

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD**

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

For the Fiscal Year Ended  
June 30, 2010



## BOARD MEMBERS AND SUPERINTENDENT

Board members and the Superintendent who served during the 2009-10 fiscal year are listed below:

	<u>District No.</u>
Rodney W. Hollingsworth, Chair to 11-16-09	1
Karen K. Chancey	2
Deborah D. Snyder, Vice Chair to 11-16-09, Chair from 11-17-09	3
William Stanko	4
Ronny R. Allen, Vice Chair from 11-17-09	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 Richard Lockhart, 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 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](mailto:gregcenters@aud.state.fl.us) or by telephone at (850) 487-9039.

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DESOTO COUNTY DISTRICT SCHOOL BOARD  
TABLE OF CONTENTS

	PAGE NO.
EXECUTIVE SUMMARY .....	i
INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS .....	1
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	3
BASIC FINANCIAL STATEMENTS .....	10
Statement of Net Assets .....	10
Statement of Activities.....	12
Balance Sheet – Governmental Funds .....	14
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets .....	16
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds .....	18
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities .....	20
Statement of Fiduciary Assets and Liabilities – Fiduciary Funds .....	21
Notes to Financial Statements .....	22
OTHER REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule – General and Major Special Revenue Funds .....	44
Schedule of Funding Progress – Other Postemployment Benefits Plan .....	46
Notes to Required Supplementary Information .....	47
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS .....	48
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 <i>GOVERNMENT AUDITING STANDARDS</i> .....	50
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB <i>CIRCULAR A-133</i> .....	52
SCHEDULE OF FINDINGS AND QUESTIONED COSTS .....	54
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS .....	59
EXHIBIT A MANAGEMENT'S RESPONSE .....	60

## EXECUTIVE SUMMARY

### Summary of Report on Financial Statements

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

### Summary of Report on Internal Control and Compliance

Our audit did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 General of the United States; however, we noted certain additional matters as summarized below.

#### ADDITIONAL MATTERS

**Finding No. 1:** District records did not sufficiently evidence that performance assessments of school administrators were made using required assessment criteria and based primarily on student performance, contrary to Section 1012.34(3), Florida Statutes.

**Finding No. 2:** The Board had not adopted formal policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance pursuant to Section 1012.22(1)(c)2., Florida Statutes, and documenting the differentiated pay process of school-based administrators using the factors prescribed in Section 1012.22(1)(c)4., Florida Statutes.

**Finding No. 3:** The District needed to strengthen information technology (IT) access controls.

**Finding No. 4:** The District's IT 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 Title I, Part A Cluster; Migrant Education; Special Education Cluster; and State Fiscal Stabilization Fund 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.

#### 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. 2010-120.

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, 2010. 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, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District 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 21 percent of the assets and 98 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., the discretely presented component unit. Those financial statements were audited by other auditors whose reports thereon 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, 2010, and the respective changes in financial position thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of the 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.

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS** (pages 3 through 9) and **OTHER REQUIRED SUPPLEMENTARY INFORMATION** (pages 44 through 47) be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information 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 22, 2011

## 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, 2010. 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 10 through 42.

### FINANCIAL HIGHLIGHTS

Key financial highlights for the 2009-10 fiscal year are as follows:

- In total, net assets increased \$4,493,531.96, which represents a 10.4 percent increase from the 2008-09 fiscal year.
- General revenues totaled \$47,871,492.07 or 94.3 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions totaled \$2,912,381.30 or 5.7 percent of all revenues.
- Expenses totaled \$46,290,341.41. Only \$2,912,381.30 of these expenses is offset by program specific charges, with the remainder being paid from general revenues. Total revenues exceed expenses by \$4,493,531.96.
- The unreserved fund balance of the General Fund, representing the net current financial resources available for general appropriation by the Board, totals \$6,044,769.10 at June 30, 2010, or 17.9 percent of total General Fund expenditures.

