District School Board as of June 30, 2005, and the respective changes in financial position thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

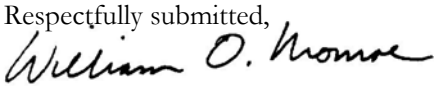
In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of the Escambia County District School Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, administrative rules, regulations, contracts, and grant agreements included under the heading ***INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS***. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis (pages 6 through 12) and the Budgetary Comparison Schedule (shown as Exhibit L) are not a required part of the basic financial statements but are supplementary information

required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion thereon.

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

Respectfully submitted,



William O. Monroe, CPA
November 15, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Escambia County District School Board's management has prepared the following discussion and analysis to provide an overview of the District's financial activities for the fiscal year ended June 30, 2005. The information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events, and conditions, and should be considered in conjunction with the District's financial statements and notes to financial statements found on pages 13 through 51.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2004-05 fiscal year are as follows:

- The assets of the District exceeded its liabilities at June 30, 2005, by $236.8 million (net assets).
- In total, net assets increased $43.7 million, which represents a 22.6 percent increase from the 2003-04 fiscal year. Of this increase, the District's investment in capital assets (net of related debt) increased $9.7 million and restricted and unrestricted net assets increased $13.6 million and $20.3 million, respectively.
- General revenues and the extraordinary item total $354.5 million, or 90.7 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total $36.3 million, or 9.3 percent.
- Expenses total $347.1 million; only $36.3 million of these expenses were offset by program specific charges, with the remainder paid from general revenues. Total revenues and extraordinary items exceed total expenses by $43.7 million.
- The unreserved fund balance of the General Fund, representing the net current financial resources available for general appropriation by the Board, totaled $15.5 million at June 30, 2005, or 5.7 percent of total General Fund expenditures.
- The District's total long-term liabilities decreased by $6.2 million, or 4.3 percent from the 2003-04 fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements consist of three components:

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

Government-Wide Financial Statements

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

An increase or decrease in net assets is an indication of whether the District's financial health is improving or deteriorating.

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

- Governmental activities – This represents most of the District's services, including its educational programs: basic, vocational, adult, and exceptional education. Support functions such as transportation and administration are also included. Local property taxes and the State's education finance program provide most of the resources that support these activities.
- Business-type activities – The District charges fees to cover the cost of certain services it provides. These activities include the operations of the Panhandle Management Development Network consortium which performs, contracts for, and purchases certain services to be used by school systems including, but not limited to, in-service training. The District is a member of the consortium and acts as its fiscal agent. Therefore, its financial activities are reported in the District's financial statements.
- Component units – The District presents aggregate financial information for the following seven separate legal entities in this report: Escambia Charter School, Inc., Beulah Academy of Science, Inc., Pensacola Beach Elementary School, Inc., Byrneville Elementary School, Inc., Dr. Ruby J. Gainer School For Reaching Your Dream, Jacqueline Harris Preparatory Academy, and the Escambia County Public Schools Foundation For Excellence, Inc. Although legally separate organizations, the component units are included in this report because they meet the criteria for inclusion provided by generally accepted accounting principles.

Fund Financial Statements

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

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

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

The governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances provide detailed information about the District's most significant funds. The District's major funds are the General Fund, the Capital Projects – Local Capital Improvement Fund and the Capital Projects – Other Fund. The Capital Projects – Local Capital Improvement Fund accounts for capital project activities funded primarily from property tax collections restricted for capital outlay. The Capital Projects – Other Fund accounts for capital project activities funded primarily from local option sales taxes, certificates of participation proceeds, and State Classrooms for Kids revenues. Data from the other governmental funds are combined into a single, aggregated presentation.

The District adopts an annual appropriated budget for its governmental funds. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with the budget.

Proprietary Funds. Proprietary funds may be established to account for activities in which a fee is charged for services. Two types of proprietary funds are maintained:

- Enterprise funds are used to report the same functions as business-type activities in the government-wide financial statements. The District uses an enterprise fund to account for the activities of the Panhandle Management Development Network.
- Internal service funds are used to report activities that provide goods and services to support the District's other programs and functions through user charges. The District uses the internal service funds to account for risk management, employee benefits, and warehouse activities. Since these services predominantly benefit governmental rather than business-type functions, the internal service funds have been included within governmental activities in the government-wide financial statements.

The District's only enterprise fund accounts for the activities of the Panhandle Management Development Network. The internal service funds are combined into a single, aggregated column in the proprietary fund financial statements.

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

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

Notes to Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. The following is a summary of the District's net assets as of June 30, 2005, compared to net assets as of June 30, 2004:

Net Assets, End of Year

	Governmental Activities		Business-Type Activities		Total	
	6-30-05	6-30-04	6-30-05	6-30-04	6-30-05	6-30-04
Current and Other Assets	$ 158,602,302	$ 119,177,270	$ 9,518	$ 2,591	$ 158,611,820	$ 119,179,861
Capital Assets	239,140,648	237,652,300		486	239,140,648	237,652,786
Total Assets	397,742,950	356,829,570	9,518	3,077	397,752,468	356,832,647
Long-Term Liabilities	139,219,326	145,437,048			139,219,326	145,437,048
Other Liabilities	21,734,914	18,266,319		378	21,734,914	18,266,697
Total Liabilities	160,954,240	163,703,367		378	160,954,240	163,703,745
Net Assets:						
Invested in Capital Assets - Net of Debt	163,801,365	154,090,375		486	163,801,365	154,090,861
Restricted	73,009,496	59,376,537	9,518	2,213	73,019,014	59,378,750
Unrestricted (Deficit)	(22,151)	(20,340,709)			(22,151)	(20,340,709)
Total Net Assets	$ 236,788,710	$ 193,126,203	$ 9,518	$ 2,699	$ 236,798,228	$ 193,128,902

The largest portion of the District's net assets (69.2 percent) reflects its investment in capital assets (e.g., land, buildings, furniture and equipment), less any related debt still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending.

The restricted portion of the District's net assets (30.8 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 million, will be paid over future years when vested employees are paid for their leave upon separation from the District.

Total net assets increased during the fiscal year. The key elements of the changes in the District's net assets for the fiscal years ended June 30, 2005, and June 30, 2004, are as follows:

Operating Results for the Year

	Governmental Activities		Business-Type Activities		Total	
	6-30-05	6-30-04	6-30-05	6-30-04	6-30-05	6-30-04
Program Revenues:						
Charges for Services	$ 6,302,256	$ 6,487,345	$ 53,186	$ 57,327	$ 6,355,442	$ 6,544,672
Operating Grants and Contributions	23,087,951	22,377,627			23,087,951	22,377,627
Capital Grants and Contributions	6,884,765	9,783,044			6,884,765	9,783,044
General Revenues:						
Property Taxes Levied for Operational Purposes	69,965,605	63,387,027			69,965,605	63,387,027
Property Taxes Levied for Capital Projects	21,828,681	18,720,521			21,828,681	18,720,521
Local Sales Taxes	22,265,741	18,321,536			22,265,741	18,321,536
Grants and Contracts Not Restricted to Specific Programs	197,604,758	189,999,251			197,604,758	189,999,251
Unallocated Investment Earnings	2,485,859	1,148,147	269	196	2,486,128	1,148,343
Miscellaneous	5,162,919	3,491,218			5,162,919	3,491,218
Total Revenues	355,588,535	333,715,716	53,455	57,523	355,641,990	333,773,239
Functions/Program Expenses:						
Instruction	166,893,196	155,887,571			166,893,196	155,887,571
Pupil Personnel Services	15,476,153	15,203,973			15,476,153	15,203,973
Instructional Media Services	4,821,902	4,963,139			4,821,902	4,963,139
Instruction and Curriculum Development Services	11,689,669	11,121,191			11,689,669	11,121,191
Instructional Staff Training	5,449,226	3,846,981			5,449,226	3,846,981
Board of Education	999,642	1,006,635			999,642	1,006,635
General Administration	2,100,671	2,006,341			2,100,671	2,006,341
School Administration	13,769,779	13,945,547			13,769,779	13,945,547
Facilities Acquisition and Construction	27,337,176	24,038,082			27,337,176	24,038,082
Fiscal Services	2,023,565	2,102,778			2,023,565	2,102,778
Food Services	16,988,160	16,563,724			16,988,160	16,563,724
Central Services	5,543,354	5,696,036			5,543,354	5,696,036
Pupil Transportation Services	14,984,538	14,997,131			14,984,538	14,997,131
Operation of Plant	22,312,201	21,494,975			22,312,201	21,494,975
Maintenance of Plant	22,204,545	9,738,735			22,204,545	9,738,735
Community Services	674,314	740,474			674,314	740,474
Interest on Long-Term Debt	3,771,756	4,454,513			3,771,756	4,454,513
Unallocated Depreciation Expenses	8,924,399	8,803,524			8,924,399	8,803,524
Loss on Disposal of Capital Assets	1,126,173	1,281,080			1,126,173	1,281,080
Panhandle Management Development Network			46,637	85,300	46,637	85,300
Total Functions/Program Expenses	347,090,419	317,892,430	46,637	85,300	347,137,056	317,977,730
Increase (Decrease) in Net Assets Before Extraordinary Item	8,498,116	15,823,286	6,818	(27,777)	8,504,934	15,795,509
Extraordinary Item - Loss Recoveries	35,164,391				35,164,391	
Increase (Decrease) in Net Assets	$ 43,662,507	$ 15,823,286	$ 6,818	$ (27,777)	$ 43,669,325	$ 15,795,509

Governmental activities revenue for the 2004-05 fiscal year increased $21.9 million, or 6.6 percent from the 2003-04 fiscal year. In addition, the District received $35.1 million (extraordinary item) for insurance recoveries and Public Assistance Grants to cover expenses related to Hurricane Ivan clean-up and repairs. Other significant contributors to the increase in governmental activities revenue were property taxes and sales taxes. Property taxes increased $9.7 million (11.8 percent) resulting from an overall increase in property valuations (the property tax millage was actually lower for the 2004-05 fiscal year). Sales taxes increased $3.9 million (21.5 percent), reflecting the overall economic health of the area.

The largest revenue source is the State of Florida (51.1 percent). State revenues increased by $3.8 million, or 2.1 percent. Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data, and is designed to maintain equity in funding across all Florida school districts, taking into consideration the District's funding ability based on the local property tax base.

Instructional expenses represent 48.1 percent of total governmental expenses in the 2004-05 fiscal year. Instructional expenses increased by $11.0 million, or 7.1 percent, from the previous year.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Major Governmental Funds

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, the unreserved fund balance was $15.5 million, while the total fund balance was $40.1 million. The unreserved fund balance increased by $5.5 million (54.2 percent), while the total fund balance increased by $18.7 million (87.1 percent) during the fiscal year. Key factors for these changes are as follows:

- The State revenues reported in the District's General Fund increased by $6.7 million, or 4 percent.
- Although the local property tax rate decreased, property values increased resulting in property tax revenues increasing by $6.6 million, or 10.4 percent, while other local revenues increased by $1.1 million.
- Total expenditures increased by $36.6 million, or 15.3 percent, due to increased energy costs, the increased number of teachers required by the Class Size Reduction amendment, salary increases, and expenditures related to hurricane damages.

Resources of the Capital Projects – Other Fund and the Capital Projects – Local Capital Improvement Fund are restricted for the acquisition, construction, and maintenance of capital assets. The fund balance of these funds increased $11.4 million (28.6 percent) to $51.1 million and $0.2 million (5.1 percent) to $4.7 million, respectively, primarily because the District shifted its priorities to hurricane clean-up and repair during the 2004-05 fiscal year and construction projects paid from these funds were not prioritized.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the course of the 2004-05 fiscal year, the District amended its General Fund budget several times, which resulted in an increase in total budgeted expenditures and other uses amounting to $43.4 million, or 16.5 percent. At the same time, final budgeted revenues and other financing sources were more than the original budgeted amounts by $37.8 million, or 14.8 percent. Budget revisions were due primarily to increases in Impact Aid, Medicaid, Excellent Teaching Program, Discretionary Lottery, State hurricane assistance, and insurance recoveries and Public Assistance Grants related to Hurricane Ivan. Expenditure revisions were primarily for salary increases related to implementing the requirements of the Class Size Reduction amendment and the Excellent Teaching Program, salary increases and bonuses, and expenses incurred for Hurricane Ivan clean-up and repairs.

Actual revenues and expenditures were in line with the final budgeted amounts.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

During the 2004-05 fiscal year the District's investment in capital assets (net of accumulated depreciation) for its governmental and business-type activities increased $1.5 million (0.6 percent) to $239.1 million. This investment in capital assets includes land; improvements other than buildings; buildings and fixed equipment; furniture,

fixtures, and equipment; motor vehicles; property under capital lease; construction in progress; and audio visual materials and computer software.

