

**DESOTO COUNTY
DISTRICT SCHOOL BOARD**

**Financial, Operational, and Federal Single
Audit**

For the Fiscal Year Ended
June 30, 2009



BOARD MEMBERS AND SUPERINTENDENT

DeSoto County District School Board members and the Superintendent who served during the 2008-09 fiscal year are listed below:

	<u>District No.</u>
Rodney W. Hollingsworth, Vice Chair to 11-17-08, Chair from 11-18-08	1
Karen K. Chancey, Chair to 11-17-08	2
Deborah D. Snyder, Vice Chair from 11-18-08	3
William Stanko	4
Ronny R. Allen	5

Adrian H. Cline, Superintendent

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

The audit team leader was Derick B. Boston, CPA, and the audit was supervised by Karen J. Collington CPA. For the information technology portion of this audit, the audit team leader was Rebecca F. Ferrell, CISA, and the supervisor was Nancy M. Reeder, CPA, CISA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Manager, by e-mail at gregcenters@aud.state.fl.us or by telephone at (850) 487-9039.

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

DESOTO COUNTY DISTRICT SCHOOL BOARD
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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

We noted certain matters involving the District's internal control over financial reporting and its operation that we consider to be a significant deficiency as summarized below. However, the significant deficiency is not considered to be a material weakness.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* issued by the Comptroller of the United States; however, we noted certain additional matters as summarized below.

SIGNIFICANT DEFICIENCY

Finding No. 1: Improvements are needed in District procedures to ensure that certain transactions are properly reported on the financial statements.

ADDITIONAL MATTERS

Finding No. 2: The District's management of access privileges needed improvement.

Finding No. 3: The District's security controls related to user authentication, logging, and monitoring needed improvement.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Child Nutrition Cluster, Special Education Cluster, and Improving Teacher Quality 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 a compliance finding as summarized below.

Federal Awards Finding No. 1: Contrary to registration requirements for Federal awards, the District did not timely renew its registration in the Central Contractor Registration database.

Audit Objectives and Scope

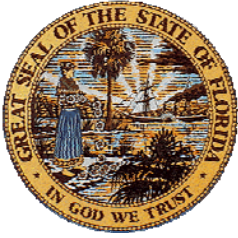
Our audit objectives were to determine whether the DeSoto County District School Board and its officers with administrative and stewardship responsibilities for District operations had:

- 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;
- Established internal controls that promote and encourage: 1) compliance with applicable laws, rules, regulations, contracts, and grant agreements; 2) the economic and efficient operation of the District; 3) the reliability of records and reports; and 4) the safeguarding of District assets;
- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements, and those applicable to the District's major Federal programs; and
- Taken corrective actions for findings included in our report No. 2009-137.

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, 2009. We obtained an understanding of the District's environment, including its internal control and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements and Federal awards. We also examined various transactions to determine whether they were executed, both in manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

Audit Methodology

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



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the DeSoto County District School Board, as of and for the fiscal year ended June 30, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the school internal funds, which represent 15 percent of the assets and 90 percent of the liabilities of the aggregate remaining fund information. Additionally, we did not audit the financial statements of The DeSoto County Education Foundation, Inc., a discretely presented component unit. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for the school internal funds and the discretely presented component unit, are based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information for the DeSoto County District School Board as of June 30, 2009, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

The **MANAGEMENT'S DISCUSSION AND ANALYSIS** (pages 3 through 8) and the **OTHER REQUIRED SUPPLEMENTARY INFORMATION** (pages 40 through 42) are not required parts 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 on it.

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

Respectfully submitted,



David W. Martin, CPA
February 24, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the DeSoto County District School Board has prepared the following discussion and analysis to provide an overview of the District's financial activities for the fiscal year ended June 30, 2009. 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 9 through 39.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2008-09 fiscal year are as follows:

- In total, net assets increased \$215,695.46, which represents a 0.5 percent increase from the 2007-08 fiscal year.
- General revenues total \$43,196,443.94 or 89.5 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total \$5,056,391.16 or 10.5 percent of all revenues.
- Expenses totaled \$48,037,139.64. Only \$5,056,391.16 of these expenses is offset by program specific charges, with the remainder being paid from general revenues. Total revenues exceed expenses by \$215,695.46.
- The unreserved fund balance of the General Fund, representing the net current financial resources available for general appropriation by the Board, totals \$2,362,141.61 at June 30, 2009, or 6.3 percent of total General Fund expenditures.
- The District's total debt decreased by \$152,304.18 or approximately 2.0 percent due to principal payments on debt.

OVERVIEW OF FINANCIAL STATEMENTS

The basic financial statements consist of three components:

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

Government-wide Financial Statements

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

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

- Governmental activities – This represents most of the District's services, including its educational programs: basic, vocational, adult, and exceptional education. Support functions such as transportation and administration are also included. The State's education finance program and the local property taxes provide most of the resources that support these activities.

- Component unit – The District presents The DeSoto County Education Foundation, Inc., a separate legal entity, in this report. Although a legally separate organization, the component unit is included in the report because it meets the criteria for inclusion provided by generally accepted accounting principles. Financial information for this component unit is reported separately from the financial information presented for the primary government.

Fund Financial Statements

Fund financial statements are one of the components of the basic financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements and prudent fiscal management. Certain funds are established by law while others are created by legal agreements, such as bond covenants. Fund financial statements provide more detailed information about the District's financial activities, focusing on its most significant or "major" funds rather than fund types. This is in contrast to the entitywide perspective contained in the government-wide statements. All of the District's funds may be classified within one of two 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, Special Revenue – Other Fund, Special Revenue – ARRA Economic Stimulus Fund, Debt Service – Other Debt Service Fund, Capital Projects – Public Education Capital Outlay Fund, and Capital Projects – Local Capital Improvement Fund. Data from the other governmental funds are combined into a single, aggregated presentation.

The District adopts an annual appropriated budget for its governmental funds. A budgetary comparison schedule has been provided for the General Fund, Special Revenue – Other Fund, and Special Revenue – ARRA Economic Stimulus Fund to demonstrate compliance with the budget.

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.

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, 2009, compared to net assets as of June 30, 2008:

	Net Assets, End of Year	
	Governmental	
	Activities	
	6-30-09	6-30-08
Current and Other Assets	\$ 18,402,548.26	\$ 18,014,956.37
Capital Assets	36,976,294.53	37,232,660.10
Total Assets	55,378,842.79	55,247,616.47
Long-Term Liabilities	10,390,666.08	9,966,861.66
Other Liabilities	1,943,631.27	2,451,904.83
Total Liabilities	12,334,297.35	12,418,766.49
Net Assets:		
Invested in Capital Assets -		
Net of Related Debt	30,911,890.94	29,624,583.44
Restricted	12,313,819.28	12,022,858.38
Unrestricted (Deficit)	(181,164.78)	1,181,408.16
Total Net Assets	\$ 43,044,545.44	\$ 42,828,849.98

The largest portion of the District’s net assets (71.8 percent) reflects its investment in capital assets (e.g., land, buildings and fixed equipment, furniture, fixtures, 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 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets totals \$2,860,447.97, after exclusion of \$2,298,021.75 for compensated absences payable, \$643,591 for other postemployment benefits payable, and \$100,000 for estimated liability for long-term claims, which may be used to meet the government’s ongoing obligations to students, employees, and creditors.

The key elements of the changes in the District’s net assets for the fiscal years ended June 30, 2009, and June 30, 2008, are as follows:

	Operating Results for the Year	
	Governmental	
	Activities	
	6-30-09	6-30-08
Program Revenues:		
Charges for Services	\$ 620,014.13	\$ 659,279.15
Operating Grants and Contributions	2,660,659.11	2,662,566.87
Capital Grants and Contributions	1,775,717.92	2,287,725.11
General Revenues:		
Property Taxes, Levied for Operational Purposes	10,211,402.16	10,089,154.62
Property Taxes, Levied for Capital Projects	2,654,217.18	2,675,085.74
Grants and Contributions Not Restricted to Specific Programs	29,603,521.53	32,018,999.69
Unrestricted Investment Earnings	(9,840.49)	561,689.40
Miscellaneous	737,143.56	658,419.61
Total Revenues	48,252,835.10	51,612,920.19
Functions/Program Expenses:		
Instruction	26,591,377.46	28,221,689.40
Pupil Personnel Services	2,070,314.09	2,288,038.60
Instructional Media Services	573,098.67	607,692.90
Instruction and Curriculum Development Services	1,725,426.28	2,006,485.37
Instructional Staff Training Services	524,607.67	751,052.98
Instruction Related Technology	351,285.02	355,486.48
Board of Education	241,908.97	250,454.66
General Administration	494,175.43	496,612.90
School Administration	2,421,334.96	2,468,254.15
Facilities Acquisition and Construction	297,027.79	111,698.51
Fiscal Services	597,842.75	578,564.82
Food Services	2,371,842.16	2,457,053.54
Central Services	620,589.80	627,994.65
Pupil Transportation Services	1,844,640.48	2,106,789.40
Operation of Plant	3,198,085.60	3,836,937.44
Maintenance of Plant	1,455,552.51	2,003,684.59
Administrative Technology Services	542,939.51	596,605.36
Community Services	2,115.83	16,556.79
Interest on Long-Term Debt	129,466.55	138,106.01
Unallocated Depreciation Expense	1,745,666.60	1,154,556.56
Loss on Disposal of Capital Assets	237,841.51	23,098.22
Total Functions/Program Expenses	48,037,139.64	51,097,413.33
Increase in Net Assets	\$ 215,695.46	\$ 515,506.86

The largest revenue source is the State of Florida (56 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. Grants and contributions not restricted to specific programs decreased by \$2,415,478.16, primarily due to a decrease of \$1,808,635 in FEFP. FEFP funding decreased due to a decrease in the base student allocation (BSA) and district cost differential (DSC). Compared to the previous year, the BSA multiplied by the DSC decreased by 4.3 percent per FTE, from \$3,972.44 to \$3,800.26. In addition, there was a decrease from the prior year in unweighted FTE from 5,032.68 to 4,999.72, a difference of 32.96.