### OVERVIEW OF FINANCIAL STATEMENTS

The basic financial statements consist of three components:

- Government-wide financial statements;
- Fund financial statements; and
- 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 on the accrual basis of accounting. The statement of net assets provides information about the government's financial position, its assets and liabilities, using an economic resources measurement focus. The difference between the assets and liabilities, the net assets, is a measure of the financial health of the District. The statement of activities presents information about the change in the District's net assets, the results of operations, during the fiscal year. An increase or decrease in net assets is an indication of whether the District's financial health is improving or deteriorating.

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

- Governmental activities – This represents most of the District's services, including its educational programs: basic, vocational, adult, and exceptional education. Support functions such as transportation and administration are also included. Local property taxes and the State's education finance program provide most of the resources that support these activities.
- 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 entity-wide 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, 2010, compared to net assets as of June 30, 2009:

	<b>Net Assets, End of Year</b>	
	Governmental	
	Activities	
	6-30-10	6-30-09
Current and Other Assets	\$21,868,164.60	\$ 18,402,548.26
Capital Assets	39,229,458.28	36,976,294.53
<b>Total Assets</b>	<b>61,097,622.88</b>	<b>55,378,842.79</b>
Long-Term Liabilities	10,625,012.61	10,390,666.08
Other Liabilities	2,934,532.87	1,943,631.27
<b>Total Liabilities</b>	<b>13,559,545.48</b>	<b>12,334,297.35</b>
Net Assets:		
Invested in Capital Assets -		
Net of Related Debt	32,303,462.57	30,911,890.94
Restricted	12,228,916.35	12,313,819.28
Unrestricted (Deficit)	3,005,698.48	(181,164.78)
<b>Total Net Assets</b>	<b>\$47,538,077.40</b>	<b>\$ 43,044,545.44</b>

The largest portion of the District’s net assets (68 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 total \$6,439,063.02, after exclusion of \$2,205,460.54 for compensated absences payable, \$1,137,904.00 other postemployment benefits payable, and \$90,000.00 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, 2010, and June 30, 2009, are as follows:

	<b>Operating Results for the Year</b>	
	Governmental	
	Activities	
	6-30-10	6-30-09
Program Revenues:		
Charges for Services	\$ 559,132.62	\$ 620,014.13
Operating Grants and Contributions	2,048,510.76	2,660,659.11
Capital Grants and Contributions	304,737.92	1,775,717.92
General Revenues:		
Property Taxes, Levied for Operational Purposes	11,003,781.32	10,211,402.16
Property Taxes, Levied for Capital Projects	2,643,779.32	2,654,217.18
Grants and Contributions Not Restricted to Specific Programs	32,578,824.75	29,603,521.53
Unrestricted Investment Earnings	441,393.35	(9,840.49)
Miscellaneous	1,203,713.33	737,143.56
<b>Total Revenues</b>	<b>50,783,873.37</b>	<b>48,252,835.10</b>
Functions/Program Expenses:		
Instruction	25,600,004.98	26,591,377.46
Pupil Personnel Services	2,095,321.77	2,070,314.09
Instructional Media Services	570,714.47	573,098.67
Instruction and Curriculum Development Services	1,537,109.51	1,725,426.28
Instructional Staff Training Services	479,329.89	524,607.67
Instruction Related Technology	310,931.02	351,285.02
School Board	249,888.45	241,908.97
General Administration	636,105.05	494,175.43
School Administration	2,304,061.19	2,421,334.96
Facilities Acquisition and Construction	427,853.04	297,027.79
Fiscal Services	599,700.83	597,842.75
Food Services	2,221,846.85	2,371,842.16
Central Services	483,976.64	620,589.80
Pupil Transportation Services	1,955,505.64	1,844,640.48
Operation of Plant	3,161,237.49	3,198,085.60
Maintenance of Plant	1,456,845.37	1,455,552.51
Administrative Technology Services	652,807.03	542,939.51
Community Services	1,994.91	2,115.83
Unallocated Interest on Long-Term Debt	119,755.17	129,466.55
Unallocated Depreciation Expenses	1,420,062.92	1,745,666.60
Loss on Disposal of Capital Assets	5,289.19	237,841.51
<b>Total Functions/Program Expenses</b>	<b>46,290,341.41</b>	<b>48,037,139.64</b>
<b>Increase in Net Assets</b>	<b>\$ 4,493,531.96</b>	<b>\$ 215,695.46</b>