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

Long-Term Debt

At June 30, 2005, the District had total long-term debt outstanding of $77.1 million. This amount was comprised of $5.4 million of capital leases, $11.5 million of bonds payable, and $60.2 million of certificates of participation payable. During the year, the net reduction in debt amounted to $6.4 million.

At June 30, 2005, bonds payable were comprised of State School Bonds totaling $11.5 million, which 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. The remainder of the District's long-term debt is secured solely by specified revenue sources.

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

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Escambia County District School Board'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 Business Services, Escambia County District School Board, 215 W. Garden Street, Pensacola, FL 32502.

EXHIBIT - A
ESCAMBIA COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET ASSETS
June 30, 2005

	Primary Government			Component
	Governmental Activities	Business-Type Activities	Total	Units (Unaudited)
ASSETS				
Cash	$ 35,366,536.08	$	$ 35,366,536.08	$ 1,750,693.00
Investments	96,406,172.46	4,226.31	96,410,398.77	
Accounts Receivable	1,838,775.04		1,838,775.04	325,387.00
Interest Receivable	2,670.58		2,670.58	
Deposits Receivable	2,803.60		2,803.60	
Due from Insurer	7,285,714.29		7,285,714.29	
Prepaid Items				36,760.00
Internal Balances	(4,301.66)	4,301.66		
Due from Other Agencies	13,573,416.45	990.00	13,574,406.45	
Inventories	2,343,878.56		2,343,878.56	
Deferred Charges	1,786,636.22		1,786,636.22	
Other Assets				84,592.00
Restricted Assets:				
Cash				140,000.00
Capital Assets:				
Land	6,676,895.34		6,676,895.34	554,043.00
Construction in Progress	3,174,452.71		3,174,452.71	1,173,917.00
Improvements Other Than Buildings, Net	4,245,499.05		4,245,499.05	325,208.00
Buildings and Fixed Equipment, Net	194,653,995.02		194,653,995.02	997,527.00
Furniture, Fixtures, and Equipment, Net	5,912,289.82		5,912,289.82	313,069.00
Motor Vehicles, Net	17,377,860.57		17,377,860.57	375,482.00
Property Under Capital Lease, Net	4,383,037.70		4,383,037.70	9,938.00
Audio Visual Materials and Computer Software, Net	2,716,618.06		2,716,618.06	53,037.00
TOTAL ASSETS	$ 397,742,949.89	$ 9,517.97	$ 397,752,467.86	$ 6,139,653.00
LIABILITIES				
Salaries and Related Payroll Liabilities	$ 5,216,728.54	$	$ 5,216,728.54	$ 72,573.00
Accounts Payable	3,514,829.68		3,514,829.68	457,233.00
Construction Contracts Payable	27,134.88		27,134.88	
Construction Contracts Payable - Retainage	703,063.37		703,063.37	
Accrued Interest Payable	1,449,989.38		1,449,989.38	
Due to Other Agencies	449,181.86		449,181.86	
Deposits Payable	21,047.91		21,047.91	
Deferred Revenue	3,566,064.33		3,566,064.33	155,022.00
Educational Facilities Hurricane Restoration Loan Payable	6,786,874.00		6,786,874.00	
Other Liabilities				39,881.00
Long-Term Liabilities:				
Portion Due Within One Year:				
Obligations Under Capital Leases	1,327,191.94		1,327,191.94	39,154.00
Notes Payable				1,168,651.00
Bonds Payable	879,641.65		879,641.65	
Compensated Absences Payable	3,861,753.00		3,861,753.00	7,045.00
Certificates of Participation Payable	2,321,472.07		2,321,472.07	
Estimated Insurance Claims Payable	8,140,752.00		8,140,752.00	
Portion Due After One Year:				
Obligations Under Capital Leases	4,070,219.78		4,070,219.78	425,195.00
Notes Payable				711,646.00
Bonds Payable	10,653,024.33		10,653,024.33	
Compensated Absences Payable	37,915,471.73		37,915,471.73	15,321.00
Certificates of Participation Payable	57,874,369.47		57,874,369.47	
Estimated Insurance Claims Payable	12,175,430.00		12,175,430.00	
Total Liabilities	160,954,239.92		160,954,239.92	3,091,721.00
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	163,801,365.25		163,801,365.25	1,271,350.00
Restricted for:				
State Categorical Programs	3,070,073.47		3,070,073.47	
Debt Service	278,580.42		278,580.42	140,000.00
Capital Projects	58,264,085.42		58,264,085.42	78,361.00
Other Purposes	11,396,756.64	9,517.97	11,406,274.61	315,380.00
Unrestricted	(22,151.23)		(22,151.23)	1,242,841.00
Total Net Assets	236,788,709.97	9,517.97	236,798,227.94	3,047,932.00
TOTAL LIABILITIES AND NET ASSETS	$ 397,742,949.89	$ 9,517.97	$ 397,752,467.86	$ 6,139,653.00

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

EXHIBIT - B
ESCAMBIA COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2005

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary Government				
Governmental Activities:				
Instruction	$ 166,893,195.97	$ 1,213,460.54	$	$
Pupil Personnel Services	15,476,153.33			
Instructional Media Services	4,821,902.47			
Instruction and Curriculum Development Services	11,689,669.12			
Instructional Staff Training	5,449,226.14			
Board of Education	999,641.90			
General Administration	2,100,670.65			
School Administration	13,769,778.66			
Facilities Acquisition and Construction	27,337,176.14			5,453,681.22
Fiscal Services	2,023,564.56			
Food Services	16,988,160.34	5,088,795.10	11,757,223.19	
Central Services	5,543,354.01			
Pupil Transportation Services	14,984,537.66		11,330,728.00	
Operation of Plant	22,312,200.96			
Maintenance of Plant	22,204,545.28			
Community Services	674,314.27			
Interest on Long-Term Debt	3,771,756.02			1,431,083.63
Loss on Disposal of Capital Assets	1,126,172.62			
Unallocated Depreciation Expenses	8,924,399.49			
Total Governmental Activities	347,090,419.59	6,302,255.64	23,087,951.19	6,884,764.85
Business-Type Activities:				
Panhandle Management Development Network	46,636.67	53,186.66		
Total Primary Government	$ 347,137,056.26	$ 6,355,442.30	$ 23,087,951.19	$ 6,884,764.85
Component Units				
Charter Schools	$ 5,580,039.00	$ 111,778.00	$ 989,321.00	$ 73,005.00
Escambia County Public Schools Foundation for Excellence, Inc.	641,339.00			
Total Component Units	$ 6,221,378.00	$ 111,778.00	$ 989,321.00	$ 73,005.00

General Revenues:
Taxes:
Property Taxes, Levied for Operational Purposes
Property Taxes, Levied for Capital Projects
Local Sales Taxes
Grants and Contributions Not Restricted to Specific Programs
Unallocated Investment Earnings
Miscellaneous
Extraordinary Item - Loss Recoveries

Total General Revenues and Extraordinary Item

Change in Net Assets

Net Assets - July 1, 2004

Net Assets - June 30, 2005

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

EXHIBIT - B

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units (Unaudited)
Governmental Activities	Business-Type Activities	Total	
$ (165,679,735.43)	$	$ (165,679,735.43)	$
(15,476,153.33)		(15,476,153.33)	
(4,821,902.47)		(4,821,902.47)	
(11,689,669.12)		(11,689,669.12)	
(5,449,226.14)		(5,449,226.14)	
(999,641.90)		(999,641.90)	
(2,100,670.65)		(2,100,670.65)	
(13,769,778.66)		(13,769,778.66)	
(21,883,494.92)		(21,883,494.92)	
(2,023,564.56)		(2,023,564.56)	
(142,142.05)		(142,142.05)	
(5,543,354.01)		(5,543,354.01)	
(3,653,809.66)		(3,653,809.66)	
(22,312,200.96)		(22,312,200.96)	
(22,204,545.28)		(22,204,545.28)	
(674,314.27)		(674,314.27)	
(2,340,672.39)		(2,340,672.39)	
(1,126,172.62)		(1,126,172.62)	
(8,924,399.49)		(8,924,399.49)	
(310,815,447.91)		(310,815,447.91)	
	6,549.99	6,549.99	
(310,815,447.91)	6,549.99	(310,808,897.92)	
			(4,405,935.00)
			(641,339.00)
			(5,047,274.00)
69,965,605.55		69,965,605.55	
21,828,681.44		21,828,681.44	
22,265,741.06		22,265,741.06	
197,604,758.38		197,604,758.38	4,560,607.00
2,485,858.81	268.63	2,486,127.44	9,252.00
5,162,918.33		5,162,918.33	769,763.00
35,164,391.38		35,164,391.38	
354,477,954.95	268.63	354,478,223.58	5,339,622.00
43,662,507.04	6,818.62	43,669,325.66	292,348.00
193,126,202.93	2,699.35	193,128,902.28	2,755,584.00
$ 236,788,709.97	$ 9,517.97	$ 236,798,227.94	$ 3,047,932.00

EXHIBIT - C
ESCAMBIA COUNTY
DISTRICT SCHOOL BOARD
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2005

	General Fund	Capital Projects - Local Capital Improvement Fund
ASSETS		
Cash	$ 5,575,827.95	$ 80,218.27
Investments	28,265,068.87	8,714,068.99
Accounts Receivable	592,461.43	
Interest Receivable		
Deposits Receivable	2,803.60	
Due from Insurer	7,285,714.29	
Due from Other Funds	5,998,354.39	
Due from Other Agencies	10,649,051.95	
Inventories	1,205,984.31	
TOTAL ASSETS	$ 59,575,266.79	$ 8,794,287.26
LIABILITIES AND FUND BALANCES		
Liabilities:		
Salaries and Related Payroll Liabilities	$ 4,977,934.59	$
Accounts Payable	1,683,581.41	752,708.94
Construction Contracts Payable		19,838.00
Construction Contracts Payable - Retainage	234,300.30	9,276.15
Due to Other Funds	5,343,919.45	3,263,817.87
Due to Other Agencies	449,111.04	
Accrued Interest Payable		
Deposits Payable	21,047.91	
Educational Facilities Hurricane Restoration Loan Payable	6,786,874.00	
Total Liabilities	19,496,768.70	4,045,640.96
Fund Balances:		
Reserved for State Categorical Programs	1,559,107.24	
Reserved for Encumbrances	20,015,372.24	788,347.86
Reserved for Inventories	1,205,984.31	
Reserved for Debt Service		
Reserved for Other Purposes	1,757,005.92	
Unreserved:		
Designated, reported in General Fund:		
Designated for Hurricane Recovery	2,476,446.03	
Designated for Contingencies	1,033,000.00	
Designated for Local Projects	3,941,370.30	
Undesignated, reported in:		
General Fund	8,090,212.05	
Special Revenue Funds		
Debt Service Funds		
Capital Projects Funds		3,960,298.44
Total Fund Balances	40,078,498.09	4,748,646.30
TOTAL LIABILITIES AND FUND BALANCES	$ 59,575,266.79	$ 8,794,287.26

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

EXHIBIT - C

Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
$ 26,461,209.57	$ 9,957.02	$ 32,127,212.81
24,373,627.10	10,030,439.84	71,383,204.80
	51,394.80	643,856.23
2,306.88	363.70	2,670.58
		2,803.60
		7,285,714.29
	8,791.57	6,007,145.96
813,043.98	2,111,320.52	13,573,416.45
	1,137,894.25	2,343,878.56
$ 51,650,187.53	$ 13,350,161.70	$ 133,369,903.28
$	$ 238,793.95	$ 5,216,728.54
3,444.65	537,101.88	2,976,836.88
7,296.88		27,134.88
289,707.57	169,779.35	703,063.37
203,459.70	1,803,101.53	10,614,298.55
		449,111.04
	1,449,989.38	1,449,989.38
		21,047.91
		6,786,874.00
503,908.80	4,198,766.09	28,245,084.55
		1,559,107.24
1,822,099.95	989,446.87	23,615,266.92
	1,137,894.25	2,343,878.56
	278,580.42	278,580.42
		1,757,005.92
		2,476,446.03
		1,033,000.00
		3,941,370.30
		8,090,212.05
	4,284,109.69	4,284,109.69
	344,815.19	344,815.19
49,324,178.78	2,116,549.19	55,401,026.41
51,146,278.73	9,151,395.61	105,124,818.73
$ 51,650,187.53	$ 13,350,161.70	$ 133,369,903.28

EXHIBIT - D
ESCAMBIA COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2005

Total Fund Balances - Governmental Funds		$ 105,124,818.73
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		239,140,648.27
Debt issuance costs are not expensed in the government-wide statements, but are reported as deferred charges and amortized over the life of the debt.		1,786,636.22
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.		9,639,750.72
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consist of:		
Obligations Under Capital Leases	$ (5,397,411.72)	
Bonds Payable	(11,532,665.98)	
Compensated Absences Payable	(41,777,224.73)	
Certificates of Participation Payable	(60,195,841.54)	(118,903,143.97)
Total Net Assets - Governmental Activities		$ 236,788,709.97