Other State revenues are primarily for the acquisition, construction, and maintenance of educational facilities. Capital grants and contributions decreased by \$512,007.19 due to reductions in Public Education Capital Outlay and Class Size Reduction Construction funding caused by the current economic conditions offset by increases in Classrooms for Kids Program funding.

Total governmental expenses for the 2008-09 fiscal year decreased by \$3,060,273.69 from the prior year due mainly to workforce reductions resulting from State budget cuts.

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 is \$2,362,141.61, while the total fund balance is \$3,920,419.97. The unreserved fund balance decreased by \$511,337.58, while the total fund balance increased by \$7,755.96, during the fiscal year. Key factors are as follows:

- A net decrease in State revenues in the amount of \$1,824,644.10 is primarily due to a decrease in FEFP revenue and other State funding sources.
- An increase in property tax revenues in the amount of \$122,247.54.
- Transfers in increased by \$574,151.62 due to the transfer in from the Capital Projects - Local Capital Improvement Fund for the payment of property casualty insurance premiums.
- Total expenditures decreased by \$3,668,729.70, or 8.9 percent, which is primarily due to a reduction in staff and a reduction in expenditures areas such as property insurance, utilities, fuel, and capital outlay.

The Special Revenue – Other Fund accounts for certain Federal grant program resources and expenditures decreased by \$426,202.73, or approximately 8.1 percent, due mainly to a decrease in Title I and Twenty-First Century program costs.

The Special Revenue - ARRA Economic Stimulus Fund accounts for certain Federal revenues and expenditures totaling \$10,414.69 each.

The Debt Service – Other Debt Service Fund accounts for the accumulation of resources due to the fiscal agent for the Qualified Zone Academy Bonds and the amount increased by \$184,746.69, or approximately 11 percent as a result of scheduled sinking fund payments.

The Capital Projects – Public Education Capital Outlay Fund has a total fund balance of \$2,073,744.80, all of which is restricted for new construction, renovation and remodeling projects, and maintenance and repair of facilities. The fund balance increased by \$105,850.10.

The Capital Projects – Local Capital Improvement Fund had a total fund balance of \$6,724,781.29, all of which is restricted for the acquisition, construction, and maintenance of capital assets. The fund balance increased by \$1,362,673.95, which is similar to the \$1,534,144.73 increase in the prior year. The District is accumulating resources for the DeSoto High School classroom conversion and implementation of technology upgrades.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the course of the 2008-09 fiscal year, the District amended its General Fund budget several times, which resulted in a decrease in total budgeted revenues amounting to \$1,945,439.75 or 5 percent. At the same time, final appropriations were less than the original budgeted amounts by \$728,335.96 or 1.8 percent. Budget revisions were due primarily to reductions in State funding levels, and corresponding adjustments to planned expenditures to ensure maintenance of an adequate fund balance.

Actual revenues were in line with the final budgeted amounts while actual expenditures were \$2,370,509.82, or 5.9 percent, less than final budget amounts. The actual ending fund balance exceeded the estimated fund balance contained in the final amended budget by \$2,343,751.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets for its governmental activities as of June 30, 2009, amounts to \$36,976,294.53 (net of accumulated depreciation). This investment in capital assets includes land; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; construction in progress; and audio visual materials and computer software.

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

- Purchase of eight concrete relocatable classrooms at Nocatee Elementary School in the amount of \$1,133,416.54.
- Purchase of two new buses in the amount of \$225,920.
- Remodeling projects totaling \$363,368.09 at West Elementary School, Memorial Elementary School, Nocatee Elementary School, Desoto High School, and DeSoto Middle School.

Additional information on the District's capital assets can be found in Notes 4 and 15 to the financial statements.

Long-Term Debt

At June 30, 2009, the District has total long-term debt outstanding of \$7,349,053.33. This amount is comprised of \$2,454,884.33 of bonds payable and \$4,894,169 other long-term debt (QZABs). During the year, retirement of debt amounted to \$152,304.18.

Additional information on the District's long-term debt can be found in Notes 6 through 8 to the financial statements.

OTHER MATTERS OF SIGNIFICANCE

The School District implemented the Governmental Accounting Standards Board Statement No. 45 for certain postemployment benefit requirements, which increased long-term liabilities by \$643,591.

The School District voted to continue the moratorium on school impact fees.

The School District continues to struggle with double-digit annual percentage increases in employee medical benefits and this trend is expected to continue.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the DeSoto 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 Director of Finance, DeSoto County District School Board, 530 LaSolona Avenue, Arcadia, Florida 34266.

BASIC FINANCIAL STATEMENTS

*DESOTO COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET ASSETS
June 30, 2009*

	Primary Government Governmental Activities	Component Unit
ASSETS		
Cash and Cash Equivalents	\$ 13,941,876.69	\$ 135,641.00
Investments	251,685.43	
Accounts Receivable		9,847.00
Due from Other Agencies	2,069,617.17	
Inventories	70,958.58	
Deferred Charges	3,007.45	
Cash with Fiscal Agent	238,841.48	
Restricted Investments	1,826,561.46	
Capital Assets:		
Nondepreciable Capital Assets	461,217.41	
Depreciable Capital Assets, Net	36,515,077.12	
TOTAL ASSETS	\$ 55,378,842.79	\$ 145,488.00
LIABILITIES		
Payroll Deductions and Withholdings	\$ 1,314,624.01	\$
Accounts Payable	52,994.21	2,689.00
Construction Contracts Payable	32,474.70	
Construction Contracts Payable - Retainage	3,608.30	
Due to Fiscal Agent	252,841.48	
Due to Other Agencies	33,437.02	
Deposits Payable	222,641.15	
Deferred Revenue		7,500.00
Estimated Insurance Claims Payable	31,010.40	
Long-Term Liabilities:		
Portion Due Within One Year	450,375.67	
Portion Due After One Year	9,940,290.41	
Total Liabilities	12,334,297.35	10,189.00
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	30,911,890.94	
Restricted for:		
State Categorical Programs	762,811.65	
Debt Service	2,028,248.51	
Capital Projects	8,865,169.12	
Food Service	168,055.66	
Nonexpendable		2,000.00
Other Purposes	489,534.34	76,310.00
Unrestricted (Deficit)	(181,164.78)	56,989.00
Total Net Assets	43,044,545.44	135,299.00
TOTAL LIABILITIES AND NET ASSETS	\$ 55,378,842.79	\$ 145,488.00

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

**DESOTO COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2009**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
Instruction	\$ 26,591,377.46	\$ 94,654.87	\$	\$
Pupil Personnel Services	2,070,314.09			
Instructional Media Services	573,098.67			
Instruction and Curriculum Development Services	1,725,426.28			
Instructional Staff Training Services	524,607.67			
Instruction Related Technology	351,285.02			
Board of Education	241,908.97			
General Administration	494,175.43			
School Administration	2,421,334.96			
Facilities Acquisition and Construction	297,027.79			1,297,269.97
Fiscal Services	597,842.75			
Food Services	2,371,842.16	492,656.66	1,776,356.11	
Central Services	620,589.80			
Pupil Transportation Services	1,844,640.48	32,702.60	884,303.00	
Operation of Plant	3,198,085.60			
Maintenance of Plant	1,455,552.51			321,493.00
Administrative Technology Services	542,939.51			
Community Services	2,115.83			
Interest on Long-Term Debt	129,466.55			156,954.95
Unallocated Depreciation Expense	1,745,666.60			
Loss on Disposal of Capital Assets	237,841.51			
Total Primary Government	\$ 48,037,139.64	\$ 620,014.13	\$ 2,660,659.11	\$ 1,775,717.92
Component Unit				
The DeSoto County Education Foundation, Inc.	\$ 113,644.00	\$ 0.00	\$ 23,400.00	\$ 0.00

General Revenues:
 Taxes:
 Property Taxes, Levied for Operational Purposes
 Property Taxes, Levied for Capital Projects
 Grants and Contributions Not Restricted to Specific Programs
 Unrestricted Investment Earnings
 Miscellaneous

Total General Revenues

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

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

**DESOTO COUNTY
DISTRICT SCHOOL BOARD
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2009**

	General Fund	Special Revenue - Other Fund	Special Revenue - ARRA Economic Stimulus Fund
ASSETS			
Cash and Cash Equivalents	\$ 5,445,555.88	\$	\$
Investments			
Due from Other Agencies	47,550.59	83,552.19	
Inventories	12,468.10		
Cash with Fiscal Agent	238,841.48		
Restricted Investments			
TOTAL ASSETS	\$ 5,744,416.05	\$ 83,552.19	\$
LIABILITIES AND FUND BALANCES			
Liabilities:			
Payroll Deductions and Withholdings	\$ 1,314,624.01	\$	\$
Accounts Payable	2,096.04	50,898.17	
Construction Contracts Payable			
Construction Contracts Payable - Retainage			
Due to Fiscal Agent	252,841.48		
Due to Other Agencies	783.00	32,654.02	
Deposits Payable	222,641.15		
Estimated Insurance Claims Payable	31,010.40		
Total Liabilities	1,823,996.08	83,552.19	
Fund Balances:			
Reserved for State Categorical Programs	762,811.65		
Reserved for Encumbrances	293,464.27		
Reserved for Inventories	12,468.10		
Reserved for Other Purposes	489,534.34		
Reserved for Debt Service			
Unreserved, Reported in:			
General Fund	2,362,141.61		
Special Revenue Funds			
Debt Service Funds			
Capital Projects Funds			
Total Fund Balances	3,920,419.97		
TOTAL LIABILITIES AND FUND BALANCES	\$ 5,744,416.05	\$ 83,552.19	\$ 0.00

