

**ESCAMBIA SCHOOL DISTRICT
EMPLOYEE BENEFIT TRUST**

Financial Statements

**For Years Ended
June 30, 2010 and 2009**

ESCAMBIA SCHOOL DISTRICT EMPLOYEE BENEFIT TRUST

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Report of Independent Auditors

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

We have audited the accompanying financial statements of Escambia School District Employee Benefit Trust of the Escambia County School District as of and for the years ended June 30, 2010 and 2009, as listed in the table of contents. These financial statements are the responsibility of Escambia County School District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinion.

As discussed in Note 2, the financial statements present the financial position of only Escambia School District Employee Benefit Trust of the Escambia County School District and do not purport to, and do not, present fairly the financial position and results of operations of the District School Board of Escambia County, Florida as of June 30, 2010 and 2009, and the changes in its financial position, and cash flows of its proprietary fund type for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Escambia School District Employee Benefit Trust of the Escambia County School District as of June 30, 2010 and 2009, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2010 on our consideration of Escambia School District Employee Benefit Trust of the Escambia County School District's internal control over financial reporting and on our tests of its compliance with laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the result of our audits.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information on pages 10 through 12 is presented for purposes of additional analysis 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.

Cherry, Bevant & Holland, L.L.P.

Orlando, Florida
December 7, 2010

FINANCIAL STATEMENTS

ESCAMBIA SCHOOL DISTRICT EMPLOYEE BENEFIT TRUST

Statements of Net Assets

June 30, 2010 and 2009

| | <u>2010</u> | <u>2009</u> |
|---|----------------------|----------------------|
| Assets | | |
| Current assets | | |
| Cash | \$ 19,632,775 | \$ 21,908,748 |
| Accounts receivable | 96,507 | 26,397 |
| Total current assets | <u>19,729,282</u> | <u>21,935,145</u> |
| Total assets | <u>\$ 19,729,282</u> | <u>\$ 21,935,145</u> |
| Liabilities and net assets | | |
| Current liabilities | | |
| Estimated claims incurred but not reported - Health | \$ 4,154,244 | \$ 3,995,205 |
| Estimated claims incurred but not reported - Dental | 144,452 | 144,452 |
| Deferred revenue | 3,255,501 | 3,302,719 |
| Other accrued liabilities | 53,657 | 35,374 |
| Total current liabilities | <u>7,607,854</u> | <u>7,477,750</u> |
| Total liabilities | <u>7,607,854</u> | <u>7,477,750</u> |
| Net assets | | |
| Restricted for employee benefits | <u>12,121,428</u> | <u>14,457,395</u> |
| Total net assets | <u>12,121,428</u> | <u>14,457,395</u> |
| Total liabilities and net assets | <u>\$ 19,729,282</u> | <u>\$ 21,935,145</u> |

ESCAMBIA SCHOOL DISTRICT EMPLOYEE BENEFIT TRUST
Statements of Revenues, Expenses, and Changes in Net Assets
Years Ended June 30, 2010 and 2009

| | <u>2010</u> | <u>2009</u> |
|-------------------------------------|----------------------|----------------------|
| Operating revenues | | |
| Employer contributions | \$ 24,940,895 | \$ 25,288,377 |
| Employee contributions | 13,600,876 | 13,686,162 |
| Other operating revenue | 433,885 | 516,942 |
| | <u>38,975,656</u> | <u>39,491,481</u> |
| Operating expenses | | |
| Insurers, claims and administrative | 41,361,364 | 41,718,242 |
| Total operating expenses | <u>41,361,364</u> | <u>41,718,242</u> |
| Operating loss | <u>(2,385,708)</u> | <u>(2,226,761)</u> |
| Nonoperating revenue | | |
| Investment earnings | 49,741 | 153,853 |
| Total nonoperating revenue | <u>49,741</u> | <u>153,853</u> |
| Change in net assets | (2,335,967) | (2,072,908) |
| Total net assets - beginning | <u>14,457,395</u> | <u>16,530,303</u> |
| Total net assets - ending | <u>\$ 12,121,428</u> | <u>\$ 14,457,395</u> |