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

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EXHIBIT - E
ESCAMBIA COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2005

	General Fund	Capital Projects - Local Capital Improvement Fund
Revenues		
Intergovernmental:		
Federal Direct	$ 1,709,996.17	$
Federal Through State	1,988,336.82	
State	173,575,534.80	
Local	75,704,856.84	22,005,066.81
Total Revenues	252,978,724.63	22,005,066.81
Expenditures		
Current - Education:		
Instruction	155,620,400.69	
Pupil Personnel Services	13,192,680.44	
Instructional Media Services	4,863,144.62	
Instruction and Curriculum Development Services	6,716,589.87	
Instructional Staff Training	2,330,244.99	
Board of Education	1,018,539.90	
General Administration	642,079.40	
School Administration	14,297,340.69	
Facilities Acquisition and Construction	6,965,352.48	3,629,874.82
Fiscal Services	2,066,850.56	
Food Services	254,024.47	
Central Services	5,574,056.22	
Pupil Transportation Services	13,927,198.26	
Operation of Plant	22,458,802.62	
Maintenance of Plant	22,403,518.82	
Community Services	351,266.39	
Fixed Capital Outlay:		
Facilities Acquisition and Construction	235,045.34	3,954,575.18
Other Capital Outlay	1,910,314.48	
Debt Service:		
Principal	1,229,234.24	
Interest and Fiscal Charges	317,540.98	
Total Expenditures	276,374,225.46	7,584,450.00
Excess (Deficiency) of Revenues Over Expenditures	(23,395,500.83)	14,420,616.81
Other Financing Sources (Uses)		
Transfers In	5,724,731.09	
Bonds Issued		
Premium on Bonds		
Proceeds from Refunding Certificates of Participation Issued		
Payment to Refunded Certificates of Participation Escrow Agent		
Premium on Refunding Certificates of Participation Issued		
Loss Recoveries	36,326,546.42	
Transfers Out		(14,191,461.66)
Total Other Financing Sources (Uses)	42,051,277.51	(14,191,461.66)
Net Change in Fund Balances	18,655,776.68	229,155.15
Fund Balances, July 1, 2004	21,422,721.41	4,519,491.15
Fund Balances, June 30, 2005	$ 40,078,498.09	$ 4,748,646.30

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

EXHIBIT - E

Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
$	$ 480,963.76	$ 2,190,959.93
	42,560,514.20	44,548,851.02
969,616.00	6,229,462.43	180,774,613.23
23,315,463.93	5,372,146.93	126,397,534.51
24,285,079.93	54,643,087.32	353,911,958.69
	14,998,242.41	170,618,643.10
	2,769,588.03	15,962,268.47
	90,072.90	4,953,217.52
	5,225,021.53	11,941,611.40
	3,160,544.45	5,490,789.44
		1,018,539.90
	1,474,582.25	2,116,661.65
	58,495.16	14,355,835.85
5,180,179.81	6,867,873.89	22,643,281.00
	10,484.90	2,077,335.46
	16,805,132.22	17,059,156.69
	192,923.06	5,766,979.28
	335,820.18	14,263,018.44
	61,620.00	22,520,422.62
	4,879.84	22,408,398.66
	323,047.88	674,314.27
7,691,371.46	536,736.59	12,417,728.57
	2,948,081.02	4,858,395.50
	7,428,972.78	8,658,207.02
	3,763,690.11	4,081,231.09
12,871,551.27	67,055,809.20	363,886,035.93
11,413,528.66	(12,412,721.88)	(9,974,077.24)
	8,638,437.32	14,363,168.41
	365,000.00	365,000.00
	4,633.37	4,633.37
	22,725,000.00	22,725,000.00
	(23,172,964.65)	(23,172,964.65)
	823,002.20	823,002.20
	191,372.07	36,517,918.49
(41,241.75)	(130,465.00)	(14,363,168.41)
(41,241.75)	9,444,015.31	37,262,589.41
11,372,286.91	(2,968,706.57)	27,288,512.17
39,773,991.82	12,120,102.18	77,836,306.56
$ 51,146,278.73	$ 9,151,395.61	$ 105,124,818.73

EXHIBIT - F
ESCAMBIA COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Net Change in Fund Balances - Governmental Funds	$	27,288,512.17
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital outlays in excess of depreciation expenses in the current period.		2,614,521.65
The undepreciated cost of capital assets disposed of during the current period is expensed in the statement of activities. In the governmental funds, the cost of these assets was recognized as an expenditure in the year purchased. Thus, the change in net assets differs from the change in fund balance by the undepreciated cost of disposed assets.		(1,126,172.62)
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which repayments exceeded proceeds in the current period.		7,213,207.02
Governmental funds report the effect of issuance costs, premiums, discounts, and similar items in the year the debt is issued, but these amounts are deferred and amortized over the life of the debt in the statement of activities.		1,009,433.87
In the statement of activities, the cost of compensated absences is measured by the amounts earned during the year, while in the governmental funds expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences paid in excess of the amount earned in the current period.		1,494,329.57
Internal service funds are used by management to charge the cost of certain activities, such as insurance, to individual funds. The net revenue of internal service funds is reported with governmental activities.		5,168,675.38
Change in Net Assets - Governmental Activities	$	43,662,507.04

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

EXHIBIT - G
ESCAMBIA COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET ASSETS -
PROPRIETARY FUNDS
June 30, 2005

	Business-Type Activities - Enterprise Fund Panhandle Management Development Network	Governmental Activities - Internal Service Funds
ASSETS		
Current Assets:		
Cash	$	$ 3,239,323.27
Investments	4,226.31	25,022,967.66
Accounts Receivable		1,093,452.04
Due from Other Funds	4,301.66	5,339,617.79
Due from Other Agencies	990.00	
TOTAL ASSETS	$ 9,517.97	$ 34,695,360.76
LIABILITIES		
Current Liabilities:		
Accounts Payable	$	$ 537,992.80
Due to Other Funds		635,300.09
Due to Other Agencies		70.82
Deferred Revenue		3,566,064.33
Estimated Insurance Claims Payable		8,140,752.00
Total Current Liabilities		12,880,180.04
Noncurrent Liabilities:		
Estimated Insurance Claims Payable		12,175,430.00
Total Liabilities		25,055,610.04
NET ASSETS		
Restricted for Consortium	9,517.97	
Restricted for Employee Benefits		9,639,750.72
Total Net Assets	9,517.97	9,639,750.72
TOTAL LIABILITIES AND NET ASSETS	$ 9,517.97	$ 34,695,360.76

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

EXHIBIT - H
ESCAMBIA COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Business-Type Activities - Enterprise Fund Panhandle Management Development Network	Governmental Activities - Internal Service Funds
OPERATING REVENUES		
Charges for Services	$ 53,186.66	$ 925,976.55
Premium Revenues		45,114,193.64
Other Operating Revenues		595,876.34
Total Operating Revenues	53,186.66	46,636,046.53
OPERATING EXPENSES		
Salaries		1,019,747.34
Employee Benefits		310,236.42
Purchased Services	46,095.32	3,755,981.83
Energy Services		3,650.79
Materials and Supplies	55.09	83,155.95
Insurance Claims		36,628,579.57
Other Expenses		1,567,780.49
Depreciation	486.26	
Total Operating Expenses	46,636.67	43,369,132.39
Operating Income	6,549.99	3,266,914.14
NONOPERATING REVENUES		
Interest	268.63	548,234.13
Loss Recoveries		1,353,527.11
Total Nonoperating Revenues	268.63	1,901,761.24
Change in Net Assets	6,818.62	5,168,675.38
Total Net Assets, July 1, 2004	2,699.35	4,471,075.34
Total Net Assets, June 30, 2005	$ 9,517.97	$ 9,639,750.72

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

EXHIBIT - I
ESCAMBIA COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Business-Type Activities - Enterprise Fund Panhandle Management Development Network	Governmental Activities - Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Charges for Services	$ 47,895.00	$
Cash Received from Board Funds and Participants		47,930,684.41
Cash Payments to Suppliers for Goods and Services	(46,527.94)	(5,814,674.59)
Cash Payments to Employees for Services	(1,894.13)	(1,249,233.72)
Cash Payments for Insurance Claims		(34,914,382.57)
Net Cash Provided (Used) by Operating Activities	(527.07)	5,952,393.53
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Loss Recoveries		1,353,527.11
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales (Purchases) of Investments	258.44	(7,037,951.97)
Interest Income	268.63	548,234.13
Net Cash Provided (Used) by Investing Activities	527.07	(6,489,717.84)
Net Increase in Cash		816,202.80
Beginning Cash		2,423,120.47
Ending Cash	$ 0.00	$ 3,239,323.27

Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:		
Operating Income	$ 6,549.99	$ 3,266,914.14
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation	486.26	
Changes in Assets and Liabilities:		
Increase in Accounts Receivable		(374,124.98)
(Increase) Decrease in Due from Other Funds	(4,301.66)	1,242,243.11
Increase in Due from Other Agencies	(990.00)	
Decrease in Accounts Payable		(404,105.53)
Increase (Decrease) in Due to Other Funds	(1,894.13)	182,522.36
Decrease in Due to Other Agencies	(377.53)	
Increase in Deferred Revenue		324,747.43
Increase in Estimated Insurance Claims Payable		1,714,197.00
Total Adjustments	(7,077.06)	2,685,479.39
Net Cash Provided (Used) by Operating Activities	$ (527.07)	$ 5,952,393.53

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

EXHIBIT - J
ESCAMBIA COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - FIDUCIARY FUNDS
June 30, 2005

	Agency Funds (Unaudited)
ASSETS	
Cash	$ 3,169,697.50
LIABILITIES	
Salaries and Related Payroll Liabilities	$ 309,982.10
Due to Other Funds	101,466.77
Internal Accounts Payable	2,758,248.63
Total Liabilities	$ 3,169,697.50

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

EXHIBIT – K
ESCAMBIA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

➢ Reporting Entity

The District School Board has direct responsibility for operation, control, and supervision of District schools and is considered a primary government for financial reporting. The Escambia County School District is considered part of the Florida system of public education. The governing body of the School District is the Escambia County District School Board which is composed of five elected members. The elected Superintendent of Schools is the executive officer of the School Board. Geographic boundaries of the District correspond with those of Escambia County.

Criteria for determining if other entities are potential component units which should be reported within the District's basic financial statements are identified and described in the Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600. The application of these criteria provides for identification of any entities for which the District School Board is financially accountable and other organizations for which the nature and significance of their relationship with the School Board are such that exclusion would cause the District's basic financial statements to be misleading or incomplete. Based on the application of these criteria, the following component units are included within the reporting entity of the District:

- Blended Component Unit. The Escambia School District Benefit 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, Exhibits A and B, include the financial data of the District's other component units as follows:

  The Escambia County Public Schools Foundation for Excellence, Inc., is a separate not-for-profit corporation organized and operated as a direct-support organization under Section 1001.453, Florida Statutes, to receive, hold, invest, and administer property and to make expenditures to or for the benefit of public pre-kindergarten through twelfth grade in Escambia County, Florida.

  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 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 school 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.

- **Basis of Presentation**

Government-wide Financial Statements - Government-wide financial statements, including the statement of net assets and the statement of activities, present information about the District as a whole. These statements include the nonfiduciary financial activity of the primary government and its component units and distinguish between governmental activities of the District and those that are considered business-type activities.

Government-wide financial statements are prepared using the economic resources measurement focus. The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities and for each segment of the business-type activities. Direct expenses are those that are specifically associated with a service, program, or department and are thereby clearly identifiable to a particular function. Depreciation expenses associated with the District's transportation department are allocated to the transportation function, while remaining depreciation expenses are not readily associated with a particular function and are reported as unallocated.

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

The effects of interfund activity have been eliminated from the government-wide financial statements, except for the net residual amounts between governmental and business-type activities.

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.

- Capital Projects – Other Fund – to account for various financial resources restricted for educational capital outlay needs, including new construction and renovation and remodeling projects.

- Capital Projects – Local Capital Improvement Fund – to account for the financial resources generated by the local capital improvement tax levy to be used for educational capital outlay needs, including new construction 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.

- 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 schools in connection with school, student athletic, class, and club activities.

➢ **Basis of Accounting**

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

The government-wide financial statements are prepared using the accrual basis of accounting, as are the proprietary funds and fiduciary funds financial statements. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized in the year for which they are levied. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are prepared using the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for

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

The Proprietary Funds are accounted for as proprietary activities under standards issued by the Financial Accounting Standards Board through November 1989 and applicable standards issued by the Governmental Accounting Standards Board. Proprietary funds distinguish operating revenues and expenses from nonoperating 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 nonoperating 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, then unrestricted resources as they are needed.