The largest revenue source is the State of Florida (48.5 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 increased by \$2,975,303.22, primarily due to 1) an increase in funding for Special Revenue – ARRA Economic Stimulus Fund and Special Revenue – Other Fund totaling \$2,845,416.23 and \$413,946.50, respectively; 2) an increase in Class Size Reduction funding totaling \$348,650; and 3) a decrease in FEFP funding totaling \$925,126, that was primarily due to a decrease in the base student allocation (BSA) and district cost differential (DCD). Compared to the previous year, the BSA multiplied by the DCD decreased by 6.5 percent per

full-time equivalent (FTE) student, from \$3,800.26 to \$3,551.84. In addition, there was an increase from the prior year in unweighted FTE from 4,999.7 to 5,039.2, a difference of 39.5.

Other State revenues are primarily for the acquisition, construction, and maintenance of educational facilities. Capital grants and contributions decreased by \$1,470,980 due to reductions in Public Education Capital Outlay, Class Size Reduction Construction, and Classrooms for Kids funding caused by the current economic conditions.

Total governmental expenses for the 2009-10 fiscal year decreased by \$1,746,798.23 from the prior year due mainly to workforce reductions resulting from the continued 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 \$6,044,769.10 while the total fund balance is \$7,920,361.82. The unreserved fund balance increased by \$3,682,627.49, while the total fund balance increased by \$3,999,941.85 during the fiscal year. Key factors of the fund balance changes are as follows:

- A net decrease in State revenues in the amount of \$908,569.07 is primarily due to a decrease in FEFP funded categorical allocations.
- An increase in property tax revenues in the amount of \$792,379.16.
- Total expenditures decreased by \$4,017,452.92, or 10.6 percent, which is primarily due to a change in fund source for expenditures of \$1,739,122.20 from General Fund to Special Revenue – ARRA Economic Stimulus Fund, reduction in programs, replacement of retirees with beginning teachers, continued reduction in staff through attrition, and reduction in expenditure areas such as textbooks, workers compensation, and utilities.

The Special Revenue – Other Fund accounts for certain Federal grant program resources and expenditures increased by \$413,946.50, or approximately 8.5 percent, due mainly to an increase in Title I program costs.

The Special Revenue - ARRA Economic Stimulus Fund accounts for certain Federal resources and expenditures increased by \$2,845,416.23 due to increased funding.

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 fund balance increased by \$364,355.70, as a result of scheduled sinking fund payments and interest income.

The Capital Projects – Public Education Capital Outlay Fund has a total fund balance of \$353,010.04, which is restricted for new construction, renovation and remodeling projects, and maintenance and repair of facilities. The fund balance decreased by \$1,720,734.76, primarily due to classroom conversions at DeSoto High School. It should be noted that \$40,102.08 has been encumbered for specific projects.

The Capital Projects – Local Capital Improvement Fund had a total fund balance of \$7,222,670.35, which is restricted for the acquisition, construction, and maintenance of capital assets. The fund balance increased by \$497,889.06 because the District is accumulating resources for the DeSoto High School classroom conversion and the Nocatee Elementary School cafeteria new construction. It should be noted that \$1,939,733.44 has been encumbered for specific projects.

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

During the course of the 2009-10 fiscal year, the District amended its General Fund budget several times, which resulted in an increase in total budgeted revenues amounting to \$1,763,299.81 or 5 percent. At the same time, final

budgeted expenditures were more than the original budgeted amounts by \$555,862.57 or 1.5 percent. Budget revisions were primarily due 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 \$4,445,232.44, or 11.6 percent less than final budgeted amounts. The decrease in expenditures was primarily due to continued cost containment measures implemented by the District. The actual ending fund balance exceeded the estimated fund balance contained in the final amended budget by \$4,447,402.04.