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

ESCAMBIA SCHOOL DISTRICT EMPLOYEE BENEFIT TRUST
Statements of Cash Flows
Years Ended June 30, 2010 and 2009

| | 2010 | 2009 |
|---|-----------------------|-----------------------|
| Operating activities | | |
| Cash received from Board funds and participants | \$ 38,857,354 | \$ 39,437,718 |
| Cash payments to vendors for goods and services | (5,067,538) | (5,067,362) |
| Cash payments for insurance claims | (35,853,619) | (37,046,600) |
| Cash payments to employees for services | (261,911) | (495,286) |
| Net cash used in operating activities | (2,325,714) | (3,171,530) |
| Investing activities | | |
| Proceeds from sales and maturities of investments | - | 15,044,163 |
| Interest payments received | 49,741 | 153,853 |
| Net cash provided by investing activities | 49,741 | 15,198,016 |
| Net (decrease) increase in cash and cash equivalents | (2,275,973) | 12,026,486 |
| Cash and cash equivalents | | |
| Beginning of year | 21,908,748 | 9,882,262 |
| End of year | \$ 19,632,775 | \$ 21,908,748 |
| Reconciliation of operating loss | | |
| to net cash used in operating activities: | | |
| Operating loss | \$ (2,385,708) | \$ (2,226,761) |
| Adjustments to reconcile operating loss | | |
| to net cash used in operating activities: | | |
| Change in assets and liabilities | | |
| Accounts receivable | (71,085) | 5,169 |
| Health claims payable | - | (421,684) |
| Due to General Fund | - | (267,662) |
| Estimated claims incurred but not reported - Health | 165,681 | (215,015) |
| Deferred revenue | (47,218) | (59,906) |
| Other accrued liabilities | 12,616 | 14,329 |
| Total adjustments | 59,994 | (944,769) |
| Net cash used in operating activities | \$ (2,325,714) | \$ (3,171,530) |

ESCAMBIA SCHOOL DISTRICT EMPLOYEE BENEFIT TRUST

**Notes to Financial Statements
Years Ended June 30, 2010 and 2009**

Note 1 - Description of the plan

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

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

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

The health and dental claims are self-insured by the District. The District has contracted third party administrators to process and pay medical, prescription, dental and drug claims. A stop-loss insurance policy has been purchased to provide coverage of medical claims in excess of \$275,000 (\$250,000 prior to January 1, 2010) per individual per policy period.

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

Life insurance benefits are fully insured with Standard Life.

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

The District pays twenty-one and one-tenth cents per thousand dollars of annual employee salary for term life insurance. The employees pay any premiums for any excess life insurance coverage. For health insurance, the District pays the single coverage for all employees who enroll in the Basic Plan. The District also subsidizes two other health plans (Choice, PPO) at the same level of benefit as the Basic Plan (currently \$406 per pay period) and also subsidizes the cost of dependent premiums for each plan at the same level. The employees pay for family coverage or the additional cost for single coverage in higher tier plans. The premiums for the base dental plan for single coverage are paid fully by the District. Employees pay the additional premiums for the Enhanced dental plan.

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

ESCAMBIA SCHOOL DISTRICT EMPLOYEE BENEFIT TRUST

Notes to Financial Statements Years Ended June 30, 2010 and 2009

Note 2 - Summary of significant accounting policies

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

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

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

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

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

Note 3 - Cash

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

ESCAMBIA SCHOOL DISTRICT EMPLOYEE BENEFIT TRUST
Notes to Financial Statements
Years Ended June 30, 2010 and 2009

Note 4 - Deferred revenue

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

Note 5 - Tax matters

The Trust has obtained a favorable tax determination letter from the Internal Revenue Service, and the Trustees believe that the Plan continues to qualify and to operate as designed.

Note 6 - Reconciliation of claims liability

| | <u>2010</u> | <u>2009</u> |
|---|---------------------|---------------------|
| Unpaid claims and claim adjustment expenses at beginning of the fiscal year | \$ 4,139,657 | \$ 4,776,356 |
| Incurred claims and changes in estimate | 36,019,300 | 40,524,011 |
| Less claims payments | <u>35,860,261</u> | <u>41,160,710</u> |
| Total unpaid claims and claim adjustment expenses at end of the fiscal year | <u>\$ 4,298,696</u> | <u>\$ 4,139,657</u> |
| Portion allocable to health claims payable | \$ - | \$ - |
| Portion allocable to estimated health claims incurred but not reported | 4,154,244 | 3,995,205 |
| Portion allocable to estimated dental claims incurred but not reported | <u>144,452</u> | <u>144,452</u> |
| Total unpaid claims and claim adjustment expenses at end of the fiscal year | <u>\$ 4,298,696</u> | <u>\$ 4,139,657</u> |