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

Debt Service - Other Debt Service Fund	Capital Projects - Public Education Capital Outlay Fund	Capital Projects - Local Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
\$ 45,490.93	\$ 150,978.80	\$ 6,612,943.69	\$ 1,686,907.39	\$ 13,941,876.69
	1,922,766.00	111,837.60	139,847.83	251,685.43
			15,748.39	2,069,617.17
			58,490.48	70,958.58
1,826,561.46				238,841.48
				1,826,561.46
<u>\$ 1,872,052.39</u>	<u>\$ 2,073,744.80</u>	<u>\$ 6,724,781.29</u>	<u>\$ 1,900,994.09</u>	<u>\$ 18,399,540.81</u>
				1,314,624.01
				52,994.21
			32,474.70	32,474.70
			3,608.30	3,608.30
				252,841.48
				33,437.02
				222,641.15
				31,010.40
			36,083.00	1,943,631.27
				762,811.65
	69,690.92		772,392.62	1,135,547.81
			58,490.48	70,958.58
1,872,052.39			156,196.12	489,534.34
				2,028,248.51
				2,362,141.61
			103,076.63	103,076.63
			192,373.99	192,373.99
	2,004,053.88	6,724,781.29	582,381.25	9,311,216.42
<u>1,872,052.39</u>	<u>2,073,744.80</u>	<u>6,724,781.29</u>	<u>1,864,911.09</u>	<u>16,455,909.54</u>
<u>\$ 1,872,052.39</u>	<u>\$ 2,073,744.80</u>	<u>\$ 6,724,781.29</u>	<u>\$ 1,900,994.09</u>	<u>\$ 18,399,540.81</u>

**DESOTO COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2009**

Total Fund Balances - Governmental Funds	\$	16,455,909.54
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.		36,976,294.53
Debt issuance costs and underwriters' discounts are not expensed in the government-wide statements, but are reported as deferred charges and amortized over the life of the debt.		3,007.45
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:		
Qualified Zone Academy Bonds Payable	\$ 4,894,169.00	
Bonds Payable	2,454,884.33	
Estimated Liability for Long-Term Claims	100,000.00	
Compensated Absences Payable	2,298,021.75	
Other Postemployment Benefits Payable	643,591.00	
	(10,390,666.08)	
Total Net Assets - Governmental Activities	\$	<u>43,044,545.44</u>

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

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**DESOTO COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2009**

	General Fund	Special Revenue - Other Fund	Special Revenue - ARRA Economic Stimulus Fund
Revenues			
Intergovernmental:			
Federal Direct	\$ 47,565.93	\$	\$
Federal Through State and Local State	381,112.98 25,059,861.91	4,859,085.44	10,414.69
Local:			
Property Taxes	10,211,402.16		
Charges for Services	127,357.47		
Interest Income (Loss)	63,189.68		
Miscellaneous	732,701.69		
Total Revenues	36,623,191.82	4,859,085.44	10,414.69
Expenditures			
Current - Education:			
Instruction	22,826,782.19	3,389,650.32	9,887.68
Pupil Personnel Services	1,654,122.37	389,729.58	
Instructional Media Services	554,174.04	9,877.87	
Instruction and Curriculum Development Services	1,178,033.80	542,657.37	
Instructional Staff Training Services	354,317.28	177,495.26	
Instruction Related Technology	337,002.25	6,327.78	
Board of Education	235,694.57		
General Administration	315,118.29	176,234.31	527.01
School Administration	2,368,772.50	11,195.79	
Facilities Acquisition and Construction	76,246.78		
Fiscal Services	585,009.54		
Food Services	27,616.91		
Central Services	523,794.48	86,517.70	
Pupil Transportation Services	1,533,470.02	25,863.27	
Operation of Plant	3,161,291.48	13,427.79	
Maintenance of Plant	1,431,931.16	6,472.21	
Administrative Technology Services	536,716.57	775.39	
Community Services	2,115.83		
Fixed Capital Outlay:			
Facilities Acquisition and Construction	6,285.86		
Other Capital Outlay	16,801.64	22,860.80	
Debt Service:			
Principal	10,000.00		
Interest and Fiscal Charges			
Total Expenditures	37,735,297.56	4,859,085.44	10,414.69
Excess (Deficiency) of Revenues Over Expenditures	(1,112,105.74)		
Other Financing Sources (Uses)			
Transfers In	1,134,475.35		
Insurance Loss Recoveries	261.01		
Transfers Out			
Total Other Financing Sources (Uses)	1,134,736.36		
Net Change in Fund Balances	22,630.62		
Decrease in Inventory Reserve	(14,874.66)		
Fund Balances, Beginning	3,912,664.01		
Fund Balances, Ending	\$ 3,920,419.97	\$ 0.00	\$ 0.00

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

Debt Service - Other Debt Service Fund	Capital Projects - Public Education Capital Outlay Fund	Capital Projects - Local Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
\$	\$	\$	\$	\$ 47,565.93
	1,587,766.00		1,734,944.11 359,147.50	6,985,557.22 27,006,775.41
		2,654,217.18		12,865,619.34
(29,356.54)	4,589.05	34,630.28	492,656.66 (82,892.96) 4,180.86	620,014.13 (9,840.49) 736,882.55
<u>(29,356.54)</u>	<u>1,592,355.05</u>	<u>2,688,847.46</u>	<u>2,508,036.17</u>	<u>48,252,574.09</u>
				26,226,320.19
				2,043,851.95
				564,051.91
				1,720,691.17
				531,812.54
				343,330.03
				235,694.57
				491,879.61
				2,379,968.29
	22,840.44	10,548.32		109,635.54
			2,300,833.71	585,009.54
				2,328,450.62
				610,312.18
				1,559,333.29
				3,174,719.27
				1,438,403.37
				537,491.96
				2,115.83
	1,269,503.06	27,620.70	550,623.68	1,854,033.30
		265,183.11	2,721.75	307,567.30
			150,000.00	160,000.00
			131,497.33	131,497.33
	<u>1,292,343.50</u>	<u>303,352.13</u>	<u>3,135,676.47</u>	<u>47,336,169.79</u>
(29,356.54)	<u>300,011.55</u>	<u>2,385,495.33</u>	<u>(627,640.30)</u>	<u>916,404.30</u>
214,103.23				1,348,578.58
	(194,161.45)	(1,022,821.38)	(131,595.75)	261.01
<u>214,103.23</u>	<u>(194,161.45)</u>	<u>(1,022,821.38)</u>	<u>(131,595.75)</u>	<u>(1,348,578.58)</u>
				261.01
184,746.69	105,850.10	1,362,673.95	(759,236.05)	916,665.31
			(5,651.80)	(20,526.46)
<u>1,687,305.70</u>	<u>1,967,894.70</u>	<u>5,362,107.34</u>	<u>2,629,798.94</u>	<u>15,559,770.69</u>
<u>\$ 1,872,052.39</u>	<u>\$ 2,073,744.80</u>	<u>\$ 6,724,781.29</u>	<u>\$ 1,864,911.09</u>	<u>\$ 16,455,909.54</u>

**DESOTO 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, 2009**

Net Change in Fund Balances - Governmental Funds \$ 916,665.31

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 depreciation expense in excess of capital outlays in the current period. (27,462.56)

The loss on the disposal of capital assets during the current period is reported in the statement of activities. In the governmental funds, the cost of capital assets was recognized as an expenditure in the year purchased. Thus, the change in net assets differs from the change in the fund balance by the undepreciated cost of the disposed assets. (237,841.51)

The receipts of capital assets by donation during the current period is recognized in the government-wide statement of activities, but not in the governmental funds. 8,938.50

Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments in the current period. 150,000.00

Premiums and debt issuance costs are reported in the governmental funds in the year debt is issued, but are deferred and amortized over the life of the debt in the government-wide statements.

Net decrease in expenses from unamortized premiums	\$	7,073.36	
Net increase in expenses from refunding costs		(4,769.18)	
Net decrease in expenses from deferred charges		(273.40)	
			2,030.78

The purchases method is used for inventories, except for commodities, which are reported under the consumption method, in the governmental funds; while in the government-wide statements, inventories are accounted for under the consumption method. (20,526.46)

The net change in estimated long-term claims payable is reported in the statement of activities, but not in the governmental funds statements. 10,000.00

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. 57,482.40

Other postemployment benefits costs are recorded in the statement of activities under the full accrual basis of accounting, but are not recorded in the governmental funds until paid. This is the net increase in the other postemployment benefits liability for the current fiscal year. (643,591.00)

Change in Net Assets - Governmental Activities \$ 215,695.46

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

**DESOTO COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES -
FIDUCIARY FUNDS
June 30, 2009**

	<u>Agency Funds</u>
ASSETS	
Cash and Cash Equivalents	\$ <u>343,375.38</u>
LIABILITIES	
Internal Accounts Payable	\$ <u>343,375.38</u>

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

**DESOTO COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

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 DeSoto County School District is considered part of the Florida system of public education. The governing body of the school district is the DeSoto 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 DeSoto County.

Criteria for determining if other entities are potential component units that 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 unit is included within the District School Board's reporting entity:

- **Discretely Presented Component Unit.** The component unit columns in the government-wide financial statements include the financial data of The DeSoto County Education Foundation, Inc. (Foundation). The Foundation is a separate not-for-profit corporation organized and operated as a direct-support organization under Section 1001.453, Florida Statutes, to receive, hold, and administer property and to make expenditures for the benefit of the District. Because of the nature and significance of its relationship with the District, the Foundation is considered a component unit. An audit of the Foundation's financial statements for the fiscal year ended June 30, 2009, was conducted by independent certified public accountants and is on file at the District's administrative office.

➤ **Basis of Presentation**

Government-wide Financial Statements - Government-wide financial statements, including the statement of net assets and the statement of activities, present information about the School District as a whole. These statements include the nonfiduciary financial activity of the primary government and its component unit.

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

**DESOTO COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

the extent to which each governmental function 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.