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

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

- **Deposits and Investments**

Cash deposits are held by banks qualified as public depositories under Florida law. All deposits are insured by Federal depository insurance and collateralized with securities held in Florida's multiple financial institution collateral pool as required by Chapter 280, Florida Statutes. The statement of cash flows considers cash as those accounts used as demand deposit accounts.

Investments consist of amounts placed in the State Board of Administration Debt Service accounts for investment of debt service moneys, amounts placed with the State Board of Administration for participation in the Local Government Surplus Funds Trust Fund investment pool created by Section 218.405, Florida Statutes, and those made locally. The investment pool operates under investment guidelines established by Section 215.47, Florida Statutes. The District's investments in the Local Government Surplus Funds Trust Fund, a Securities and Exchange Commission Rule 2a7-like external investment pool, are reported at fair value which is amortized cost.

Investments made locally consist of money market mutual funds and are reported at fair value. Types and amounts of investments held at fiscal year-end are described in a subsequent note on investments.

- **Inventories**

Inventories consist of expendable supplies held for consumption in the course of District operations. Material stores, maintenance stores, custodial stores, transportation stores, and purchased food and lunchroom supply inventories are stated at cost on the first-in, first-out basis. Fuel inventories are

stated at an average-cost basis. 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 the District's food service program by the Florida Department of Agriculture and Consumer Services, Bureau of Food Distribution. The costs of inventories are recorded as expenditures when used rather than purchased.

- **Capital Assets**

Expenditures for capital assets acquired or constructed for general District purposes are reported in the governmental fund that financed the acquisition or construction. The capital assets so acquired are reported at cost in the government-wide statement of net assets but are not reported in the governmental fund financial statements. 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 if purchased or constructed. Donated assets are recorded at fair value at the date of donation.

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

Description	Estimated Lives
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 relating to changes in capital assets is described in a subsequent note.

- **Long-Term Liabilities**

Long-term obligations that will be financed from resources to be received in the future by governmental funds are reported as liabilities in the government-wide statement of net assets. Bond and certificates of participation premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the 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 debt premiums and discounts, as well as issuance costs, during the current period. The face amount of debt issued is reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

In the government-wide financial statements, compensated absences (i.e., paid absences for employee vacation leave and sick leave) are accrued as liabilities to the extent that it is probable that the benefits will result in termination payments.

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

- **State Revenue Sources**

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

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

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

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

- **District Property Taxes**

The School Board is authorized by State law to levy property taxes for District school operations, capital improvements, and debt service.

Property taxes consist of ad valorem taxes on real and personal property within the District. Property values are determined by the Escambia County Property Appraiser, and property taxes are collected by the Escambia County Tax Collector.

The School Board adopted the 2004 tax levy on September 21, 2004. Tax bills are mailed in October and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to 4 percent for early payment.

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

Property tax revenues are recognized in the government-wide financial statements when the Board adopts the tax levy. Property tax revenues are recognized in the governmental fund financial statements when taxes are received by the District, except that revenue is accrued for taxes collected by the Escambia County Tax Collector at fiscal year-end but not yet remitted to the District.

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

- **Federal Revenue Sources**

  The District receives Federal awards for the enhancement of various educational programs. Federal awards are generally received based on applications submitted to, and approved by, various granting agencies. For Federal awards in which a claim to these grant proceeds is based on incurring eligible expenditures, revenue is recognized to the extent that eligible expenditures have been incurred.

2. BUDGETARY COMPLIANCE AND ACCOUNTABILITY

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

- Budgets are prepared, public hearings are held, and original budgets are adopted annually for all governmental fund types in accordance with procedures and time intervals prescribed by law and State Board of Education rules.

- Appropriations are controlled at the object level (e.g., salaries, purchased services, and capital outlay) within each activity (e.g., instruction, pupil personnel services, and school administration) and may be amended by resolution at any School Board meeting prior to the due date for the annual financial report.

- Budgets are prepared using the same modified accrual basis as is used to account for governmental funds.

- Budgetary information is integrated into the accounting system and, to facilitate budget control, budget balances are encumbered when purchase orders are issued. Appropriations lapse at fiscal year-end and encumbrances outstanding are honored from the subsequent year's appropriations.

3. INVESTMENTS

Section 218.415(17), Florida Statutes, authorizes the District to invest in the Local Government Surplus Funds Trust Fund, any intergovernmental investment pool, the money market funds registered with the Securities and Exchange Commission, interest-bearing time deposits or savings accounts, and direct obligations of the U.S. Treasury.

At June 30, 2005, investments with a fair value of $94,671,799.40 are invested with the State Board of Administration in the Local Government Surplus Funds Trust Fund with an average maturity of 54 days. The District's investments in the Local Government Surplus Funds Trust Fund investment pool are unrated.

The District also reports investments totaling $278,580.42 at June 30, 2005, in the State Board of Administration Debt Service Accounts to provide for debt service payments on bond debt issued by the State Board of Education for the benefit of the District. These investments have maturity dates of six months or less and are reported at fair value. The District relies on policies developed by the State Board of Administration for managing credit risk for these investments. The District's investments in the Debt Service Account Fund are unrated.

In addition, the District reports investments in a money market fund with a fair value of $1,460,018.95 at June 30, 2005. These 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 obligations, repurchase and reverse repurchase agreements secured by United States Treasury and United States Government obligations, and obligations whose principle and interest are backed by the United States Government. Investments of the Nations Treasury Reserves money market fund have maturities of 397 days or less. The fund was rated Aaa by Moody's Investors Service. The District relies on the Trustee to manage credit risks for these trust investments.

4. DUE FROM OTHER AGENCIES

The following is a schedule of amounts due from other agencies:

Fund/Source	Amount
Major Funds:	
General:	
Florida Department of Education:	
Educational Facilities Hurrican Restoration Loan	$ 6,786,874.00
Florida Department of Community Affairs:	
Public Assistance Grants	3,776,497.53
Other	85,680.42
Total General Fund	10,649,051.95
Capital Projects - Other:	
Florida Department of Education:	
Classrooms for Kids	770,402.98
Classrooms First	42,641.00
Total Capital Projects - Other Fund	813,043.98
Nonmajor Funds:	
Other Governmental Funds:	
Florida Department of Education:	
Meal Reimbursements	1,027,108.00
Public Education Capital Outlay - New Construction	561,020.00
Grant Reimbursements	227,516.28
Capital Outlay and Debt Service	175,119.36
Other	120,556.88
Total Other Governmental Funds	2,111,320.52
Enterprise Fund:	
Other District School Boards:	
Training	990.00
Total	$ 13,574,406.45

The District expects to collect fully all amounts due from other agencies.

5. CHANGES IN CAPITAL ASSETS

Changes in capital assets are presented in the table below.

EXHIBIT – K (Continued)
ESCAMBIA COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

	Balance 7-1-04	Additions	Deletions	Balance 6-30-05
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	$ 6,677,128.67	$	$ 233.33	$ 6,676,895.34
Construction in Progress	15,842,022.64	7,267,292.80	19,934,862.73	3,174,452.71
Total Capital Assets Not Being Depreciated	22,519,151.31	7,267,292.80	19,935,096.06	9,851,348.05
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	5,645,897.12	583,524.45		6,229,421.57
Buildings and Fixed Equipment	271,154,421.09	19,862,836.96	1,197,470.84	289,819,787.21
Furniture, Fixtures, and Equipment	14,271,143.87	915,991.91	1,061,478.33	14,125,657.45
Motor Vehicles	24,692,988.76	3,293,583.00	1,292,449.38	26,694,122.38
Property Under Capital Leases	11,313,019.13			11,313,019.13
Audio Visual Materials and Computer Software	5,479,939.05	569,392.00		6,049,331.05
Total Capital Assets Being Depreciated	332,557,409.02	25,225,328.32	3,551,398.55	354,231,338.79
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	1,592,712.74	391,209.78		1,983,922.52
Buildings and Fixed Equipment	90,609,288.85	5,220,694.26	664,190.92	95,165,792.19
Furniture, Fixtures, and Equipment	7,956,352.42	947,350.73	690,335.52	8,213,367.63
Motor Vehicles	9,100,878.86	1,286,315.77	1,070,932.82	9,316,261.81
Property Under Capital Leases	5,233,759.59	1,696,221.84		6,929,981.43
Audio Visual Materials and Computer Software	2,931,268.63	401,444.36		3,332,712.99
Total Accumulated Depreciation	117,424,261.09	9,943,236.74	2,425,459.26	124,942,038.57
Total Capital Assets Being Depreciated, Net	215,133,147.93	15,282,091.58	1,125,939.29	229,289,300.22
Governmental Activities Capital Assets, Net	$ 237,652,299.24	$ 22,549,384.38	$ 21,061,035.35	$ 239,140,648.27

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

	Balance 7-1-04	Additions	Deletions	Balance 6-30-05
BUSINESS-TYPE ACTIVITIES				
Capital Assets Being Depreciated:				
Furniture, Fixtures, and Equipment	$ 13,672.71	$	$ 13,672.71	$
Audio Visual Materials and Computer Software	750.00		750.00	
Total Capital Assets Being Depreciated	14,422.71		14,422.71	
Less Accumulated Depreciation for:				
Furniture, Fixtures, and Equipment	13,186.45	486.26	13,672.71	
Audio Visual Materials and Computer Software	750.00		750.00	
Total Accumulated Depreciation	13,936.45	486.26	14,422.71	
Total Capital Assets Being Depreciated, Net	$ 486.26	$ (486.26)	$ 0.00	$ 0.00

Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Pupil Transportation Services	$ 1,018,837.25
Unallocated	8,924,399.49
Total Depreciation Expense - Governmental Activities	$ 9,943,236.74
BUSINESS-TYPE ACTIVITIES	
Panhandle Management Development Network	$ 486.26

6. EDUCATIONAL FACILITIES HURRICANE RESTORATION LOAN PAYABLE

In accordance with the Educational Facilities Hurricane Restoration Loan Program established by the Florida Legislature, the District applied for an interest-free loan from the State totaling $6,786,874, which will enable them to timely pay contractors and suppliers contracted to restore educational facilities damaged by Hurricane Ivan. Although there is no plan for repayment, loan conditions require the District to repay the loan from funds that the District receives from insurance claims, Federal Emergency Management Agency payments, or other fund sources. Other loan conditions provide that if the loan is not paid timely, the Florida Department of Education will withhold future Public Education Capital Outlay funds or other fixed capital outlay funds until repayment is received.

7. OBLIGATIONS UNDER CAPITAL LEASES

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

	Asset Balance
Energy Performance	$ 9,338,662.13
ERATE Fiber Optics	1,419,930.00
Software	554,427.00
Total	$11,313,019.13

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
2006	$1,598,612.36	$1,327,191.94	$ 271,420.42
2007	1,201,769.36	994,444.72	207,324.64
2008	1,201,769.36	1,051,131.06	150,638.30
2009	1,077,336.36	986,619.21	90,717.15
2010	696,342.41	658,936.61	37,405.80
2011-2012	394,201.73	379,088.18	15,113.55
Total Minimum Lease Payments	$6,170,031.58	$5,397,411.72	$ 772,619.86

The stated interest rates range from 5.0 to 5.9 percent.

8. CERTIFICATES OF PARTICIPATION

The District has 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. Through these arrangements, the District secured financing of various educational facilities. The arrangements will be repaid from the proceeds of rents paid by the District. The following schedule describes the current status of these issues at June 30, 2005:

Original		Principal		Refunded By		Balance
Issue	Amount	Paid	Refunded	Issue	Amount	
1996-1	$ 26,740,000	$ 2,045,000	$		$	$ 24,695,000
1996-2	21,645,000		21,645,000	2004	22,725,000	
2002	16,745,000	4,440,000				12,305,000
2004	22,725,000	300,000				22,425,000

As a condition of the financing arrangements, the District 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 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 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.