## **CAPITAL ASSETS AND LONG-TERM DEBT**

### **Capital Assets**

The District's investment in capital assets for its governmental activities as of June 30, 2010, amounted to \$39,229,458.28 (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:

- Roof replacement at West Elementary School in the amount of \$451,600.
- Remodeling projects totaling \$2,745,376.57 at DeSoto High School, West Elementary 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, 2010, the District has total long-term debt outstanding of \$7,191,648.07. This amount is comprised of \$2,297,479.07 of bonds payable and \$4,894,169.00 of qualified zone academy bonds payable. During the current fiscal year, retirement of debt amounted to \$278,404.07.

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 District received an actuarial report for other postemployment benefits (OPEB) dated January 1, 2010. Compared to the previous valuation on October 1, 2006, the unfunded actuarial accrued liability as well as annual OPEB costs decreased significantly from \$11,754,336 to \$8,028,085 and from \$954,505 to \$777,326 respectively. This is primarily the result of offering a Medicare Advantage Plan and the effective migration of eligible retirees to the plan, as the vast majority of retirees age 65 and older are not contributing to the implicit rate subsidy. Other matters of significance include:

- 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.
- The School District is required to meet class size reduction at the classroom level in fiscal year 2010-11 and posture the budget to meet the elimination of State Fiscal Stabilization Funds in fiscal year 2011-12.

**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, 2010**

	Primary Government Governmental Activities	Component Unit
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 18,219,553.03	\$ 167,051.00
Investments	252,975.10	
Due from Other Agencies	1,123,555.08	
Grants Receivable		7,500.00
Inventories	67,244.54	
Deferred Charges	3,632.98	
Cash with Fiscal Agent	14,000.00	
Restricted Investments	2,187,203.87	
Capital Assets:		
Nondepreciable Capital Assets	2,664,766.32	
Depreciable Capital Assets, Net	36,564,691.96	
<b>TOTAL ASSETS</b>	<b>\$ 61,097,622.88</b>	<b>\$ 174,551.00</b>
<b>LIABILITIES</b>		
Salaries and Benefits Payable	\$ 1,668.58	\$
Payroll Deductions and Withholdings	1,450,968.00	
Accounts Payable	820,858.49	28,310.00
Construction Contracts Payable	304,533.12	
Due to Other Agencies	243.00	
Deposits Payable	315,531.84	
Deferred Revenue		17,000.00
Estimated Insurance Claims Payable	40,729.84	
Long-Term Liabilities:		
Portion Due Within One Year	553,554.54	
Portion Due After One Year	10,071,458.07	
<b>Total Liabilities</b>	<b>13,559,545.48</b>	<b>45,310.00</b>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	32,303,462.57	
Restricted for:		
State Required Carryover Programs	1,189,216.16	
Debt Service	2,390,178.41	
Capital Projects	7,766,135.18	
Food Service	388,388.40	
Scholarships - Nonexpendable		2,000.00
Other Purposes	494,998.20	62,513.00
Unrestricted	3,005,698.48	64,728.00
<b>Total Net Assets</b>	<b>47,538,077.40</b>	<b>129,241.00</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 61,097,622.88</b>	<b>\$ 174,551.00</b>

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

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**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
STATEMENT OF ACTIVITIES  
For the Fiscal Year Ended June 30, 2010**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government</b>				
<b>Governmental Activities:</b>				
Instruction	\$ 25,600,004.98	\$ 97,014.94	\$	\$
Pupil Personnel Services	2,095,321.77			
Instructional Media Services	570,714.47			
Instruction and Curriculum Development Services	1,537,109.51			
Instructional Staff Training Services	479,329.89			
Instruction Related Technology	310,931.02			
School Board	249,888.45			
General Administration	636,105.05			
School Administration	2,304,061.19			
Facilities Acquisition and Construction	427,853.04			150,897.80
Fiscal Services	599,700.83			
Food Services	2,221,846.85	430,067.80	2,048,510.76	
Central Services	483,976.64			
Pupil Transportation Services	1,955,505.64	32,049.88		
Operation of Plant	3,161,237.49			
Maintenance of Plant	1,456,845.37			
Administrative Technology Services	652,807.03			
Community Services	1,994.91			
Unallocated Interest on Long-Term Debt	119,755.17			153,840.12
Unallocated Depreciation*	1,420,062.92			
Loss on Disposal of Capital Assets	5,289.19			
<b>Total Primary Government</b>	<b>\$ 46,290,341.41</b>	<b>\$ 559,132.62</b>	<b>\$ 2,048,510.76</b>	<b>\$ 304,737.92</b>
<b>Component Unit</b>				
The DeSoto County Education Foundation, Inc.	\$ 108,964.00	\$	\$ 16,852.00	\$