Fund Financial Statements - Fund financial statements report detailed information about the District in the governmental 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.
- Special Revenue – Other Fund – to account for certain Federal grant program resources.
- Special Revenue – ARRA Economic Stimulus Fund – to account for certain Federal grant program resources related to the American Recovery and Reinvestment Act (ARRA).
- Debt Service – Other Debt Service Fund – funds established to account for the accumulation of resources for the payment of long-term debt principal.
- Capital Projects – Public Education Capital Outlay Fund – to account for the financial resources generated by the Legislative appropriation of gross receipts taxes for the District to be used for educational capital outlay needs.
- 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 fiduciary fund type:

- Agency Funds – to account for resources of the school internal funds, which are used to administer moneys collected at several 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 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

**DESOTO COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

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 15 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, other postemployment benefits, and compensated absences, which are recognized when due. Allocations of cost, such as depreciation, are not recognized in governmental funds.

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 DeSoto County Education Foundation, 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**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term, highly liquid investments with original maturities of three months or less. Investments classified as cash equivalents include amounts placed with the State Board of Administration (SBA) Local Government Surplus Funds Trust Fund Investment Pool (LGIP), which, effective July 1, 2009, is known as Florida PRIME.

Cash deposits are held by banks qualified as public depositories under Florida law. All deposits are insured by Federal depository insurance, up to specified limits, or collateralized with securities held in Florida's multiple financial institution collateral pool as required by Chapter 280, Florida Statutes.

Investments consist of amounts placed in SBA Debt Service accounts for investment of debt service moneys, amounts placed with SBA for participation in LGIP and the Fund B Surplus Funds Trust Fund (Fund B) investment pools created by Sections 218.405 and 218.417, Florida Statutes, and those made locally. The investment pools operate under investment guidelines established by Section 215.47, Florida Statutes.

The District's investments in LGIP, which SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, as of June 30, 2009, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. These investments are reported at fair value, which is amortized cost.

The District's investments in Fund B are accounted for as a fluctuating net asset value pool, with a fair value factor of 0.51370946 at June 30, 2009. Fund B is not subject to participant withdrawal requests. Distributions from Fund B, as determined by SBA, are effected by transferring eligible cash or securities to LGIP, consistent with the pro rata allocation of pool shareholders of record at the creation date of Fund B. One hundred percent of such distributions from Fund B are available as liquid balance within LGIP.

Investments made locally consist of obligations of United States Government Agencies and Instrumentalities held by a trustee under a paying agent agreement in connection with the Qualified Zone Academy Bonds financing arrangements and are reported at fair value. Types and amounts of investments held at fiscal year-end are described in a subsequent note on investments.

**DESOTO COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

➤ **Inventories**

Inventories consist of expendable supplies held for consumption in the course of District operations. Inventories are stated at cost on the first-in, first-out basis, except that purchased foods and supplies are stated at last invoice, which approximates the first-in, first-out basis, and 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 purchased, except that United States Department of Agriculture surplus commodities are recorded as expenditures at the time the individual items are requisitioned for consumption. The purchased foods and supplies inventory balances and the transportation parts inventory balance are offset on the balance sheet by a fund balance reserve account which indicates that they do not constitute "available expendable resources" even though they are a component of current assets.

➤ **Capital Assets**

Expenditures for capital assets acquired or constructed for general District purposes are reported in the governmental fund that financed the acquisition or construction. The capital assets so acquired are reported at cost in the government-wide statement of net assets but are not reported in the governmental fund financial statements. Capital assets are defined by the District as those costing more than \$1,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at fair value at the date of donation. Interest costs incurred during construction of capital assets are not considered material and are not capitalized as part of the cost of construction.

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

<u>Description</u>	<u>Estimated Lives</u>
Improvements Other than Buildings	8 - 35 years
Buildings and Fixed Equipment	10 - 50 years
Furniture, Fixtures, and Equipment	3 - 15 years
Motor Vehicles	5 - 10 years
Audio Visual Materials and Computer Software	3 - 5 years

Current year information relative to changes in capital assets is described in a subsequent note.

➤ **Long-Term Liabilities**

Long-term obligations that will be financed from resources to be received in the future by governmental funds are reported as liabilities in the government-wide statement of net assets. Bond premiums, differences between the reacquisition price and net carrying amount of the old debt, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line

**DESOTO COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

method. Bonds payable are reported net of the applicable bond premiums and differences between the reacquisition price and net carrying amount of the old debt.

In the governmental fund financial statements, bonds and other long-term obligations are not recognized as liabilities until due.

In the government-wide financial statements, compensated absences (i.e., paid absences for employee vacation leave and sick leave) are accrued as liabilities to the extent that it is probable that the benefits will result in termination payments. A liability for these amounts is reported in the governmental fund financial statements only if it has matured, such as for occurrences of employee resignations and retirements.

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

➤ **State Revenue Sources**

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

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

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

**DESOTO COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

The School Board adopted the 2008 tax levy on September 23, 2008. Tax bills are mailed in October and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to 4 percent for early payment.

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

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 DeSoto 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.

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DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

3. INVESTMENTS

As of June 30, 2009, the District has the following investments and maturities:

Investments	Maturities	Fair Value
State Board of Administration (SBA):		
Local Government Surplus Funds Trust		
Fund Investment Pool (LGIP) (1)	46 Day Average	\$ 1,305,205.81
Fund B Surplus Funds Trust Fund (Fund B)	6.87 Year Average	220,314.31
Debt Service Accounts	6 Months	31,371.12
Guaranteed Investment Contract (2)	September 28, 2009	277,542.95
Obligations of United States Government		
Agencies and Instrumentalities (3)	July 2009 - July 2013	1,549,018.51
		\$ 3,383,452.70

Notes:

- (1) Investments that have original maturities of 90 days or less are considered cash equivalents.
- (2) This investment is held under a trust agreement in connection with the Series 2006-QZABs. (See Note 6.)
- (3) This investment is held under a trust agreement in connection with the sinking fund requirement related to the Series 2001-QZABs. (See Note 6.)

Interest Rate Risk

- The District’s investment policy requires investment maturities commensurate with the District’s cash flow needs. The intent to invest in securities with maturities longer than three years must be disclosed in writing to the Board.
- LGIP had a weighted average days to maturity (WAM) of 46 days at June 30, 2009. A portfolio’s WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the portfolio to interest rate changes. Fund B had a weighted average life (WAL) of 6.87 years. A portfolio’s WAL is the dollar weighted average length of time until securities held reach maturity. WAL, which also measures the sensitivity of the portfolio to interest rate changes, is based on legal final maturity dates for Fund B as of June 30, 2009. However, because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the WAL.

Credit Risk

- The District’s investment policy limits investments to Securities and Exchange Commission registered money market funds with the highest credit rating from a nationally recognized rating agency; interest-bearing time deposits or savings accounts; direct obligations of the United States Treasury; Federal agencies and instrumentalities; registered open-end or closed-end management-type investment company or investment trusts with portfolios limited to United States Treasury or agency obligations which are properly collateralized; as well as LGIP or any authorized intergovernmental investment pool.

**DESOTO COUNTY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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- The District's investments in SBA Debt Service accounts are to provide for debt service payments on bond debt issued by the State Board of Education for the benefit of the District. The District relies on policies developed by SBA for managing credit risk for this account.
- As of June 30, 2009, the District's investment in LGIP is rated AAAM by Standard & Poor's. Fund B is unrated.
- The District's investments in Obligations of United States Government Agencies and Instrumentalities, and the guaranteed investment contract, are authorized under agreements with the Qualified Zone Academy Bonds paying agents. The agreements authorize the investment of available fund amounts in certain eligible securities, including, without limitation, the Federal National Mortgage Association and Federal Home Loan Mortgage Corporation. Of these \$1,826,561.46 in investments, \$240,297.30 are rated AAA by Fitch and \$1,586,264.16, are unrated.

Custodial Credit Risk

- Section 218.415(18), Florida Statutes, requires the District to earmark all investments and 1) if registered with the issuer or its agents, the investment must be immediately placed for safekeeping in a location that protects the governing body's interest in the security; 2) if in book entry form, the investment must be held for the credit of the governing body by a depository chartered by the Federal Government, the State, or any other state or territory of the United States which has a branch or principal place of business in this State, or by a national association organized and existing under the laws of the United States which is authorized to accept and execute trusts and which is doing business in this State, and must be kept by the depository in an account separate and apart from the assets of the financial institution; or 3) if physically issued to the holder but not registered with the issuer or its agents, must be immediately placed for safekeeping in a secured vault. The District's investment policy addresses custodial credit risk in that all securities would be held with a third party custodian as evidenced by safekeeping receipts, and all securities purchased by, and all collateral obtained by, the District should be properly designated as an asset of the District.
- Restricted investments of \$1,826,561.46, in Obligations of United States Government Agencies and Instrumentalities, and the guaranteed investment contract, are held in a custodial account by the Qualified Zone Academy Bonds paying agents.

Concentration Risk

- The District's investment policy limits its investment portfolio to 50 percent in LGIP and the remaining 50 percent in United States Treasury or Federal agencies. Any other portfolio diversification requires prior approval of the Superintendent and Board.
- The United States Government Agencies and Instrumentalities and guaranteed investment contract investments are for Federal National Mortgage Association and Federal Home Loan Mortgage Corporation securities. These investments are 54 percent of the District's total investments and 100 percent of the investments in the Debt Service - Other Debt Service Fund. These investments are made pursuant to agreements with the Qualified Zone Academy Bonds paying agents (see Note 6).