The District properties included in the ground leases noted above are as follows:

Certificates of Participation, Series 1996-1 and 2002

- 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 Addition/Media Center
- Edgewater Elementary School – Classroom Wing/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
- Sherwood Elementary School – Pre-Kindergarten Classrooms/Media Center
- Jim C. Bailey Middle School
- Northview High School
- West Florida School of Advanced Technology (the portion formerly known as Beggs Educational Center and used primarily for instructional purposes)
- Tate High School – Physical Education Facility

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

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:

Fiscal Year Ending June 30	Total	Principal	Interest
2006	$ 5,125,613.76	$ 2,270,000.00	$ 2,855,613.76
2007	5,123,750.01	2,360,000.00	2,763,750.01
2008	5,119,840.01	2,455,000.00	2,664,840.01
2009	5,112,880.01	2,555,000.00	2,557,880.01
2010	5,107,303.76	2,665,000.00	2,442,303.76
2011-2015	26,030,363.16	15,990,000.00	10,040,363.16
2016-2020	26,317,581.25	21,145,000.00	5,172,581.25
2021-2022	10,490,375.00	9,985,000.00	505,375.00
Total Minimum Lease Payments	88,427,706.96	59,425,000.00	29,002,706.96
Plus: Unamortized Premium	770,841.54	770,841.54	
Total Certificates of Participation	$ 89,198,548.50	$ 60,195,841.54	$ 29,002,706.96

9. BONDS PAYABLE

Bonds payable at June 30 are as follows:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 1996-A	$ 1,790,000.00	4.6 - 6.0	2016
Series 1996-B	50,000.00	4.500 - 4.625	2007
Series 1997-A	1,630,000.00	4.8 - 6.0	2017
Series 1998-A	395,000.00	4.5 - 5.5	2018
Series 2001-A	245,000.00	5.25	2007
Series 2002-B	6,345,000.00	3.500 - 5.375	2015
Series 2003-A	720,000.00	3 - 5	2023
Series 2004-A	245,000.00	3.000 - 4.625	2024
Series 2005-A	115,000.00	3 - 5	2025
Subtotal	11,535,000.00		
Unamortized Premiums (Discounts), Net	(2,334.02)		
Total Bonds Payable	$ 11,532,665.98		

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

- **State School Bonds**

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

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

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2006	$ 1,434,497.06	$ 880,000.00	$ 554,497.06
2007	1,439,901.25	930,000.00	509,901.25
2008	1,312,038.75	850,000.00	462,038.75
2009	1,319,152.50	890,000.00	429,152.50
2010	1,334,427.50	940,000.00	394,427.50
2011-2015	6,838,252.70	5,635,000.00	1,203,252.70
2016-2020	1,235,157.50	1,065,000.00	170,157.50
2021-2025	379,886.25	345,000.00	34,886.25
Subtotal	15,293,313.51	11,535,000.00	3,758,313.51
Unamortized Premiums (Discounts), Net	(2,334.02)	(2,334.02)	
Total Bonds Payable	$15,290,979.49	$11,532,665.98	$3,758,313.51

10. DEFEASED DEBT

On November 16, 2004, the Board issued $22,725,000 in Refunding Certificates of Participation, Series 2004, with an average interest rate of 4.8 percent, to advance refund the District's Certificates of Participation, Series 1996-2. The net proceeds of $23,172,964.65 (after payment of $375,037.55 in underwriting fees, insurance, and other issuance costs) were placed in an irrevocable trust to provide for the debt service payments on the Series 1996-2 Certificates. As a result, the Series 1996-2 Certificates are considered to be defeased and the liability for these bonds has been removed from the government-wide financial statements.

The Series 1996-2 Certificates were advance refunded to reduce total debt service payments over the next 18 years by approximately $1,335,067.37 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of $950,647.63.

11. CHANGES IN LONG-TERM LIABILITIES

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

Description	Balance 7-1-04	Additions	Deductions	Balance 6-30-05	Due in One Year
GOVERNMENTAL ACTIVITIES					
Bonds Payable	$ 12,015,000.00	$ 365,000.00	$ 845,000.00	$ 11,535,000.00	$ 880,000.00
Unamortized Premiums (Discounts), Net	(7,109.93)	4,633.37	(142.54)	(2,334.02)	(358.35)
Total Bonds Payable	12,007,890.07	369,633.37	844,857.46	11,532,665.98	879,641.65
Certificates of Participation Payable	60,780,000.00	22,725,000.00	24,080,000.00	59,425,000.00	2,270,000.00
Unamortized Premiums		823,002.20	52,160.66	770,841.54	51,472.07
Total Certificates of Participation Payable	60,780,000.00	23,548,002.20	24,132,160.66	60,195,841.54	2,321,472.07
Obligations Under Capital Leases	6,725,618.74		1,328,207.02	5,397,411.72	1,327,191.94
Note Payable	4,050,000.00		4,050,000.00		
Estimated Insurance Claims Payable	18,601,985.00	36,628,579.57	34,914,382.57	20,316,182.00	8,140,752.00
Compensated Absences Payable	43,271,554.30	2,331,683.43	3,826,013.00	41,777,224.73	3,861,753.00
Total Governmental Activities	$145,437,048.11	$62,877,898.57	$69,095,620.71	$139,219,325.97	$16,530,810.66

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

12. RESERVE FOR ENCUMBRANCES

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

The Florida Department of Education requires that fund balances be reserved at fiscal year-end to report an amount likely to be expended from the 2005-06 fiscal year budget as a result of purchase orders outstanding at June 30, 2005.

13. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

Funds	Interfund Receivables	Interfund Payables
Major Funds:		
General	$ 5,998,354.39	$ 5,343,919.45
Capital Projects:		
Local Capital Improvement		3,263,817.87
Other		203,459.70
Nonmajor Governmental Funds	8,791.57	1,803,101.53
Internal Service Funds	5,339,617.79	635,300.09
Enterprise Fund	4,301.66	
Fiduciary Funds		101,466.77
Total	$11,351,065.41	$11,351,065.41

The General Fund receivables represent temporary loans to other funds with a deficit cash balance at fiscal year-end, miscellaneous reimbursements due from individual schools, and moneys loaned to the Internal Service Funds to cover the cost of operations. The Nonmajor Governmental Funds receivable represents amounts due from the schools' internal funds (Fiduciary Funds) for meal charges at the schools. The Internal Service Funds receivable represents additional premium revenue due from the District's governmental funds. The Enterprise Fund receivable represents moneys due to the Panhandle Management Development Network, which is accounted for as an Enterprise Fund, for training services provided to the District.

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

Funds	Interfund	
	Transfers In	Transfers Out
Major Funds:		
General	$ 5,724,731.09	$
Capital Projects:		
Local Capital Improvement		14,191,461.66
Other		41,241.75
Nonmajor Governmental Funds	8,638,437.32	130,465.00
Total	$ 14,363,168.41	$ 14,363,168.41

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.

14. SCHEDULE OF STATE REVENUE SOURCES

The following is a schedule of the District's State revenue for the 2004-05 fiscal year:

Source	Amount
Florida Education Finance Program	$ 114,573,089.00
Categorical Educational Programs:	
Class Size Reduction	15,149,140.00
Transportation	11,330,728.00
Instructional Materials	3,698,396.00
Discretionary Lottery Funds	2,261,868.00
Other	15,653,875.60
Workforce Development Program	5,109,994.00
Gross Receipts Tax (Public Education Capital Outlay)	4,215,818.00
Hurricane Relief Funds	3,303,788.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	1,636,280.61
Classrooms for Kids	969,616.00
Food Service Supplement	394,459.00
Charter School Capital Outlay	330,714.00
Adults with Disabilities	292,946.10
Reading Initiatives	230,132.00
Mentoring/Student Assistance Initiatives	198,487.00
Law Enforcement - General	101,120.00
Mobile Home License Tax	76,869.24
Miscellaneous	1,247,292.68
Total	$ 180,774,613.23

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

15. PROPERTY TAXES

The following is a summary of millages and taxes levied on the 2004 tax roll for the 2004-05 fiscal year:

	Millages	Taxes Levied
GENERAL FUND		
Nonvoted School Tax:		
Required Local Effort	5.694	$66,172,741.56
Basic Discretionary Local Effort	0.510	5,926,957.89
Supplemental Discretionary Local Effort	0.206	2,394,026.13
CAPITAL PROJECTS FUNDS		
Nonvoted Tax:		
Local Capital Improvements	2.000	23,242,972.10
Total	8.410	$97,736,697.68

16. STATE RETIREMENT PROGRAM

Defined Benefit Plan. All regular employees of the District are covered by the Florida Retirement System. The Florida Retirement System (FRS) is primarily a State-administered, cost-sharing, multiple-employer,

defined benefit retirement plan (Plan). Plan provisions are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code, wherein eligibility, contributions, and benefits are defined and described in detail. Essentially, all regular employees of participating employers are eligible and must enroll as members of the FRS. Benefits in the defined benefit plan vest at six years of service. The defined benefit plan also includes an early retirement provision but imposes a penalty for each year a member retires before his or her normal retirement date. The defined benefit plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments.

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 FRS employer. An employee may participate in the DROP for a period not to exceed 60 months after electing to participate, except that certain instructional personnel may participate for up to 96 months. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest.

Funding Policy. The contribution rates for members are established, and may be amended, by the State of Florida. During the 2004-05 fiscal year, contribution rates were as follows:

Class or Plan	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	7.39
Florida Retirement System, Elected County Officers	0.00	15.23
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	9.11
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 0.08 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, 2003, June 30, 2004, and June 30, 2005, totaled

$9,713,089.00, $13,015,245.00, and $12,629,633.70, respectively, which were equal to the required contributions for each fiscal year.

Defined Contribution Plan. Effective July 1, 2002, the Public Employee Optional Retirement Program (PEORP) was implemented as a defined contribution plan alternative available to all FRS members in lieu of the defined benefit plan. Employer contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The PEORP is funded by employer contributions that are based on salary and membership class (Regular Class, Special Risk Class, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Required employer contributions made to the program for the fiscal year ending June 30, 2005, totaled $739,155.10.

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

17. SPECIAL TERMINATION BENEFITS

School Board policy provides for the payment of retirement incentive bonuses to District personnel who retire by the end of the fiscal year in which they first become eligible under any retirement plan sponsored by a unit of Florida municipal, local, or State government and who have a minimum of 15 years of service with the Escambia County School District. The retirement incentive is equal to 25 percent of the qualified employee's gross annual salary. In addition to payments made for regular termination benefits, the District reported expenditures totaling $482,282.05 during the 2004-05 fiscal year for retirement incentive pay.

18. OTHER POSTEMPLOYMENT BENEFITS

Pursuant to Section 112.0801, Florida Statutes, the District pays a portion of the monthly cost of health premiums for each retired employee with family coverage participating in the District's health insurance program. All of the District's employees may become eligible for those benefits if they reach normal retirement age and have their last ten years of service with the District. At June 30, 2005, the District was paying a portion of the monthly health premiums for 1,041 retired former employees. The cost of the benefits provided is recognized as an expense each month as premiums are paid. For the 2004-05 fiscal year, premiums totaled $1,054,385.00.

19. CONSTRUCTION CONTRACT COMMITMENTS

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

Project	Contract Amount	Completed to Date	Balance Committed
Bratt Elementary School Renovations:			
Architect	$ 48,900.00	$ 44,939.40	$ 3,960.60
Contractor	603,868.00	366,170.75	237,697.25
Helen Caro Elementary School Reroofing:			
Architect	45,458.00	34,093.00	11,365.00
Contractor	1,038,000.00		1,038,000.00
Lipscomb Elementary School Reroofing:			
Architect	48,153.00	35,152.00	13,001.00
Contractor	1,119,324.00		1,119,324.00
Longleaf Elementary School Reconstruction:			
Architect	529,028.00	323,922.02	205,105.98
Contractor	3,000,000.00	1,532,237.76	1,467,762.24
Pensacola High School Gymnasium:			
Architect	455,339.00	61,176.27	394,162.73
Construction Manager/Contractor	1,565,817.00	319,846.75	1,245,970.25
Repairs to Various Gymnasiums:			
Architect	155,961.00	44,382.40	111,578.60
Construction Manager/Contractor	552,599.00	25,500.00	527,099.00
Repairs to Various Media Centers:			
Architect	157,961.00	26,696.00	131,265.00
Construction Manager/Contractor	1,073,040.00	34,500.16	1,038,539.84
Warrington Elementary School Repairs and Renovations:			
Architect	59,800.00	44,850.00	14,950.00
Contractor	1,101,931.00	105,376.66	996,554.34
Washington High School Auditorium Addition:			
Architect	160,832.00	8,000.00	152,832.00
Construction Manager	79,542.00		79,542.00
Total	$ 11,795,553.00	$ 3,006,843.17	$ 8,788,709.83

20. CONSORTIUMS

The District is a member of and fiscal agent for the Panhandle Management Development Network (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 the superintendents of the participating school districts. Consortium activities are accounted for as an Enterprise Fund in the basic financial statements of the District.

21. 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 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.

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, an undiscounted liability in the amount of $20,316,182.00 ($14,686,652.00 for workers' compensation, automobile, and general liability claims, and $5,629,530.00 for dental, prescription drug, and health insurance claims) was actuarially determined to cover estimated incurred, but not reported, insurance claims payable at June 30, 2005.