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**

\* This amount excludes the depreciation that is included in the direct expenses of the various functions.

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

<u>Net (Expense) Revenue and Changes in Net Assets</u>	
<u>Primary Government</u>	
<u>Governmental</u>	<u>Component</u>
<u>Activities</u>	<u>Unit</u>
\$ (25,502,990.04)	\$
(2,095,321.77)	
(570,714.47)	
(1,537,109.51)	
(479,329.89)	
(310,931.02)	
(249,888.45)	
(636,105.05)	
(2,304,061.19)	
(276,955.24)	
(599,700.83)	
256,731.71	
(483,976.64)	
(1,923,455.76)	
(3,161,237.49)	
(1,456,845.37)	
(652,807.03)	
(1,994.91)	
34,084.95	
(1,420,062.92)	
(5,289.19)	
<u>(43,377,960.11)</u>	
	<u>(92,112.00)</u>
11,003,781.32	
2,643,779.32	
32,578,824.75	85,698.00
441,393.35	356.00
<u>1,203,713.33</u>	
<u>47,871,492.07</u>	<u>86,054.00</u>
4,493,531.96	(6,058.00)
<u>43,044,545.44</u>	<u>135,299.00</u>
<u>\$ 47,538,077.40</u>	<u>\$ 129,241.00</u>

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
BALANCE SHEET - GOVERNMENTAL FUNDS  
June 30, 2010**

	General Fund	Special Revenue - Other Fund	Special Revenue - ARRA Economic Stimulus Fund
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 9,581,521.58	\$	\$
Investments			
Due from Other Agencies	362,780.78	322,106.69	102,314.20
Inventories	14,637.70		
Cash With Fiscal Agent	14,000.00		
Restricted Investments			
<b>TOTAL ASSETS</b>	<b>\$ 9,972,940.06</b>	<b>\$ 322,106.69</b>	<b>\$ 102,314.20</b>
 <b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Salaries and Benefits Payable	\$ 1,450,968.00	\$ 1,668.58	\$
Payroll Deductions and Withholdings	245,105.56	320,438.11	102,314.20
Accounts Payable			
Construction Contracts Payable			
Due to Other Agencies	243.00		
Deposits Payable	315,531.84		
Estimated Insurance Claims Payable	40,729.84		
<b>Total Liabilities</b>	<b>2,052,578.24</b>	<b>322,106.69</b>	<b>102,314.20</b>
Fund Balances:			
Reserved for State Required Carryover Programs	1,189,216.16		
Reserved for Encumbrances	176,740.66		
Reserved for Inventories	14,637.70		
Reserved for Other Purposes	494,998.20		
Reserved for Debt Service			
Unreserved, Reported In:			
General Fund	6,044,769.10		
Special Revenue Funds			
Debt Service Funds			
Capital Projects Funds			
<b>Total Fund Balances</b>	<b>7,920,361.82</b>		
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 9,972,940.06</b>	<b>\$ 322,106.69</b>	<b>\$ 102,314.20</b>