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DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

4. CHANGES IN CAPITAL ASSETS

Changes in capital assets are presented in the table below:

	Balance 7-1-08	Additions	Deletions	Balance 6-30-09
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	\$ 307,325.33	\$	\$	\$ 307,325.33
Construction in Progress	11,083.12	1,276,225.50	1,133,416.54	153,892.08
Total Capital Assets Not Being Depreciated	318,408.45	1,276,225.50	1,133,416.54	461,217.41
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	1,492,187.96	19,780.56		1,511,968.52
Buildings and Fixed Equipment	51,495,400.42	1,496,784.63	563,839.32	52,428,345.73
Furniture, Fixtures, and Equipment	4,581,789.58	83,176.80	190,149.26	4,474,817.12
Motor Vehicles	3,084,754.89	225,920.00	193,177.61	3,117,497.28
Audio Visual Materials and Computer Software	1,456,585.74	7,409.00	62,437.61	1,401,557.13
Total Capital Assets Being Depreciated	62,110,718.59	1,833,070.99	1,009,603.80	62,934,185.78
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	885,414.01	57,302.64		942,716.65
Buildings and Fixed Equipment	18,227,989.57	1,128,702.73	372,580.29	18,984,112.01
Furniture, Fixtures, and Equipment	3,180,744.94	456,510.41	145,490.18	3,491,765.17
Motor Vehicles	1,680,200.71	248,737.41	193,177.61	1,735,760.51
Audio Visual Materials and Computer Software	1,222,117.71	103,150.82	60,514.21	1,264,754.32
Total Accumulated Depreciation	25,196,466.94	1,994,404.01	771,762.29	26,419,108.66
Total Capital Assets Being Depreciated, Net	36,914,251.65	(161,333.02)	237,841.51	36,515,077.12
Governmental Activities Capital Assets, Net	\$ 37,232,660.10	\$ 1,114,892.48	\$ 1,371,258.05	\$ 36,976,294.53

Depreciation expense was charged to functions as follows:

<u>GOVERNMENTAL ACTIVITIES</u>	<u>Amount</u>
Pupil Transportation Services	\$ 248,737.41
Unallocated	1,745,666.60
Total Depreciation Expense - Governmental Activities	\$ 1,994,404.01

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

5. ESTIMATED LIABILITY FOR LONG-TERM CLAIMS

Chapter 91-327, Special Acts of Florida, directed the DeSoto County District School Board, commencing December 1, 1991, to make annual payments of \$10,000 to an individual for the rest of the life of the individual as of a result of an accident that occurred during a physical education class at DeSoto High School. The Board estimated the total liability at June 30, 2009 to be \$100,000, which is recorded as a long-term liability in the government-wide statement of net assets. Payment is made on December 1 of each year.

6. QUALIFIED ZONE ACADEMY BONDS PAYABLE

The District entered into a financing arrangement on April 17, 2001, which arrangement was characterized as a lease-purchase agreement, with First Union National Bank whereby the District secured financing of certain equipment and improvements in the total amount of \$1,119,618. Also, on April 17, 2001, the District borrowed \$1,264,000 from First Union National Bank for certain capital projects and repairs of the District. Both the lease-purchase agreement and the note, which totaled \$2,383,618, were structured to qualify as Qualified Zone Academy Bonds (QZABs), pursuant to Section 1397E of the Internal Revenue Code, as amended. There is no interest cost to the District for borrowing moneys under this program. Mandatory annual deposits beginning on April 16, 2002, and ending on April 16, 2015, are to be made to a District sinking fund account with a paying agent. Such deposits are to be held and accumulated by the paying agent and applied solely to the payment of the rental payments under the lease-purchase agreement and the payments due under the note on the final rental payment date. On April 16, 2015, the paying agent will pay the sum of \$2,383,618 to the lessor. As of June 30, 2009, the paying agent held deposits invested in obligations of United States Government Agencies and Instrumentalities in the sinking fund totaling \$1,549,018.51.

The moneys received from the QZABs, Series 2001, were used for the purpose of financing capital outlay maintenance and renovation projects at four qualifying schools (DeSoto High School, Nocatee Elementary School, West Elementary School, and Memorial Elementary School) and to purchase six school buses. The mandatory annual deposits are made payable by the District, annually, on April 16.

The District entered into a financing arrangement on September 28, 2006, which arrangement was characterized as a lease-purchase agreement, with the Bank of America, N.A., whereby the District secured financing of certain equipment and improvements in the total amount of \$2,510,551. The lease-purchase agreement, which totaled \$2,510,551, was structured to qualify as QZABs, pursuant to Section 1397E of the Internal Revenue Code, as amended. There is no interest cost to the District for borrowing moneys under this program.

Repayment of the original \$2,510,551 financing proceeds is due in full on September 28, 2021. In connection with the financing, the District entered into a sinking fund forward delivery agreement dated September 28, 2006, requiring annual lease payments of \$132,287, beginning on September 28, 2007 and ending on September 28, 2021. The forward delivery agreement provides for a guaranteed investment

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

return of 3.25 percent per annum whereby the required deposits, along with the accrued interest, will be sufficient to repay the debt at maturity. The invested assets accumulated pursuant to the forward delivery agreement are held under a custodial agreement until the debt matures. As of June 30, 2009, the paying agent held \$277,542.95 in deposits.

The moneys received from the QZABs, Series 2006, were used for the purpose of financing capital outlay maintenance and renovation projects at four qualifying schools (DeSoto Middle School, Nocatee Elementary School, West Elementary School, and Memorial Elementary School). The mandatory annual deposits are made payable by the District, annually, on September 28.

The following is a schedule by years for future annual deposits due under the QZABs as of June 30:

Fiscal Year Ending June 30	Deposit Amount
2010	\$ 256,689
2011	256,689
2012	256,689
2013	256,689
2014	256,689
2015-2019	785,837
2020-2022	396,861
Total	<u>\$ 2,466,143</u>

7. BONDS PAYABLE

Bonds payable at June 30, 2009, are as follows:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 1999A	\$ 120,000.00	4.375 - 4.750	2019
Series 2005B, Refunding	1,000,000.00	5.0	2018
District Revenue Bonds:			
Series 1996, Refunding	1,300,000.00	5.00 - 5.25	2025
Subtotal	2,420,000.00		
Add: Unamortized Premium on Debt	77,806.93		
Less: Difference Between the Reacquisition Price and Net Carrying Amount of Old Debt	(42,922.60)		
Total Bonds Payable	<u>\$ 2,454,884.33</u>		

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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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.

➤ **District Revenue Bonds**

These bonds are authorized by Chapter 78-947, Laws of Florida, which provides that the bonds be secured from the pari-mutuel tax proceeds distributed annually to DeSoto County from the State's Pari-mutuel Tax Collection Trust Fund pursuant to Chapter 550, Florida Statutes (effective July 1, 2000, tax proceeds are distributed pursuant to Section 212.20(6)(d)7.a., Florida Statutes). The annual distribution is remitted by the Florida Department of Financial Services to the District. As required by the bond resolution, the District has established the sinking fund and reserve account, and has accumulated and maintained adequate resources in the sinking fund and reserve account.

Annual requirements to amortize all bonded debt outstanding as of June 30, 2009, are as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2010	\$ 155,537.50	\$ 100,000.00	\$ 55,537.50
2011	155,631.25	105,000.00	50,631.25
2012	155,456.25	110,000.00	45,456.25
2013	155,031.25	115,000.00	40,031.25
2014	159,318.75	125,000.00	34,318.75
2015-2019	637,875.00	565,000.00	72,875.00
Total State School Bonds	1,418,850.00	1,120,000.00	298,850.00
District Revenue Bonds:			
2010	122,625.00	55,000.00	67,625.00
2011	119,875.00	55,000.00	64,875.00
2012	122,056.26	60,000.00	62,056.26
2013	123,981.26	65,000.00	58,981.26
2014	120,650.00	65,000.00	55,650.00
2015-2019	608,637.52	385,000.00	223,637.52
2020-2024	611,562.50	500,000.00	111,562.50
2025	121,037.50	115,000.00	6,037.50
Total District Revenue Bonds	1,950,425.04	1,300,000.00	650,425.04
Total	\$ 3,369,275.04	\$ 2,420,000.00	\$ 949,275.04

**DESOTO COUNTY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

8. CHANGES IN LONG-TERM LIABILITIES

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

Description	Balance 7-1-08	Additions	Deductions	Balance 6-30-09	Due in One Year
GOVERNMENTAL ACTIVITIES					
Estimated Liability for Long-Term Claims	\$ 110,000.00	\$	\$ 10,000.00	\$ 100,000.00	\$ 10,000.00
Qualified Zone Academy Bonds Payable	4,894,169.00			4,894,169.00	
Bonds Payable	2,607,188.51		152,304.18	2,454,884.33	155,000.00
Compensated Absences Payable	2,355,504.15	252,216.48	309,698.88	2,298,021.75	285,375.67
Other Postemployment Benefits Payable		954,505.00	310,914.00	643,591.00	
Total Governmental Activities	\$ 9,966,861.66	\$ 1,206,721.48	\$ 782,917.06	\$ 10,390,666.08	\$ 450,375.67

For the governmental activities, compensated absences, long-term claims, and other postemployment benefits are generally liquidated with resources of the General Fund.

9. INTERFUND TRANSFERS

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	\$ 1,134,475.35	\$
Debt Service:		
Other Debt Service	214,103.23	
Capital Projects:		
Public Education Capital Outlay		194,161.45
Local Capital Improvement		1,022,821.38
Nonmajor Governmental		131,595.75
Total	\$ 1,348,578.58	\$ 1,348,578.58

In general, the interfund transfers were made for debt service repayments, allocations of maintenance and repair costs, and payment of property casualty insurance premiums.

10. 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 2009-10 fiscal year budget as a result of purchase orders outstanding at June 30, 2009.

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Because revenues of grants accounted for in the Special Revenue – Other Fund are not recognized until expenditures are incurred, these grant funds generally do not accumulate fund balances. Accordingly, no reserve for encumbrances is reported for these grant funds. However, purchase orders outstanding for grants accounted for in the Special Revenue – Other Fund total \$178,264, at June 30, 2009.