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
2003-04	$15,756,600.00	$37,477,276.00	$(34,631,891.00)	$18,601,985.00
2004-05	18,601,985.00	36,628,579.57	(34,914,382.57)	20,316,182.00

22. INTERNAL SERVICE FUNDS

The following is a summary of financial information as reported in the Internal Service Funds for the 2004-05 fiscal year:

	Total	Risk Management	Escambia School District Benefit Trust	Warehouse
Total Assets	$ 34,695,360.76	$ 15,140,235.90	$ 19,555,124.86	$ 0.00
Liabilities and Net Assets:				
Accounts Payable	$ 537,992.80	$ 20,839.49	$ 517,153.31	$
Deferred Revenue	3,566,064.33		3,566,064.33	
Estimated Insurance Claims Payable	20,316,182.00	14,686,652.00	5,629,530.00	
Due To Other Funds	635,300.09	432,744.41	202,555.68	
Due To Other Agencies	70.82		70.82	
Restricted Net Assets	9,639,750.72		9,639,750.72	
Total Liabilities and Net Assets	$ 34,695,360.76	$ 15,140,235.90	$ 19,555,124.86	$ 0.00
Revenues:				
Operating:				
Premiums	$ 45,114,193.64	$ 5,339,158.83	$ 39,775,034.81	$
Charges for Services	925,976.55			925,976.55
Other	595,876.34		595,876.34	
NonOperating:				
Loss Recoveries	1,353,527.11	170,988.76	1,182,538.35	
Interest Income	548,234.13	225,184.68	323,049.45	
Total Revenues	48,537,807.77	5,735,332.27	41,876,498.95	925,976.55
Total Expenses	(43,369,132.39)	(5,735,332.27)	(36,707,823.57)	(925,977.55)
Change in Net Assets	$ 5,168,675.38	$ 0.00	$ 5,168,675.38	$ 0.00

23. EXTRAORDINARY ITEM

In September 2004, the District suffered significant damage from Hurricane Ivan. The $35,164,391.38 extraordinary item represents loss recoveries as of June 30, 2005. Expenditures associated with these recoveries are accounted for in the District's financial statements as period costs.

24. CONTINGENCY

The Escambia County Property Appraiser is involved in ongoing litigation with the Pensacola Beach Leaseholders and Residents Association regarding the appraisals on and taxability of the values of leasehold improvements on Pensacola Beach. During the litigation, some leaseholders have chosen to pay the assessed taxes while others have chosen not to pay the assessed taxes pending the outcome of the litigation. Depending upon the ultimate outcome of this litigation, the District may be entitled to their portion (estimated at $3,554,346 at June 30, 2005) of the gross taxes uncollected from leaseholders, or the District may be required to return their portion of the gross taxes collected from the leaseholders. At June 30, 2005,

the District has received $1,126,773 in taxes collected from leaseholders, of which $267,927 is from the local capital improvement tax.

25. LITIGATION

The District is involved in several pending and threatened legal actions. In the opinion of District management, the range of potential loss from all such claims and actions should not materially affect the financial condition of the District, with one exception. The District received a demand letter from a subcontractor for Hurricane Ivan related repairs in the amount of $2.9 million which may result in legal action if the parties are unable to reach a resolution.

26. SUBSEQENT EVENTS

On July 27, 2005, the District entered into a Bank Qualified Certificate Purchase Agreement with a financial institution whereby the District agreed to sell and deliver to the financial institution $10,000,000 aggregate principal of the District's Certificates of Participation, Series 2005 on December 15, 2005. Concurrent with this agreement, the District entered into an ISDA (International Swap Dealers Association, Inc.) Master Agreement to enter into a variable rate bank loan that will be used to affect a Fixed Spread Basis Interest Rate Swap.

Subsequent to the end of the fiscal year, the District sustained significant damages from Hurricanes Dennis and Katrina. Most of these damages, estimated to be between $5.5 million and $6.1 million, should be covered by insurance or Public Assistance Grants.

EXHIBIT - L
ESCAMBIA COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For the Fiscal Year Ended June 30, 2005

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	$ 870,000.00	$ 1,709,996.17	$ 1,709,996.17	$
Federal Through State	1,200,000.00	1,988,336.82	1,988,336.82	
State	175,555,296.06	173,572,421.20	173,575,534.80	3,113.60
Local	71,136,475.17	75,704,856.84	75,704,856.84	
Total Revenues	248,761,771.23	252,975,611.03	252,978,724.63	3,113.60
Expenditures				
Current - Education:				
Instruction	159,025,377.11	161,343,418.18	155,620,400.69	5,723,017.49
Pupil Personnel Services	13,490,044.84	13,637,125.77	13,192,680.44	444,445.33
Instructional Media Services	4,951,077.44	5,051,176.19	4,863,144.62	188,031.57
Instruction and Curriculum Development Services	6,530,226.59	7,039,694.35	6,716,589.87	323,104.48
Instructional Staff Training	2,134,503.15	2,570,578.91	2,330,244.99	240,333.92
Board of Education	1,191,280.84	1,195,261.63	1,018,539.90	176,721.73
General Administration	590,870.44	659,055.62	642,079.40	16,976.22
School Administration	13,978,773.85	14,563,996.34	14,297,340.69	266,655.65
Facilities Acquisition and Construction	1,137,263.20	7,264,105.80	6,965,352.48	298,753.32
Fiscal Services	2,146,713.73	2,282,011.73	2,066,850.56	215,161.17
Food Services	278,056.00	312,816.91	254,024.47	58,792.44
Central Services	7,568,405.07	7,511,121.26	5,574,056.22	1,937,065.04
Pupil Transportation Services	14,081,421.42	14,039,510.77	13,927,198.26	112,312.51
Operation of Plant	22,843,694.58	23,172,350.52	22,458,802.62	713,547.90
Maintenance of Plant	9,663,099.09	40,797,147.98	22,403,518.82	18,393,629.16
Community Services	805,838.57	616,946.64	351,266.39	265,680.25
Fixed Capital Outlay:				
Facilities Acquisition and Construction	34,458.33	269,781.34	235,045.34	34,736.00
Other Capital Outlay	1,462,794.06	2,782,476.95	1,910,314.48	872,162.47
Debt Service:				
Principal	1,004,564.00	1,235,234.02	1,229,234.24	5,999.78
Interest and Fiscal Charges	317,371.00	317,540.98	317,540.98	
Total Expenditures	263,235,833.31	306,661,351.89	276,374,225.46	30,287,126.43
Excess (Deficiency) of Revenues Over Expenditures	(14,474,062.08)	(53,685,740.86)	(23,395,500.83)	30,290,240.03
Other Financing Sources				
Transfers In	6,011,909.64	5,724,731.09	5,724,731.09	
Loss Recoveries		33,850,100.39	36,326,546.42	2,476,446.03
Total Other Financing Sources	6,011,909.64	39,574,831.48	42,051,277.51	2,476,446.03
Net Change in Fund Balances	(8,462,152.44)	(14,110,909.38)	18,655,776.68	32,766,686.06
Fund Balances, July 1, 2004	21,422,721.41	21,422,721.41	21,422,721.41	
Fund Balances, June 30, 2005	$ 12,960,568.97	$ 7,311,812.03	$ 40,078,498.09	$ 32,766,686.06

FEDERAL REPORTS AND SCHEDULES

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

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – FEDERAL AWARDS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

AUDITOR GENERAL
STATE OF FLORIDA

G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450

WILLIAM O. MONROE, CPA
AUDITOR GENERAL

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

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Escambia County District School Board as of and for the fiscal year ended June 30, 2005, which collectively comprise the District's basic financial statements, and have issued our report thereon included under the heading ***INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS***. Our audit did not extend to the school and activity funds, commonly called the school internal funds, nor to the District's aggregate discretely presented component units. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the District's basic financial statements and not to provide an opinion on the District's internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. This matter is discussed in the ***FINDINGS AND RECOMMENDATIONS*** section of this audit report.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition referred to above is not a material weakness.

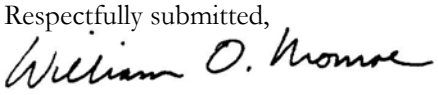
Compliance and Other Matters

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

We did note certain instances of noncompliance related to Federal programs which are discussed in the ***SCHEDULE OF FINDINGS AND QUESTIONED COSTS – FEDERAL AWARDS*** section of this report.

This report is intended for the information of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, Federal and other granting agencies, and applicable management. Copies of this report are available pursuant to Section 11.45(4), Florida Statutes, and its distribution is not limited.

Respectfully submitted,



William O. Monroe, CPA
November 15, 2005

AUDITOR GENERAL
STATE OF FLORIDA

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

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

Compliance

We have audited the District's compliance with the types of compliance requirements described in the United States Office of Management and Budget's (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the fiscal year ended June 30, 2005. The District's major Federal programs are identified in the ***SUMMARY OF AUDIT RESULTS*** section of the accompanying ***SCHEDULE OF FINDINGS AND QUESTIONED COSTS - FEDERAL AWARDS***. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of the District's major Federal programs is the responsibility of District management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the fiscal year ended June 30, 2005. However, as discussed in the accompanying ***SCHEDULE OF FINDINGS AND QUESTIONED COSTS - FEDERAL AWARDS***, the results of our auditing procedures disclosed some instances of noncompliance with those requirements that are required to be reported in accordance with OMB *Circular A-133*.

Internal Control Over Compliance

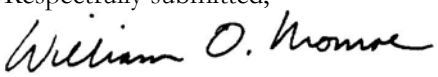
District management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB *Circular A-133*.

We noted certain matters, described in the accompanying ***SCHEDULE OF FINDINGS AND QUESTIONED COSTS - FEDERAL AWARDS***, involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the District's ability to administer a major Federal program in accordance with applicable requirements of laws, regulations, contracts, and grants.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions referred to above is a material weakness.

This report is intended for the information of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, Federal and other granting agencies, and applicable management. Copies of this report are available pursuant to Section 11.45(4), Florida Statutes, and its distribution is not limited.

Respectfully submitted,



William O. Monroe, CPA
November 15, 2005

ESCAMBIA COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2005

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)	Amount Provided to Subrecipients
United States Department of Agriculture:				
Indirect:				
Florida Department of Agriculture and Consumer Services:				
Food Donation	10.550 (2)	None	$ 1,090,335.19	$
Florida Department of Education:				
Child Nutrition Cluster:				
School Breakfast Program	10.553	321	2,134,022.00	
National School Lunch Program	10.555	300	8,219,304.00	
Total Child Nutrition Cluster			10,353,326.00	
Total United States Department of Agriculture			11,443,661.19	
United States Department of Labor:				
Indirect:				
Workforce Escarosa, Inc.:				
WIA Youth Activities	17.259	None	281,617.58	
United States Department of Education:				
Direct:				
Student Financial Assistance Cluster:				
Federal Supplemental Educational Opportunity Grants	84.007	N/A	9,899.75	
Federal Work-Study Program	84.033	N/A	7,378.70	
Federal Pell Grant Program	84.063	N/A	314,382.68	
Total Student Financial Assistance Cluster:			331,661.13	
Impact Aid	84.041	N/A	1,294,911.18	
Magnet Schools Assistance	84.165	N/A	149,294.26	
Total Direct			1,775,866.57	
Indirect:				
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027	262, 263	9,534,031.51	
Special Education - Preschool Grants	84.173	266, 267	645,623.47	
University of Florida:				
Special Education - Grants to States	84.027	None	1,000.00	
Leon County District School Board:				
Special Education - Grants to States	84.027	None	8,360.51	
Washington County District School Board:				
Special Education - Preschool Grants	84.173	None	1,592.07	
Total Special Education Cluster			10,190,607.56	
Florida Department of Education:				
Adult Education - State Grant Program	84.002	191	156,215.96	
Title I Grants to Local Educational Agencies	84.010	212, 223, 226	13,978,352.26	
Vocational Education - Basic Grants to States	84.048	151, 152	717,235.46	
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	326,174.79	
Education for Homeless Children and Youth	84.196	127	122,795.50	
Even Start - State Educational Agencies	84.213	219	615,153.87	
Charter Schools	84.282	298	345,157.94	345,157.94
State Grants for Innovative Programs	84.298	112, 113	222,584.29	
Education Technology State Grants	84.318	121, 122	926,104.97	
Comprehensive School Reform Demonstration	84.332	128, 129	131,901.60	
School Renovation Grants	84.352	145, 146	135,654.30	
Voluntary Public School Choice	84.361	299	57,020.98	
English Language Acquisition Grants	84.365	102	44,183.10	
Improving Teacher Quality State Grants	84.367	224	2,957,484.72	
Santa Rosa County District School Board:				
Education Technology State Grants	84.318	None	162,145.45	
Total Indirect			31,088,772.75	345,157.94
Total United States Department of Education			32,864,639.32	345,157.94
United States Department of Health and Human Services:				
Indirect:				
University of Florida:				
Developmental Disabilities Basic Support and Advocacy Grants	93.630	None	2,877.27	

ESCAMBIA COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
For the Fiscal Year Ended June 30, 2005

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)	Amount Provided to Subrecipients
Corporation for National and Community Service:				
Indirect:				
Florida Department of Education:				
Learn and Serve America - School and Community Based Programs	94.004	234	$ 119.81	$
United States Department of Homeland Security:				
Indirect:				
Florida Department of Community Affairs:				
Public Assistance Grants	97.036 (3)	None	8,460,336.39	
United States Department of Defense:				
Direct:				
Army Junior Reserve Officers Training Corps	None	N/A	58,086.44	
Air Force Junior Reserve Officers Training Corps	None	N/A	81,308.37	
Navy Junior Reserve Officers Training Corps	None	N/A	315,882.52	
Total United States Department of Defense			455,277.33	
Total Expenditures of Federal Awards			$ 53,508,528.89	$ 345,157.94

Notes:

(1) Basis of Presentation. The Schedule of Expenditures of Federal Awards represents amounts expended from Federal programs during the 2004-05 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 reported in the District's accounting records from which the financial statements have been reported.