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
\$ 49,204.22	\$ 365,097.70	\$ 7,196,750.63	\$ 1,026,978.90	\$ 18,219,553.03
		139,663.22	113,311.88	252,975.10
	284,068.00	40,589.44	11,695.97	1,123,555.08
			52,606.84	67,244.54
				14,000.00
<u>2,187,203.87</u>				<u>2,187,203.87</u>
<u>\$ 2,236,408.09</u>	<u>\$ 649,165.70</u>	<u>\$ 7,377,003.29</u>	<u>\$ 1,204,593.59</u>	<u>\$ 21,864,531.62</u>
				1,668.58
				1,450,968.00
		145,955.48	7,045.14	820,858.49
	296,155.66	8,377.46		304,533.12
				243.00
				315,531.84
				<u>40,729.84</u>
	<u>296,155.66</u>	<u>154,332.94</u>	<u>7,045.14</u>	<u>2,934,532.87</u>
				1,189,216.16
	40,102.08	1,939,733.44	220,481.81	2,377,057.99
			52,606.84	67,244.54
2,236,408.09			153,770.32	494,998.20
				2,390,178.41
				6,044,769.10
			335,781.56	335,781.56
			202,915.56	202,915.56
	<u>312,907.96</u>	<u>5,282,936.91</u>	<u>231,992.36</u>	<u>5,827,837.23</u>
<u>2,236,408.09</u>	<u>353,010.04</u>	<u>7,222,670.35</u>	<u>1,197,548.45</u>	<u>18,929,998.75</u>
<u>\$ 2,236,408.09</u>	<u>\$ 649,165.70</u>	<u>\$ 7,377,003.29</u>	<u>\$ 1,204,593.59</u>	<u>\$ 21,864,531.62</u>

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
June 30, 2010**

**Total Fund Balances - Governmental Funds** \$ 18,929,998.75

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. 39,229,458.28

Debt issuance costs are not expensed in the government-wide statements, but are reported as deferred charges and amortized over the life of the debt. 3,632.98

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	2,297,479.07	
Estimated Liability for Long-Term Claims	90,000.00	
Compensated Absences Payable	2,205,460.54	
Other Postemployment Benefits Payable	1,137,904.00	
	(10,625,012.61)	

**Total Net Assets - Governmental Activities** \$ 47,538,077.40

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, 2010**

	General Fund	Special Revenue - Other Fund	Special Revenue - ARRA Economic Stimulus Fund
<b>Revenues</b>			
Intergovernmental:			
Federal Direct	\$ 51,678.61	\$	\$
Federal Through State and Local	197,744.31	5,273,031.94	2,855,830.92
State	24,151,292.84		
Local:			
Property Taxes	11,003,781.32		
Charges for Services - Food Service			
Miscellaneous	1,303,601.45		
<b>Total Revenues</b>	<b>36,708,098.53</b>	<b>5,273,031.94</b>	<b>2,855,830.92</b>
<b>Expenditures</b>			
Current - Education:			
Instruction	19,746,126.35	3,819,939.25	1,809,676.96
Pupil Personnel Services	1,267,212.83	482,817.18	313,731.58
Instructional Media Services	534,322.62	29,062.58	
Instruction and Curriculum Development Services	935,364.78	465,773.51	132,502.76
Instructional Staff Training Services	242,707.47	99,902.44	131,122.67
Instruction Related Technology	304,795.04	3,062.00	
School Board	245,283.40		
General Administration	315,018.61	187,864.15	130,302.63
School Administration	2,223,426.64	15,816.08	43,466.29
Facilities Acquisition and Construction	79,461.92		
Fiscal Services	588,101.07		4,480.80
Food Services	14,350.02		
Central Services	407,203.30	70,662.94	9,099.78
Pupil Transportation Services	1,537,001.16	45,674.14	
Operation of Plant	3,138,821.75	516.06	
Maintenance of Plant	1,441,281.77	3,127.79	
Administrative Technology Services	626,716.19	20,657.28	
Community Services	1,994.91		
Fixed Capital Outlay:			
Facilities Acquisition and Construction	30,635.06		
Other Capital Outlay	28,019.75	28,156.54	281,447.45
Debt Service:			
Principal	10,000.00		
Interest and Fiscal Charges			
<b>Total Expenditures</b>	<b>33,717,844.64</b>	<b>5,273,031.94</b>	<b>2,855,830.92</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>2,990,253.89</b>		
<b>Other Financing Sources (Uses)</b>			
Transfers In	1,007,518.36		
Refunding Bonds Issued			
Premium on Refunding Bonds			
Payments to Refunded Bond Escrow Agent			
Transfers Out			
<b>Total Other Financing Sources (Uses)</b>	<b>1,007,518.36</b>		
<b>Net Change in Fund Balances</b>	3,997,772.25		
Increase in Inventory Reserve	2,169.60		
Fund Balances, Beginning	3,920,419.97		
<b>Fund Balances, Ending</b>	<b>\$ 7,920,361.82</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