11. SCHEDULE OF STATE REVENUE SOURCES

The following is a schedule of the District’s State revenue for the 2008-09 fiscal year:

<u>Source</u>	<u>Amount</u>
Florida Education Finance Program	\$ 17,065,642.00
Categorical Educational Programs:	
Class Size Reduction	4,671,038.00
Transportation	884,303.00
Instructional Materials	471,446.00
Other	595,017.26
Workforce Development Program	880,638.00
Classrooms for Kids Program	858,431.00
Gross Receipts Tax (Public Education Capital Outlay)	407,842.00
Class Size Reduction Construction	321,493.00
Adults with Disabilities	264,338.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	187,951.92
Discretionary Lottery Funds	119,479.00
Mobile Home License Tax	48,664.11
Food Service Supplement	41,412.00
Miscellaneous	189,080.12
	<u>189,080.12</u>
Total	<u>\$ 27,006,775.41</u>

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

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

12. PROPERTY TAXES

The following is a summary of millages and taxes levied on the 2008 tax roll for the 2008-09 fiscal year:

GENERAL FUND	Millages	Taxes Levied
Nonvoted School Tax:		
Required Local Effort	5.023	\$ 9,559,793.95
Basic Discretionary Local Effort	0.498	947,795.62
Supplemental Discretionary Local Effort	0.250	475,801.01
CAPITAL PROJECTS FUNDS		
Nonvoted Tax:		
Local Capital Improvements	1.500	2,854,806.08
Total	7.271	\$ 13,838,196.66

13. FLORIDA RETIREMENT SYSTEM

All regular employees of the District are covered by the State-administered Florida Retirement System (FRS). Provisions relating to FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112 Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code, wherein eligibility, contributions, and benefits are defined and described in detail. Essentially all regular employees of participating employers are eligible and must enroll as members of FRS. FRS is a single retirement system administered by the Department of Management Services, Division of Retirement, and consists of two cost-sharing, multiple-employer retirement plans and other nonintegrated programs. These include a defined benefit pension plan (Plan), a Deferred Retirement Option Program (DROP), and a defined contribution plan, referred to as the Public Employee Optional Retirement Program (PEORP).

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

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

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As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in PEORP in lieu of the Plan. District employees participating in DROP are not eligible to participate in PEORP. Employer contributions are defined by law; however, the ultimate benefit depends in part on the performance of investment funds. PEORP is funded by employer contributions that are based on salary and membership class (Regular, Elected County Officers, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Employees in PEORP vest after one year of service. There were 76 District participants during the 2008-09 fiscal year. Required contributions made to PEORP totaled \$232,229.59.

FRS Retirement Contribution Rates

The Florida Legislature establishes, and may amend, contribution rates for each membership class of FRS. During the 2008-09 fiscal year, contribution rates were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	9.85
Florida Retirement System, Elected County Officers	0.00	16.53
Florida Retirement System, Senior Management Service	0.00	13.12
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	10.91
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.11 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.05 percent for administrative costs of PEORP.

(B) Contribution rates are dependent upon 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 for the fiscal years ended June 30, 2007, June 30, 2008, and June 30, 2009, totaled \$2,214,216.29, \$2,652,096.47, and \$2,279,007.30, respectively, which were equal to the required contributions for each fiscal year.

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

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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14. OTHER POSTEMPLOYMENT BENEFITS

Effective for the 2008-09 fiscal year, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for certain other postemployment benefits provided by the District. The requirements of this statement are being implemented prospectively, with the actuarially determined liability of \$11,754,336 at the October 1, 2006, date of transition amortized over 30 years. Accordingly, for financial reporting purposes, no liability is reported for the other postemployment benefits liability at the date of transition.

Plan Description. The Other Postemployment Benefits Plan is a single-employer defined benefit plan administered by the District. Pursuant to the provisions of Section 112.0801, Florida Statutes, former employees who retire from the District, and eligible dependents, may continue to participate in the District's medical, prescription drug, and life insurance coverage. The District subsidizes the premium rates paid by the retirees by allowing them to participate in the plan at the blended group premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the plan on average than those of active employees. Additionally certain retirees receive insurance coverage at a lower (explicitly subsidized) premium rate than active employees. The District pays, upon retirement, for retirees who accrued 10 years of service with the District, the first year of premiums for medical and prescription drug coverage. Retirees are not required to enroll in the Federal Medicare program in order to remain covered under the program; however, since membership in Medicare Part A is automatic, the plan pays as secondary for all eligible retirees, and for eligible retirees that enroll in Medicare Part B. The Other Postemployment Benefits Plan does not issue a stand-alone report, and is not included in the report of a Public Employee Retirement System or another entity.

Funding Policy. Contribution requirements of the District and plan members are established and may be amended through action from the Board. The District has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For fiscal year 2008-09, 130 retirees received other postemployment benefits. The District provided required contributions of \$310,914 toward the annual OPEB cost, comprised of payments made on behalf of retirees net of retiree contributions totaling \$461,777, which represents 2.1 percent of covered payroll.

Annual OPEB Cost and Net OPEB Obligation. The District's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation for other postemployment benefits:

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Description	Amount
Normal Cost (service cost for one year)	\$ 463,472
Amortization of Unfunded Actuarial Accrued Liability	405,604
Interest on Normal Cost and Amortization	85,429
Annual Required Contribution	954,505
Interest on Net OPEB Obligation	
Adjustment to Annual Required Contribution	954,505
Annual OPEB Cost (Expense)	954,505
Contribution Toward the OPEB Cost	(310,914)
Increase in Net OPEB Obligation	643,591
Net OPEB Obligation, Beginning of Year	643,591
Net OPEB Obligation, End of Year	\$ 643,591

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2009 (year of implementation), were as follows:

Fiscal Year	Annual OPEB Cost	Amount Contributed	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Beginning Balance, 7-1-08	\$	\$		\$ 0
2008-09	954,505	310,914	32.6%	643,591

Funded Status and Funding Progress. As of October 1, 2006, the most recent valuation date, the actuarial accrued liability for benefits was \$11,754,336, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$11,754,336 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$22,247,869 for the 2008-09 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 52.8 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and termination, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The required schedule of funding progress immediately following the notes to financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**DESOTO COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan provisions, as understood by the employer and participating members, and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and participating members. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The District’s initial OPEB actuarial valuation as of October 1, 2006, used the entry age normal cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2009, and the 2008-09 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4.25 percent rate of return on invested assets. The actuarial assumptions also included a payroll growth rate of 4 percent per year and an annual healthcare cost trend of 10 percent initially for the calendar year 2009, reduced by 1 percent per year, to an ultimate rate of 5 percent in calendar year 2014. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on a closed basis. The remaining amortization period at June 30, 2009 is 29 years.

15. 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
West Elementary School Reroofing: Contractor	\$ 486,640	\$ 35,040	\$ 451,600
Desoto Middle School Rehabilitation Project: Contractor	174,593	36,083	138,510
West Elementary School Classroom Conversion: Architect	38,160	28,620	9,540
Desoto High School Classroom Conversion: Architect	114,500	53,330	61,170
Total	<u>\$ 813,893</u>	<u>\$ 153,073</u>	<u>\$ 660,820</u>

16. RISK MANAGEMENT PROGRAMS

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The DeSoto County District School Board is a member of the Preferred Governmental Insurance Trust (Trust) under which local governmental entities have established a combined limited self-insurance program for property protection, general liability, automobile liability, workers’ compensation, money and securities, employee fidelity and faithful performance, and other coverage deemed necessary by the participating members of the Trust. Section 1001.42(12)(k), Florida Statutes, provides the authority for the District to enter into such a risk management program. The Board of Trustees for the Trust is comprised of elected or appointed officials from the participating members. The Trust is administered by Public Risk Underwriters.

**DESOTO COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

The School Board makes premium contributions to the Trust to pay for its coverage. The interlocal agreement which establishes the Trust is not intended to create a partnership or other legal entity whereby one member assumes the obligations of another member or the obligations of the Trust in general, except for the payment of premiums. Should a deficit develop in the Trust, after excess reinsurance recoveries, whereby claims or other expenses cannot be paid, each individual member shall assume liability for the costs of claims brought against that member as if such member were individually self-insured. Each member shall thereafter be responsible for its individual costs, including, but not limited to, claims administration without an obligation to, or right of contribution from, other members.

The District also participates in a self-insured employee group dental insurance program. Until December 31, 2008, administrative services for this program were provided by Florida Combined Life Insurance Company (FCL), a benefits administrator, which is licensed in the State of Florida. FCL is an affiliate of Blue Cross and Blue Shield of Florida, and operational resources are supplemented by them. Effective January 1, 2009, Combined Insurance Services, Incorporated, a third-party administrator, was awarded the dental administrative services. Premiums charged are based on the District's claims experience, and a flat administrative rate of \$1,500 guaranteed for two years. The program has low risk due to low trend factors and a claims expense ceiling of \$2,000 per calendar year. Ultimate liability for claims remains with the District and, accordingly, the insurance risks are not transferred. The District accounts for the insurance program in the General Fund.

The following schedule represents the changes in claims liability for the past two fiscal years for the District's self-insured employee group dental insurance program:

	Beginning-of- Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-End
2007-08	\$ 40,339.54	\$ 289,553.09	\$ (285,283.49)	\$ 44,609.14
2008-09	44,609.14	249,742.74	(263,341.48)	31,010.40

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

Health and hospitalization coverage is being provided through purchased commercial insurance with minimum deductibles for each line of coverage.

17. SUBSEQUENT EVENTS

The School District of Desoto County entered into construction contractual agreements during the 2009-10 fiscal year related to classroom conversions at West Elementary School and Desoto High School totaling \$300,767 and \$1,879,218, respectively.