(2) Noncash Assistance.
Food Donation - The amount disclosed represents the amount of donated food received during the 2004-05 fiscal year. Commodities are valued at fair value as determined at the time of donation.

(3) Public Assistance Grants - The amount reported as expenditures represents hurricane related loss recoveries for the 2004-05 fiscal year as follows: $6,082,414.00 for large projects which generally represent expenditures already incurred, $2,295,505.97 for small projects which generally represent the final payment of eligible costs made upon the approval of the project (not necessarily expenditures already incurred), and $82,416.42 for allowable administrative costs.

ESCAMBIA COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

SUMMARY OF AUDIT RESULTS

As required by United States Office of Management and Budget *Circular A-133*, Section __.505, the following is a summary of the results of the audit of the Escambia County District School Board for the fiscal year ended June 30, 2005:

- Except for the exclusion of the school internal funds and the discretely presented component units from the scope of the audit, there was no modification to the opinion on the financial statements.
- A certain matter involving the internal control over financial reporting and its operation was considered to be a reportable condition, though the reportable condition was not considered a material weakness.
- No noncompliance was disclosed which is material to the financial statements.
- Although none were considered to be material weaknesses, certain matters were disclosed that were considered to be reportable conditions in internal control over major Federal programs.
- An unqualified opinion was issued on major program compliance.
- Audit findings on Federal programs are listed below under the subheading ***FINDINGS AND RECOMMENDATIONS***.
- Major Federal programs included: Child Nutrition Cluster [School Breakfast Program (CFDA No. 10.553) and National School Lunch Program (CFDA No. 10.555)], Title I Grants to Local Educational Agencies (CFDA No. 84.010), and Public Assistance Grants (CFDA No. 97.036).
- The dollar threshold used to distinguish between Type A and Type B Federal programs was $1,605,255.87.
- The low risk entity threshold was not applied.

ESCAMBIA COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS –
FEDERAL AWARDS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

FINDINGS AND RECOMMENDATIONS

Federal Award Finding 1:
Federal Agency: United States Department of Agriculture
Pass-Through Entity: Florida Department of Education
Program: Child Nutrition Cluster [School Breakfast Program (CFDA No. 10.553) and National School Lunch Program (CFDA No. 10.555)]
Finding Type: Reportable Condition and Noncompliance
Questioned Costs: Not Applicable

Special Tests and Provisions – Verifications. Title 7, Section 245.6a(a), Code of Federal Regulations, provides that each school district must verify the current free and reduced-price eligibility of households selected from a sample of applications that have been approved for free and reduced-price meals. During the 2004-05 fiscal year, the District chose to select this sample using the focused sampling method in which the District is required to select and verify a minimum of:

- The lesser of one-half percent or 500 of the total number of applications that were approved based upon categorical eligibility (e.g., Food Stamp and Temporary Assistance to Needy Families households), plus
- The lesser of one percent or 1,000 of the total number of approved applications (both income and categorical) selected from households claiming monthly income within $100, or yearly income within $1,200, of the income eligibility guidelines for free or reduced-price meals.

Our review of the verification samples selected at five District schools indicated that three schools (Weis Elementary School and Pensacola and Escambia High Schools) did not select the sample of applications in accordance with the requirements noted above. At each of these schools, we noted applications (not approved based upon categorical eligibility) that were selected for verification on which the households did not claim monthly income within $100, or yearly income within $1,200, of the income eligibility guidelines for free or reduced-price meals. Likewise, we noted applications at each of these schools that were not selected for verification on which the households did claim monthly income within $100, or yearly income within $1,200, of the income eligibility guidelines for free or reduced-price meals.

Recommendation: The District should enhance its procedures to ensure that verification samples are properly selected in accordance with the requirements of the Federal regulations noted above.

Federal Award Finding 2:
Federal Agency: United States Department of Agriculture
Pass-Through Entity: Florida Department of Education
Program: National School Lunch Program (CFDA No. 10.555)
Finding Type: Noncompliance
Questioned Costs: Not Applicable

Special Tests and Provisions – Competitive Food Sales. Title 7, Section 210.11, Code of Federal Regulations, requires that state agencies and school food authorities establish rules or regulations as necessary to control the sale of foods in competition with lunches served under the National School Lunch Program. State Board of Education Rule 6-7.042, Florida Administrative Code, establishes such rules and provides that, although carbonated beverages may be sold in high schools under certain circumstances, carbonated beverages may not be sold where breakfast or lunch is being served or eaten. Our review disclosed that, on the dates of our testing, vending machines containing carbonated beverages were located in the immediate proximity of the cafeteria and were available to students throughout the entire school day at two (Pensacola and Pine Forest High Schools) of four high schools selected for testing. The sale of carbonated beverages in the cafeteria area is contrary to the intent of the State Board of Education Rule noted above.

Recommendation: The District should take appropriate action to ensure compliance with the Federal regulations and State Board of Education rules relating to the sale of carbonated beverages.

Federal Award Finding 3:
Federal Agency: United States Department of Education
Pass-Through Entity: Florida Department of Education
Program: Title I Grants to Local Educational Agencies (CFDA No. 84.010)
Finding Type: Noncompliance
Questioned Costs: Not Applicable

Cash Management. Title 34, Section 80.21(i), Code of Federal Regulations, provides that subgrantees shall promptly, but at least quarterly, remit interest earned on cash advances to the Federal agency. The subgrantee may keep interest amounts of up to $100 per year for administrative expenses. The Florida Department of Education (FDOE) has instructed district school boards to remit interest earned on Federal cash advances to the FDOE Comptroller's Office. District records indicate interest earnings on Federal cash advances for the 2004-05 fiscal year totaled $44,164. Our review disclosed that the District had not remitted these interest earnings, net of $100 administrative expenses, to FDOE as required. Subsequent to our inquiry, on October 20, 2005, the District remitted $44,064 to FDOE.

Recommendation: The District should ensure that interest earnings on cash advances are timely remitted to FDOE in accordance with Federal regulations.

Federal Award Finding 4:
Federal Agencies: United States Department of Education and Department of Homeland Security
Pass-Through Entities: Florida Department of Education and Florida Department of Community Affairs
Programs: Title I Grants to Local Educational Agencies (CFDA No. 84.010) and Public Assistance Grants (CFDA No. 97.036)
Finding Type: Reportable Condition and Noncompliance
Questioned Costs: Not Applicable

Suspension and Debarment. Except for food service vendors, the District has not developed procedures to determine whether contractors were suspended or debarred from receiving Federal funds. As of November 26, 2003, Federal rules require non-Federal entities such as the District to determine that contractors receiving procurement contracts equal to or exceeding $25,000 are not suspended or debarred from receiving Federal funds. In addition, Title 44, Section 13.35, Code of Federal Regulations, which is applicable to the Public Assistance Grants program, provides that the District must not make or permit any award (contract or subgrant) to any party that is suspended or debarred or is otherwise excluded from or ineligible for participation in Federal assistance programs. Non-Federal entities may make this determination by checking the *Excluded Parties List System* maintained by the General Services Administration, obtaining a written certification, or adding a clause in the agreement with the contractor.

Our test of selected disbursements made with Title I Grants to Local Educational Agencies (Title I) program moneys disclosed payments totaling $2,091,752 that were subject to the above verification requirements. Likewise, our test of selected Public Assistance Grants program disbursements disclosed payments totaling $2,484,053 that were subject to the above verification requirements. District personnel had not verified or otherwise determined that the vendors receiving these payments were not suspended or debarred from receiving Federal funds. In response to our inquiry, District personnel indicated that, during the 2004-05 fiscal year, the District did not have procedures in place to verify that applicable vendors, except food service vendors, were not suspended or debarred or otherwise excluded from receiving Federal funds. We verified that the vendors included in our tests of selected transactions made from the Title I and Public Assistance Grants programs were not included on the *Excluded Parties List System*. However, audit tests cannot substitute for management's responsibility to establish and maintain an adequate system of internal control.

Recommendation: The District should establish procedures, prior to contracting with applicable vendors, to verify that the vendors are not suspended or debarred or otherwise excluded from receiving Federal funds.

Federal Award Finding 5:
Federal Agency: United States Department of Education
Pass-Through Entity: Florida Department of Education
Program: Title I Grants to Local Educational Agencies (CFDA No. 84.010)
Finding Type: Noncompliance
Questioned Costs: $9,000

Activities Allowed or Unallowed. The United States Office of Management and Budget *Circular A-87*, Attachment A, Section C.1., provides, in part, that to be an allowable expense under Federal awards, costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards. During the 2004-05 fiscal year, the District paid $132,880 for a software licensing agreement and $60,000 for the cost of professional development and training relating to the software from Title I program funds. The proposal related to the purchase indicated that the software would be used at 40 school locations including 34 Title I schools and 6 non-Title I schools. While the purchase of the software licensing agreement is a lump sum cost that would have been incurred by the Title I program regardless of whether non-Title I schools had used the software, the cost of the professional development and training was based on the number of school locations. The District paid $1,500 for the cost of the professional development and training provided at each of the 40 school locations. Therefore, the $9,000 paid for the professional development and training at the 6 non-Title I schools represents questioned costs, subject to disallowance by the grantor.

Recommendation: The District should document the allowability of the $9,000 in questioned costs to the grantor (Florida Department of Education) or these moneys should be restored to the Title I program.

Federal Award Finding 6:
Federal Agency: United States Department of Education
Pass-Through Entity: Florida Department of Education
Program: Title I Grants to Local Educational Agencies (CFDA No. 84.010)
Finding Type: Noncompliance
Questioned Costs: Not Applicable

Special Tests and Provisions – Identifying Schools Needing Improvement. Title 34, Section 200.36, Code of Federal Regulations, requires that throughout the school improvement process, school districts must communicate with the parents of each child attending school. This Section further provides that school districts must provide information directly to parents through such means as regular mail or e-mail. If a school district identifies a school for improvement, Title 34, Section 200.37, Code of Federal Regulations, requires that the school district must, consistent with the requirements of Title 34, Section 200.36, Code of Federal Regulations, promptly notify the parents of each child enrolled in the school about certain information, including the following:

- An explanation of what the identification means and how the school compares, in terms of academic achievement, to other elementary and secondary schools served by the school district;

- The reasons for the identification;
- An explanation of how parents can become involved in addressing the academic issues that led to identification; and
- An explanation of the parents' option to transfer their child to another public school, including information on the academic achievement of the schools to which their child may transfer.

In response to our request for documentation demonstrating that the required notifications were made directly to the parents for the 2004-05 school year, District personnel provided us a copy of a letter sent to the parents of children attending schools identified as needing improvement. However, this letter did not include several of the required elements noted above including how the child's school compared academically with other District schools, how parents could become involved in addressing the academic issues that led to the identification, and information on the academic achievement of the schools to which their child could have been transferred.

In addition, although District personnel represented that letters were sent to the parents of all eligible elementary and high school students within the District explaining their option to transfer their child to another District school, District personnel indicated they did not retain the documentation to demonstrate that all parents of eligible students were sent such a letter. While the District was unable to document that all parents of eligible elementary and high school children were properly notified of their option to transfer their child to another District school, District records did evidence the notification of many parents based on the numbers of elementary and high school children that transferred to other schools. Also, as explained in Federal Award Finding No. 7, Matching, Level of Effort, Earmarking – Targeting Funds for Choice Related Transportation, the District did not notify the parents of middle school children of the option to transfer their child to another District school. Failure to provide the required notifications above may limit the ability of parents to make an informed decision regarding the educational choices available to their child.

Recommendation: The District should ensure that required notifications are made to the parents of children attending schools identified as needing improvement.

Federal Award Finding 7:
Federal Agency: United States Department of Education
Pass-Through Entity: Florida Department of Education
Program: Title I Grants to Local Educational Agencies (CFDA No. 84.010)
Finding Type: Noncompliance
Questioned Costs: Estimated at $68,000

Matching, Level of Effort, Earmarking – Targeting Funds for Choice Related Transportation. Title 34, Section 200.32, Code of Federal Regulations, provides that school districts must identify for school improvement any elementary or secondary school that is served under Title 34, Part 200, Title I, Subpart A (a Title I school) and that fails to meet adequate yearly progress as defined in Title 34, Sections 200.13 through 200.20, Code of Federal Regulations. Title 34, Section 200.44, Code of Federal Regulations, further provides that if a school is identified for improvement, a school district must provide all students enrolled in the school with the option to transfer to

another public school served by the school district that has not been identified for improvement (a qualifying school).