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
\$	\$	\$	\$	\$
	117,575.00		1,927,275.31 357,644.50	51,678.61 10,253,882.48 24,626,512.34
		2,643,779.32		13,647,560.64
			430,067.80	430,067.80
153,323.80	711.60	183,365.60	73,410.69	1,714,413.14
<u>153,323.80</u>	<u>118,286.60</u>	<u>2,827,144.92</u>	<u>2,788,398.30</u>	<u>50,724,115.01</u>
				25,375,742.56
				2,063,761.59
				563,385.20
				1,533,641.05
				473,732.58
				307,857.04
				245,283.40
				633,185.39
				2,282,709.01
	61,188.64	277,094.15	14,533.19	432,277.90
				592,581.87
			2,197,711.72	2,212,061.74
				486,966.02
				1,582,675.30
				3,139,337.81
				1,444,409.56
				647,373.47
				1,994.91
	1,571,026.81	1,040,417.36	978,384.06 2,835.00	3,620,463.29 340,458.74
			155,000.00	165,000.00
			123,784.77	123,784.77
	<u>1,632,215.45</u>	<u>1,317,511.51</u>	<u>3,472,248.74</u>	<u>48,268,683.20</u>
153,323.80	(1,513,928.85)	1,509,633.41	(683,850.44)	2,455,431.81
				211,031.90
				1,218,550.26
			110,000.00	110,000.00
			9,365.45	9,365.45
			(118,366.64)	(118,366.64)
	(206,805.91)	(1,011,744.35)		(1,218,550.26)
211,031.90	(206,805.91)	(1,011,744.35)	998.81	998.81
				364,355.70
	(1,720,734.76)	497,889.06	(682,851.63)	2,456,430.62
			15,488.99	17,658.59
1,872,052.39	2,073,744.80	6,724,781.29	1,864,911.09	16,455,909.54
<u>\$ 2,236,408.09</u>	<u>\$ 353,010.04</u>	<u>\$ 7,222,670.35</u>	<u>\$ 1,197,548.45</u>	<u>\$ 18,929,998.75</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, 2010**

**Net Change in Fund Balances - Governmental Funds** \$ 2,456,430.62

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

Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital outlays in excess of depreciation and depreciation adjustments in the current period. 2,198,694.58

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. (5,289.19)

The receipt of capital assets by donation during the current period is recognized in the government-wide statement of activities, but not in the governmental funds. 59,758.36

Long-term debt proceeds provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. 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 by which repayments exceeded proceeds in the current period.

Bond Proceeds	\$	110,000.00	
Payments to Refunded Bond Escrow Agent		(120,000.00)	
Bond Principal Payments		(155,000.00)	
		165,000.00	165,000.00

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 increase in expenses from unamortized premiums	\$	(1,355.54)	
Net increase in expenses from refunding costs		(6,239.20)	
Net increase in expenses from deferred charges		625.53	
		625.53	(6,969.21)

The purchases method is used to account for inventories, except for donated foods, 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. 17,658.59

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. 92,561.21

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. (494,313.00)

**Change in Net Assets - Governmental Activities** \$ 4,493,531.96

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, 2010**

		Agency Funds
<b>ASSETS</b>		
Cash and Cash Equivalents	\$	325,182.00
<b>LIABILITIES</b>		
Internal Accounts Payable	\$	325,182.00

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

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

**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 (District) is considered part of the Florida system of public education. The governing body of the District is the DeSoto County District School Board (Board), which is composed of five elected members. The elected Superintendent of Schools is the executive officer of the 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 Board is financially accountable and other organizations for which the nature and significance of their relationship with the Board are such that exclusion would cause the District's basic financial statements to be misleading or incomplete.