OTHER REQUIRED SUPPLEMENTARY INFORMATION

**DESOTO COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE -
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 2009**

	General Fund			Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues				
Intergovernmental:				
Federal Direct	\$ 40,000.00	\$ 47,565.93	\$ 47,565.93	\$
Federal Through State and Local	502,074.61	381,112.98	381,112.98	
State	25,941,048.08	25,059,861.91	25,059,861.91	
Local:				
Property Taxes	10,281,866.00	10,211,402.16	10,211,402.16	
Charges for Services		127,357.47	127,357.47	
Interest Income (Loss)		63,189.68	63,189.68	
Miscellaneous	1,815,527.04	744,585.85	732,701.69	(11,884.16)
Total Revenues	38,580,515.73	36,635,075.98	36,623,191.82	(11,884.16)
Expenditures				
Current - Education:				
Instruction	24,147,121.49	23,824,496.37	22,826,782.19	997,714.18
Pupil Personnel Services	1,694,803.32	1,715,639.24	1,654,122.37	61,516.87
Instructional Media Services	591,605.40	578,542.06	554,174.04	24,368.02
Instruction and Curriculum Development Services	1,284,022.98	1,281,085.59	1,178,033.80	103,051.79
Instructional Staff Training Services	574,843.45	562,523.18	354,317.28	208,205.90
Instruction Related Technology	357,846.00	340,850.34	337,002.25	3,848.09
Board of Education	295,167.00	265,842.17	235,694.57	30,147.60
General Administration	704,987.35	394,534.64	315,118.29	79,416.35
School Administration	2,348,539.84	2,427,536.97	2,368,772.50	58,764.47
Facilities Acquisition and Construction	82,987.00	76,249.30	76,246.78	2.52
Fiscal Services	590,067.51	617,174.36	585,009.54	32,164.82
Food Services	-	27,617.66	27,616.91	0.75
Central Services	585,081.00	565,332.60	523,794.48	41,538.12
Pupil Transportation Services	1,625,761.01	1,630,448.23	1,533,470.02	96,978.21
Operation of Plant	3,581,572.76	3,423,361.94	3,161,291.48	262,070.46
Maintenance of Plant	1,745,629.10	1,788,413.46	1,431,931.16	356,482.30
Administrative Technology Services	611,203.40	550,190.73	536,716.57	13,474.16
Community Services	2,904.73	2,881.04	2,115.83	765.21
Fixed Capital Outlay:				
Facilities Acquisition and Construction		6,285.86	6,285.86	
Other Capital Outlay		16,801.64	16,801.64	
Debt Service:				
Principal	10,000.00	10,000.00	10,000.00	
Total Expenditures	40,834,143.34	40,105,807.38	37,735,297.56	2,370,509.82
Deficiency of Revenues Over Expenditures	(2,253,627.61)	(3,470,731.40)	(1,112,105.74)	2,358,625.66
Other Financing Sources (Uses)				
Transfers In		1,234,475.35	1,134,475.35	(100,000.00)
Insurance Loss Recoveries		261.01	261.01	
Transfers Out		(100,000.00)		100,000.00
Total Other Financing Sources (Uses)		1,134,736.36	1,134,736.36	
Net Change in Fund Balances	(2,253,627.61)	(2,335,995.04)	22,630.62	2,358,625.66
Decrease in Inventory Reserve			(14,874.66)	(14,874.66)
Fund Balances, Beginning	3,912,664.01	3,912,664.01	3,912,664.01	
Fund Balances, Ending	\$ 1,659,036.40	\$ 1,576,668.97	\$ 3,920,419.97	\$ 2,343,751.00

Special Revenue - Other Fund				Special Revenue - ARRA Economic Stimulus Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
\$ 3,847,103.70	\$ 6,051,437.97	\$ 4,859,085.44	\$ (1,192,352.53)	\$	\$ 1,318,780.00	\$ 10,414.69	\$ (1,308,365.31)
<u>3,847,103.70</u>	<u>6,051,437.97</u>	<u>4,859,085.44</u>	<u>(1,192,352.53)</u>	<u></u>	<u>1,318,780.00</u>	<u>10,414.69</u>	<u>(1,308,365.31)</u>
2,622,624.55	4,183,736.04	3,389,650.32	794,085.72		890,436.29	9,887.68	880,548.61
412,626.57	462,597.60	389,729.58	72,868.02		6,258.00		6,258.00
103.74	10,103.74	9,877.87	225.87				
582,825.67	603,771.08	542,657.37	61,113.71		130,447.00		130,447.00
84,926.52	301,465.00	177,495.26	123,969.74		192,913.00		192,913.00
	6,327.78	6,327.78					
39,305.41	196,900.33	176,234.31	20,666.02		67,441.71	527.01	66,914.70
434.72	26,094.83	11,195.79	14,899.04				
86,352.25	92,464.00	86,517.70	5,946.30				
4,195.26	81,116.30	25,863.27	55,253.03		31,284.00		31,284.00
13,709.01	14,967.80	13,427.79	1,540.01				
	27,600.00	6,472.21	21,127.79				
	21,432.67	775.39	20,657.28				
	22,860.80	22,860.80					
<u>3,847,103.70</u>	<u>6,051,437.97</u>	<u>4,859,085.44</u>	<u>1,192,352.53</u>	<u></u>	<u>1,318,780.00</u>	<u>10,414.69</u>	<u>1,308,365.31</u>
<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>

**DESOTO COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF FUNDING PROGRESS -
OTHER POSTEMPLOYMENT BENEFITS PLAN
For the Fiscal Year Ended June 30, 2009**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(A)	(B)	(B-A)	(A/B)	(C)	[(B-A)/C]
October 1, 2006	\$ 0	\$ 11,754,336	\$ 11,754,336	0.0%	\$ 22,247,869	52.8%

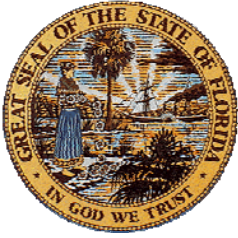
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**DESOTO COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2009**

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)
United States Department of Agriculture:			
Indirect:			
Child Nutrition Cluster:			
Florida Department of Education:			
School Breakfast Program	10.553	321	\$ 299,806.84
National School Lunch Program	10.555	300	1,352,082.44
Summer Food Service Program for Children	10.559	323	15,748.39
Florida Department of Agriculture and Consumer Services:			
National School Lunch Program	10.555 (2)	None	128,370.40
Total United States Department of Agriculture			1,796,008.07
United States Department of Education:			
Indirect:			
Special Education Cluster:			
Florida Department of Education:			
Special Education - Grants to States	84.027	263	1,188,817.89
Special Education - Preschool Grants	84.173	267	41,661.09
ARRA Special Education - Grants to States, Recovery Act	84.391	263	10,414.69
Highlands County District School Board:			
Special Education - Grants to States	84.027	None	128,005.28
Special Education - Preschool Grants	84.173	None	16,306.09
Putnam County District School Board:			
Special Education - Grants to States	84.027	None	99,774.12
Total Special Education Cluster			1,484,979.16
Florida Department of Education:			
Adult Education - Basic Grants to States	84.002	191, 193	196,773.11
Title I Grants to Local Educational Agencies	84.010	212, 222, 223, 226, 228	1,781,875.65
Migrant Education - State Grant Program	84.011	217	278,381.44
Title I Program for Neglected and Delinquent Children	84.013	223	38,896.33
Career and Technical Education - Basic Grants to States	84.048	151, 161	139,432.96
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	24,568.05
Education for Homeless Children and Youth	84.196	127	92,291.87
Twenty-First Century Community Learning Centers	84.287	244	381,806.41
State Grants for Innovative Programs	84.298	113	103.74
Education Technology State Grants	84.318	121	11,617.90
Rural Education	84.358	110	116,279.75
English Language Acquisition Grants	84.365	102	99,551.16
Improving Teacher Quality State Grants	84.367	224	304,586.09
School Improvement Grants	84.377	126	76,102.40
Highlands County District School Board:			
Reading First State Grants	84.357	None	145,304.86
South Florida Community College:			
Tech-Prep Education	84.243	None	75.00
Total Indirect			3,687,646.72
Total United States Department of Education			5,172,625.88
United States Department of Homeland Security:			
Indirect:			
Florida Department of Education:			
Homeland Security Grant Program	97.067	532	35,441.23
United States Department of Defense:			
Direct:			
Army Junior Reserve Officers Training Corps	None	N/A	47,565.93
Total Expenditures of Federal Awards			\$ 7,051,641.11

Notes: (1) Basis of Presentation. The Schedule of Expenditures of Federal Awards represents amounts expended from Federal programs during the 2008-09 fiscal year as determined based on the modified accrual basis of accounting. The amounts reported on the Schedule have been reconciled to and are in material agreement with amounts recorded in the District's accounting records from which the basic financial statements have been reported.

(2) Noncash Assistance. National School Lunch Program - Represents the amount of donated food used during the fiscal year. Commodities are valued at fair value as determined at the time of donation.



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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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the DeSoto County District School Board as of and for the fiscal year ended June 30, 2009, which collectively comprise the District's basic financial statements, and have issued our report thereon under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the basic financial statements was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the school internal funds and the discretely presented component unit, as described in our report on the DeSoto County District School Board's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We

consider Financial Statement Finding No. 1, which is described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report, to be a significant deficiency in internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report is not a material weakness.

Compliance and Other Matters

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

We noted certain additional matters that are discussed in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report.

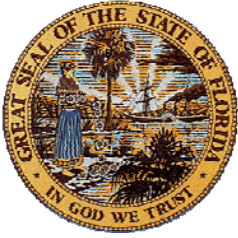
Management's response to the findings described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report is included as Exhibit A. We did not audit management's response and, accordingly, we express no opinion on it.

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

Respectfully submitted,



David W. Martin, CPA
February 24, 2010



DAVID W. MARTIN, CPA
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The President of the Senate, the Speaker of the
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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 DeSoto County District School Board's compliance with the types of compliance requirements described in the United States Office of Management and Budget's (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the fiscal year ended June 30, 2009. The District's major Federal programs are identified in the **SUMMARY OF AUDITOR'S RESULTS** section of the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of the District's major Federal programs is the responsibility of District management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2009. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB *Circular A-133* and which is described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding No. 1.

Internal Control Over Compliance

District management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *control deficiency* in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

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

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

Management's response to the findings described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report is included as Exhibit A. We did not audit management's response and, accordingly, we express no opinion on it.