District records provided for our review indicated that, for the 2004-05 school year, approximately 4,200 middle school students were not provided the option to transfer to a qualifying District school even though there were such middle schools within the District. To the extent that Title I funds were needed and not used to transport eligible middle school students to a qualifying District school, those costs represent questioned costs subject to disallowance by the grantor. It is not known how many eligible middle school students would have accepted the option to transfer to a qualifying District school. However, applying the same ratio of eligible students who transferred at the elementary and high schools to estimate the number of middle school students who would have transferred, and the average cost to transport those students, we have estimated questioned costs of $68,000.

Recommendation: The District should ensure that all eligible students are provided required choice options available to them under the above provisions of law. In addition, the District should document to the grantor (Florida Department of Education) the allowability of the $68,000 in estimated questioned costs noted above or those moneys should be restored to the Title I program.

Federal Award Finding 8:
Federal Agency: United States Department of Education
Pass-Through Entity: Florida Department of Education
Program: Title I Grants to Local Educational Agencies (CFDA No. 84.010)
Finding Type: Reportable Condition and Noncompliance
Questioned Costs: $14,311

Special Tests and Provisions – Highly Qualified Paraprofessionals. Title 34, Section 200.58, Code of Federal Regulations, requires that school districts ensure each paraprofessional (an individual who provides instructional support) who works in a program, such as the Title I program, has earned a high school diploma or its recognized equivalent. In addition, this Section provides that each paraprofessional who is hired after January 8, 2002, must have:

- Completed at least two years of study at an institution of higher education;
- Obtained an associate's degree or higher degree; or
- Met a rigorous standard of quality, and can demonstrate, through a formal State or local academic assessment, knowledge of and the ability to assist in instructing, as appropriate, 1) reading/language arts, writing, and mathematics, or 2) reading readiness, writing readiness, and mathematics readiness.

During the 2004-05 fiscal year, District procedures included determining that all paraprofessionals hired to work in the District's Title I program had earned a high school diploma or its recognized equivalent; however, District procedures did not require the verification of the remaining requirements noted above. Our review of District records disclosed one paraprofessional who worked in the District's Title I program, who was hired after January 8, 2002, and who, according to District records, did not meet the above requirements. In addition, our review of District records disclosed one paraprofessional who worked in the District's Title I program and who was hired after January 8, 2002, but for whom District personnel did not obtain the necessary documentation to determine

if the employee met the above requirements. Total salaries and benefits paid to these two paraprofessionals during the 2004-05 fiscal year totaled $14,311, which represents questioned costs subject to disallowance by the grantor.

Recommendation: The District should implement procedures to ensure that all paraprofessionals hired to work in the District's Title I program meet the minimum qualification requirements as noted above. The District should also document the allowability of the $14,311 in questioned costs to the grantor (Florida Department of Education) or those moneys should be restored to the program.

ESCAMBIA COUNTY
DISTRICT SCHOOL BOARD
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2005

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

Audit Report No. and Federal Awards Finding No.	Program/Area	Brief Description	Status	Comments
Cherry, Bekaert & Holland, LLP		There were no prior audit findings.		

MANAGEMENT RESPONSE

THE SCHOOL DISTRICT OF ESCAMBIA COUNTY

215 WEST GARDEN STREET
PENSACOLA, FL 32502
PHONE 850/432-6121, FAX 850/469-6379
http://www.escambia.k12.fl.us
JIM PAUL, SUPERINTENDENT

December 14, 2005

Mr. William O. Monroe, CPA
Auditor General
7282 Plantation Road, Suite 401
Pensacola, FL 32504

Re: Preliminary and Tentative Audit Findings and Recommendations for the Fiscal Year Ended June 30, 2005

Dear Mr. Monroe:

Enclosed is our response to the preliminary and tentative audit findings for the fiscal year ended June 30, 2005.

We appreciate the opportunity to respond to the findings. After reviewing the response, please advise me if you require any further clarification or action on our part.

In the meantime, we shall look forward to receiving the final audit when it becomes available.

Sincerely,

Jim Paul
Superintendent

JP:BSL:dlh

c: Board Members

Affirmative Action/Equal Opportunity Employer

MANAGEMENT RESPONSE (CONTINUED)

Finding No. 1: Construction Contract Administration – Payment and Performance Bonds

Based on the state of emergency declared by the Superintendent and the Governor (by executive order 04-206), no formal contracts were issued to vendors for work to be performed immediately after Hurricane Ivan.

Normal procurement methods were not applicable during the declared state of emergency. Consequently, payment and performance bonds were not obtained from the contractors since formal contracts were not issued. Payment and performance bonds are issued by surety based on the formal contract terms, as described in Florida Statute 255.05(1)(a),

We acknowledge that no formal action was taken by the School Board regarding Executive Order Number 04-206 and will in the future document that such action is taken by the School Board.

It must be recognized, that immediately following the disaster, the school district and our entire community were devastated and without power and resources to affect normal operations and procedures. The main Administration Building and the Facilities Planning Department were not usable for several weeks after the storm due to extensive damage to these facilities.

It is the policy and practice of the school district to follow all laws and regulations related to award of contracts during normal operations.

Federal Award Finding 1: Special Tests and Provisions – Verifications

As part of the 2004 Reauthorization Act for the National School Lunch and Breakfast Programs, there was a requirement for all school districts to process family applications effective July 1, 2005. Since this federal mandate can be satisfied most efficiently with centralized approval of meal applications, School Food Services purchased the software program developed by Horizon Software International for the centralized approval of family applications. Within the Horizon Free and Reduced Module, the verification procedure for focused sampling ensures that verification samples are properly selected in accordance with the requirements of the Federal regulations.

Federal Award Finding 2: Special Tests and Provisions – Competitive Food Sales

The principals at the two high schools cited for this issue have certified that all carbonated beverages have been removed from machines located where lunch is being served or eaten. We will request that the Internal Auditing Department confirm continuing compliance.

MANAGEMENT RESPONSE (CONTINUED)

Federal Award Finding 3: Cash Management

The Revenue Department has updated the Procedures Manual to include the timely transfer of interest earned on cash advances to the Federal agency. In addition, the Director of Accounting Operations will perform a quarterly review to ensure that the transfer has been made.

Federal Award Finding 4: Suspension and Debarment

We will continue to require every vendor responding to a food services bid to sign the USDA debarment and suspension certification form regardless of the dollar amount they bid or are awarded. In addition, every vendor responding to all other Request for Proposals or Invitations to Bid will be required to sign the attached certification. If a good or service is exempt from bid, and costs $25,000 or more, the certification will be forwarded to the vendor for signature prior to the creation of a purchase order. The certification has also been added to all contracts approved by the School Board General Counsel.

Federal Award Finding 5: Activities Allowed or Unallowed

Although our understandings from the vendor indicated that pricing for the software and associated professional development was a District-wide cost, we also understand that documentation does not demonstrate this pricing. Staff Development was scheduled for Title I school personnel with an invitation for teachers at non-Title I schools to avail themselves to open slots. The School District will request that all documents from the vendor make this clear in future purchases.

Federal Award Finding 6: Special Tests and Provisions – Identifying Schools Needing Improvement

Title 34, Section 200.37, code of Federal Regulations, notification to parents of the failure of their child 's school to meet national standards for Annual Yearly Progress has been approached in Escambia County in several ways. Schools have held open meetings sponsored by PTA and School Advisory Councils to discuss the status of the school and the implications for students. Results of state assessment initiatives as well as national ratings, comparing schools in the tri-county area are reported in the local media. Through weekly and monthly newsletters, teachers and school principals continually invite parents to partner with them to meet the academic challenges faced by individual schools. Business partners are solicited to assist with tutoring. Opportunities for special services such as Beyond the School Day programs and other tutorials are widely advertised. The Superintendent and his Senior Staff met quarterly with parents to discuss concerns about school performance and to assist parents in finding ways to become involved in solutions to any existing problems. Representatives from Curriculum and Instruction, Operations and Finance are available to address any concerns that are raised.

MANAGEMENT RESPONSE (CONTINUED)

The Escambia County School District has a sincere desire to meet both the letter and spirit of the law. And in that spirit will put in place the following procedure.

- A letter will be mailed to each family in eligible schools stating that the school has not met AYP offering appropriate choices and describing ways in which parents may become involved in both decision making at the school site and methods to support and assist their child at home. The letter will include all the elements noted in the audit report.

A listing of those eligible families who receive letters will be maintained in the Office of School Choice and Title I.

Federal Award Finding 7: Matching, Level of Effort, Earmarking – Targeting Funds for Choice Related Transportation

The Escambia County School District has a sincere desire to meet both the letter and spirit of the law. And in that spirit, the Curriculum and Instruction division has already begun to put in place those procedures to assure that every student including those at the middle school level has genuine choice as guaranteed under the law. Plans have begun to make application for options such as a District developed School-Within-a-School to meet the needs of those middle school students who are in areas where there is no eligible school to receive transfers. The Superintendent and the School Board are investigating consolidation of middle schools which will greatly impact this process.

Federal Award Finding 8: Special Tests and Provisions – Highly Qualified Paraprofessionals

The application process for paraprofessionals is being redefined. New procedures will include documentation of eligibility under NCLB and the district will make every effort to assure compliance with Section 34, Section 200.58, and Code of Federal Regulations.

MANAGEMENT RESPONSE (CONTINUED)

Attachment
Finding No. 4

Certification Regarding Debarment, Suspension, Ineligibility and
Voluntary Exclusion - Lower Tier Covered Transactions

This certification is required by the Department of Education regulations implementing Executive Order 12549, Debarment and Suspension, 34 CFR Part 85, for all lower tier transactions meeting the threshold and tier requirements stated at Section 85.110.

Instructions for Certification

1. By signing and submitting this proposal, the prospective lower tier participant is providing the certification set out below.

2. The certification in this clause is a material representation of fact upon which reliance was placed when this transaction was entered into. If it is later determined that the prospective lower tier participant knowingly rendered an erroneous certification, in addition to other remedies available to the Federal Government, the department or agency with which this transaction originated may pursue available remedies, including suspension and/or debarment.

3. The prospective lower tier participant shall provide immediate written notice to the person to whom this proposal is submitted if at any time the prospective lower tier participant learns that its certification was erroneous when submitted or has become erroneous by reason of changed circumstances.

4. The terms '"covered transaction," "debarred," "suspended," "ineligible," "lower tier covered transaction," "participant," "person," "primary covered transaction," "principal," "proposal," and "voluntarily excluded," as used in this clause, have the meanings set out in the Definitions and Coverage sections of rules implementing Executive Order 12549. You may contact the person to which this proposal is submitted for assistance in obtaining a copy of those regulations.

5. The prospective lower tier participant agrees by submitting this proposal that, should the proposed covered transaction be entered into, it shall not knowingly enter into any lower tier covered transaction with a person who is debarred, suspend-ed, declared ineligible, or voluntarily excluded from participation in this covered transaction, unless authorized by the department or agency with which this transaction originated.

6. The prospective lower tier participant further agree by submitting this proposal that it will include the claus titled "Certification Regarding Debarment, Suspension, Ineligibility, and Voluntary Exclusion-Lower Tier Covere Transactions," without modification of all lower tier covered transactions and in all solicitations for lower ti covered transactions.

7. A participant in a covered transaction may rely upon a certification of a prospective participant in a lower tier covered transaction that it is not debarred, suspended, ineligible, or voluntarily excluded from the covered transaction, unless it knows that the certification is erroneous. A participant may decide the method and frequency by which it determines the eligibility of its principals. Each participant may, but is not required to, check the Nonprocurement List.

8. Nothing contained in the foregoing shall be construed to require establishment of a system of records in order to render in good faith the certification required by this clause. The knowledge and information of a participant is not required to exceed that which is normally possessed by a prudent person in the ordinary course of business dealings.

9. Except for transactions authorized under paragraph 5 of these instructions, if a participant in a covered transaction knowingly enters into a lower tier covered transaction with a person who is suspended, debarred, ineligible, or voluntarily excluded from participation in this transaction, in addition to other remedies available to the Federal Government, the department or agency with which this transaction originated may pursue available remedies, including suspension and/or debarment.

MANAGEMENT RESPONSE (CONTINUED)

Certification

(1) The prospective lower tier participant certifies, by submission of this proposal, that neither it nor its principals are presently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from participation in this transaction by any Federal department or agency.

(2) Where the prospective lower tier participant is unable to certify to any of the statements in this certification, such prospective participant shall attach an explanation to this proposal.

NAME OF APPLICANT	AWARD NUMBER AND/OR PROJECT NAME
PRINTED NAME AND TITLE OF AUTHORIZED REPRESENTATIVE	
SIGNATURE	DATE

ED 80-00014, 9/90 (Replaces GCS-009 (REV. 12/88), which is obsolete)