SUPPLEMENTARY INFORMATION

ESCAMBIA SCHOOL DISTRICT EMPLOYEE BENEFIT TRUST
Schedules of Revenues, Expenses, and Changes in Net Assets
Life Benefits
Years Ended June 30, 2010 and 2009

| | <u>2010</u> | <u>2009</u> |
|-------------------------------------|------------------|------------------|
| Operating revenues | | |
| Employer contributions | \$ 475,251 | \$ 493,138 |
| Employee contributions | 1,268,809 | 1,276,039 |
| Total operating revenues | <u>1,744,060</u> | <u>1,769,177</u> |
| Operating expenses | | |
| Insurers, claims and administrative | 1,744,060 | 1,769,347 |
| Total operating expenses | <u>1,744,060</u> | <u>1,769,347</u> |
| Operating loss | <u>-</u> | <u>(170)</u> |
| Nonoperating revenue | | |
| Investment earnings | - | 170 |
| Total nonoperating revenue | <u>-</u> | <u>170</u> |
| Change in net assets | - | - |
| Total net assets - beginning | <u>-</u> | <u>-</u> |
| Total net assets - ending | <u>\$ -</u> | <u>\$ -</u> |

ESCAMBIA SCHOOL DISTRICT EMPLOYEE BENEFIT TRUST
Schedules of Revenues, Expenses, and Changes in Net Assets
Health Benefits
Years Ended June 30, 2010 and 2009

| | <u>2010</u> | <u>2009</u> |
|-------------------------------------|----------------------|----------------------|
| Operating revenues | | |
| Employer contributions | \$ 23,713,219 | \$ 23,603,048 |
| Employee contributions | 11,598,758 | 11,891,689 |
| Other operating revenue | 433,885 | 516,942 |
| Total operating revenues | <u>35,745,862</u> | <u>36,011,679</u> |
| Operating expenses | | |
| Insurers, claims and administrative | 37,998,225 | 38,181,116 |
| Total operating expenses | <u>37,998,225</u> | <u>38,181,116</u> |
| Operating loss | <u>(2,252,363)</u> | <u>(2,169,437)</u> |
| Nonoperating revenue | | |
| Investment earnings | 46,259 | 144,813 |
| Total nonoperating revenue | <u>46,259</u> | <u>144,813</u> |
| Change in net assets | (2,206,104) | (2,024,624) |
| Total net assets - beginning | <u>13,200,783</u> | <u>15,225,407</u> |
| Total net assets - ending | <u>\$ 10,994,679</u> | <u>\$ 13,200,783</u> |

ESCAMBIA SCHOOL DISTRICT EMPLOYEE BENEFIT TRUST
Schedule of Revenues, Expenses, and Changes in Net Assets
Dental Benefits
Years Ended June 30, 2010 and 2009

| | <u>2010</u> | <u>2009</u> |
|-------------------------------------|---------------------|---------------------|
| Operating revenues | | |
| Employer contributions | \$ 752,425 | \$ 1,192,191 |
| Employee contributions | 733,309 | 518,434 |
| Total operating revenues | <u>1,485,734</u> | <u>1,710,625</u> |
| Operating expenses | | |
| Insurers, claims and administrative | 1,619,079 | 1,767,779 |
| Total operating expenses | <u>1,619,079</u> | <u>1,767,779</u> |
| Operating loss | <u>(133,345)</u> | <u>(57,154)</u> |
| Nonoperating revenue | | |
| Investment earnings | 3,482 | 8,870 |
| Total nonoperating revenue | <u>3,482</u> | <u>8,870</u> |
| Change in net assets | (129,863) | (48,284) |
| Total net assets - beginning | <u>1,256,612</u> | <u>1,304,896</u> |
| Total net assets - ending | <u>\$ 1,126,749</u> | <u>\$ 1,256,612</u> |



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

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

We have audited the financial statements of Escambia School District Employee Benefit Trust of the Escambia County School District (the "Trust") as of and for the years ended June 30, 2010 and 2009, and have issued our report thereon dated December 7, 2010. We conducted our audits 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 audits, we considered the Trust's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Trust's internal control over financial reporting.

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

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

Compliance and Other Matters

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

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

Cherry, Beckett & Holland, LLP

Orlando, Florida
December 7, 2010



Management Letter

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

We have audited the financial statements of Escambia School District Employee Benefit Trust of the Escambia County School District (the "Trust") as of and for the year ended June 30, 2010, and have issued our report thereon dated December 7, 2010. These financial statements are the responsibility of the Trust's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We have issued our Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* dated December 7, 2010, and it should be considered in conjunction with this management letter.

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

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

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

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

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

Section 10.804(1)(f)6., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on the financial statements considering both quantitative and qualitative factors: (1) violations provisions of contracts or grant agreements, fraud, illegal acts, or abuse, and (2) control deficiencies that are not significant deficiencies. In connection with our audit, we did not have any such findings.

Section 10.804(1)(f)2., Rules of the Auditor General, requires a statement be included as to whether or not the Trust has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the Escambia School District Employee Benefit Trust did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Pursuant to Sections 10.804(1)(f)7.a. and 10.806(6), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the Escambia School District Employee Benefit Trust's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

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

Cherry, Rekart & Holland, L.L.P.

Orlando, Florida
December 7, 2010