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

Respectfully submitted,



David W. Martin, CPA
February 24, 2010

**DESOTO COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? No

Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? No

Significant deficiency(ies) identified that are not considered to be material weakness(es)? None reported

Type of report the auditor issued on compliance for major programs: Unqualified for all major programs

Any audit findings disclosed that are required to be reported in accordance with Section __.510(a) of OMB *Circular A-133*? Yes

Identification of major programs: Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559); Special Education Cluster (CFDA Nos. 84.027, 84.173, and 84.391); and Improving Teacher Quality State Grants (CFDA No. 84.367)

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes

**DESOTO COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

FINANCIAL STATEMENT FINDING

SIGNIFICANT DEFICIENCY

Finding No. 1: Financial Reporting

Our review of the District’s 2008-09 fiscal year annual financial report, as presented for audit, indicated that enhancements in procedures could be made for reporting certain transactions on the financial statements. For example, the District placed moneys with the State Board of Administration (SBA) for investment. During the 2008-09 fiscal year, the District was notified by SBA of investment losses, totaling \$208,522.66, based on the reduction in value of certain SBA investment balances. District personnel did not record the loss, resulting in overstatements of investments and local revenue of \$105,851.84 each in the Capital Projects - Local Capital Improvement Fund and \$102,670.82 each in the other governmental funds. We extended our audit procedures to determine the adjustments necessary, and District personnel accepted the adjustments to properly report the transactions. Properly reporting investment losses may help financial statement users understand the performance of the District’s investments. A similar finding was noted in our report No. 2009-137.

Recommendation: To facilitate necessary financial reporting, the District should enhance procedures to ensure that transactions are properly reported on the financial statements.

ADDITIONAL MATTERS

Finding No. 2: Information Technology – Management of Access Privileges

Access controls are intended to protect data and information technology (IT) resources from unauthorized disclosure, modification, or destruction. Effective access controls provide employees access to IT resources based on a demonstrated need to view, change, or delete data. Further, effective access controls provide employees access privileges that restrict employees from performing incompatible functions or functions outside of their area of responsibility.

We reviewed selected access privileges to the finance and human resource applications and the supporting operating system to determine the appropriateness of access privileges. Our audit disclosed various employees whose access privileges allowed them inappropriate or unnecessary access. Specifically:

- Five employees from various departments had update access to accounts payable, cash disbursements, cash receipts, general ledger, purchasing, and menus allowing them the capability to, among other things, add and update vendor information; create a budget entry; create a purchase order, invoice, and payment; or post a payment. These access privileges permitted the employees to perform incompatible duties.

- One Finance Department employee had update access to the employee management menus that add and pay employees. In response to our inquiry, District management indicated that the employee's access privileges were being evaluated to reflect current job responsibilities.
- Three employees from various departments had the capability to, among other things, start and stop subsystem operations, maintain systems and users, and remove software patches. This access was unnecessary for their assigned job duties and should only be granted to certain IT employees. In response to our inquiry, District management indicated that they were in the process of reviewing and removing inappropriate or unnecessary access privileges.
- Forty-five employees from various departments had one or more of the special operating system authorities that allowed, among other things, the ability to view, change, or delete any object on the system; start and end auditing (logging); change system configuration; create, change, and delete user profiles; start system service tools; hold, release, change, and cancel other users' jobs; save, restore, and free storage for all objects on the system; and manage job queues. These special operating system authorities were assigned to the 45 employees through the use of either a group user profile, special user class, individual user profiles, or a combination thereof. This access was unnecessary for their assigned job duties and should only be granted to selected IT employees. In response to our inquiry, District management indicated that special operating system authorities will be reviewed for appropriateness.
- Two system-delivered profiles could be used to sign on to the operating system, contrary to best practices. These system-delivered profiles are used for internal processing and are not intended for employee sign-on. In response to our inquiry, District management indicated that these two system-delivered user profiles have now been reset so that signing on with these system-delivered profiles is not possible.

We noted that the District had compensating controls in place (e.g., separation of the duties of initiating and approving purchases, adding and updating vendors, and payroll updating and processing; department supervisor monitoring of budget and actual expenditures) to minimize the effect of the above deficiencies. However, the access privileges either permitted the employees to perform incompatible duties or the access privileges were not necessary for their job functions, increasing the risk of unauthorized disclosure, modification, or destruction of District data and IT resources.

Recommendation: The District should continue its review of the appropriateness of access privileges to ensure that access is commensurate with employees' job duties. The District should also timely remove or adjust any inappropriate or unnecessary access privileges as detected to minimize the risk that the access privileges could be used to compromise District data or IT resources.

Finding No. 3: Information Technology – User Authentication, Logging, and Monitoring

Security controls are intended to protect the confidentiality, integrity, and availability of data and IT resources. Our audit disclosed certain District security controls related to user authentication, logging, and monitoring that needed improvement. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising District data and IT resources. However, we have notified appropriate District management of the specific issues. Without adequate security controls, the confidentiality, integrity, and availability of data and IT resources may be compromised, increasing the risk that District data and IT resources may be subject to improper disclosure, modification, or destruction.

Recommendation: The District should improve security controls related to user authentication, logging, and monitoring to ensure the continued confidentiality, integrity, and availability of District data and IT resources.

FEDERAL AWARDS FINDING AND QUESTIONED COSTS

Federal Awards Finding No. 1:

Federal Agency: United States Department of Education and United States Department of Agriculture

Pass-Through Entity: Florida Department of Education

Program: ARRA: Child Nutrition Discretionary Grants Limited Availability (CFDA No. 10.579); Education Technology State Grants, Recovery Act (CFDA No. 84.386); Education for Homeless Children and Youth, Recovery Act (CFDA No. 84.387); Title I Grants to Local Educational Agencies, Recovery Act (CFDA No. 84.389); Special Education, Grants to States, Recovery Act (CFDA No. 84.391); Special Education – Preschool Grants, Recovery Act (CFDA No. 84.392); State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act (CFDA No. 84.394); SFSF – Government Services, Recovery Act (CFDA No. 84.397)

Finding Type: Noncompliance

Questioned Costs: Not applicable

Reporting and Special Tests and Provisions. The American Recovery and Reinvestment Act (ARRA) provides funding, in part, to school districts, with the overall goals of improving schools and achievement and producing better results for students. To support the most effective use of the funds and measure results, recipients are required to report certain information tied to the assurance, principles, and strategies associated with ARRA Federal programs. The United States Federal Government maintains a database, known as the Central Contractor Registration (CCR), to collect, validate, store, and disseminate information relating to Federal awards, including ARRA Federal programs. Both current and potential Federal recipients are required to register in CCR in order to receive Federal grant awards. Recipients are required to initially register in CCR to provide basic information relevant to procurement and financial transactions, and must update or renew their registration at least once per year to maintain an active status.

The Florida Department of Education (FDOE) approved ARRA Federal funding for the District to administer, as shown in the table below:

Grant (CFDA Number)	Award Amount
ARRA – Child Nutrition Discretionary (10.579)	\$ 83,100
ARRA – Education Technology (84.386)	42,416
ARRA – Education for Homeless Children and Youth (84.387)	36,839
ARRA – Title I (84.389)	1,184,110
ARRA – Special Education (84.391)	1,166,449
ARRA – Special Education, Preschool (84.392)	36,727
ARRA – State Fiscal Stabilization (84.394)	1,585,464
ARRA – State Fiscal Stabilization (84.397)	114,880

Our review of District records and inquiries disclosed that while the District had previously registered in CCR, this registration expired in February 2008. The District previously designated an individual to monitor the District’s ARRA Federal reporting requirements, but the individual retired during the year, and no replacement was designated to continue these duties, resulting in the expiration of the registration. Subsequent to our inquiries, the District designated the Director of Finance to monitor the ARRA Federal reporting requirements and, on September 21, 2009, renewed registration with CCR. Without timely registration in the CCR system, the District may be limited in its eligibility to receive ARRA Federal funds.

Recommendation: The District should continue its efforts to ensure timely renewal in the Central Contractor Registration Web site on an annual basis as required.

District Contact Person: Laurie Albritton, Director of Finance

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the District had taken corrective actions for findings included in our report No. 2009-137.

MANAGEMENT’S RESPONSE

Management’s response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

*DESOTO COUNTY
DISTRICT SCHOOL BOARD
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2009*

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
2009-137		No prior Federal audit findings.		

EXHIBIT A
MANAGEMENT'S RESPONSE



The School District of DeSoto
Adrian H. Cline
Superintendent

February 5, 2010

David W. Martin, CPA
Auditor General
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, FL 32302-1450

Dear Mr. Martin:

Pursuant to Section 11.45(4)(d), Florida Statutes, our response to the preliminary and tentative audit findings and recommendations as prepared by your office for DeSoto County School District for the fiscal year ended June 30, 2009 are as follows:

Finding No. 1: Financial Reporting

Recommendation: To facilitate necessary financial reporting, the District should enhance procedures to ensure that transactions are properly reported on the financial statements.

- Response: The District continued to reference the investment loss with the State Board of Administration (SBA) in the Notes to the Financial Statement as in the previous year at which time the loss was immaterial.

The District will enhance its procedures to ensure that transactions are properly reported on the financial statements.

Finding No. 2: Information Technology – Management of Access Privileges

Recommendation: The District should continue its review of the appropriateness of access privileges to ensure that access is commensurate with employees' job duties. The District should also timely remove or adjust any inappropriate or unnecessary access privileges as detected to minimize the risk that the access privileges could be used to compromise District data or IT resources.

*We cannot build the future for our youth, but we can build our youth for the future.
Franklin D. Roosevelt*

Post Office Drawer 2000 Arcadia, Florida 34265
Telephone: 863.494.4222 x 110 Facsimile: 1.866.370.2471

- Response: The District has reviewed and updated the appropriateness of access privileges and continues on an ongoing basis to ensure that access is commensurate with employees' job duties.

Finding No. 3: Information Technology – User Authentication, Logging, and Monitoring

Recommendation: The District should improve security controls related to user authentication, logging, and monitoring to ensure the continued confidentiality, integrity, and availability of District data and IT resources.

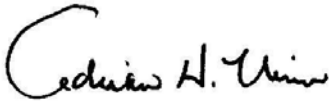
- Response: The District is cognizant of the importance of security controls as it relates to confidentiality, integrity, and the use of data. The District will continue to monitor and improve these areas of control.

Federal Awards Finding No. 1:

Recommendation: The District should continue its efforts to ensure timely renewal in the Central Contractor Registration website on an annual basis as required.

- Response: The District has registered with the CCR website, designated monitoring of this requirement, and has implemented procedures to register on an annual basis as required.

Sincerely,



Adrian H. Cline
Superintendent

AHC: mrb