Based on these criteria, the following component unit is included within the District'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 to and 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. The financial data reported on the accompanying statements was derived from the Foundation's audited financial statements for the fiscal year ended June 30, 2010. The audit report is filed in the District's administrative office.

➤ **Basis of Presentation**

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

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2010**

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

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

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2010**

donations are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are prepared using the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers revenues to be available if they are collected within 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) in Florida PRIME, formerly known as the Local Government Surplus Funds Trust Fund Investment Pool.

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 the Florida PRIME and 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 Florida PRIME, which SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, as of June 30, 2010, 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 0.67353149 at June 30, 2010. 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 Florida PRIME, 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 a liquid balance within Florida PRIME.

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2010**

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.

➤ **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 donated foods 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.

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2010**

➤ **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 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. Governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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

Significant revenues from State sources for current operations include 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 five 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 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 educational programs. The Department generally requires that these 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 and earmarked educational program resources.

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

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

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2010**

➤ **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.

The Board adopted the 2009 tax levy on September 22, 2009. 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.
- 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.

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2010**

**3. INVESTMENTS**

As of June 30, 2010, the District has the following investments and maturities:

Investments	Maturities	Fair Value
State Board of Administration (SBA):		
Florida PRIME (1)	46 Day Average	\$ 114,597.36
Fund B Surplus Funds Trust Fund (Fund B)	8.05 Year Average	224,029.78
Debt Service Accounts	6 Months	28,945.32
Guaranteed Investment Contract (2)	September 28, 2010	423,275.87
Obligations of United States Government		
Agencies and Instrumentalities (3)	July 1, 2010	1,763,928.00
Total Investments		<u>\$ 2,554,776.33</u>

Notes:

- (1) Investments considered cash equivalents for financial reporting purposes.
- (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.
- Florida PRIME had a weighted average days to maturity (WAM) of 46 days at June 30, 2010. 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 8.05 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, 2010. 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

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2010**

which are properly collateralized; as well as Florida PRIME or any authorized intergovernmental investment pool.

- 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 interest rate risk and credit risk for this account.
- As of June 30, 2010, the District's investment in Florida PRIME 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. These investments, totaling \$2,187,203.87, were rated Aaa by Moody's Investors Service.

**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 \$2,187,203.87, in Obligations of United States Government Agencies and Instrumentalities, and the guaranteed investment contract, are held in custodial accounts by the Qualified Zone Academy Bonds paying agents.

**Concentration of Credit Risk**

- The District's investment policy limits its investment portfolio to 50 percent in Florida PRIME 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 86 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).

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2010**

**4. CHANGES IN CAPITAL ASSETS**

Changes in capital assets are presented in the table below.

	Beginning Balance	Adjustments (1)	Additions	Deletions	Ending Balance
<b>GOVERNMENTAL ACTIVITIES</b>					
Capital Assets Not Being Depreciated:					
Land	\$ 307,325.33		\$ 23,816.87		\$ 331,142.20
Construction in Progress	153,892.08		3,222,845.07	1,043,113.03	2,333,624.12
<b>Total Capital Assets Not Being Depreciated</b>	<b>461,217.41</b>		<b>3,246,661.94</b>	<b>1,043,113.03</b>	<b>2,664,766.32</b>
Capital Assets Being Depreciated:					
Improvements Other Than Buildings	1,511,968.52		71,408.99		1,583,377.51
Buildings and Fixed Equipment	52,428,345.73		1,093,034.99		53,521,380.72
Furniture, Fixtures, and Equipment	4,474,817.12		611,507.29	262,974.47	4,823,349.94
Motor Vehicles	3,117,497.28		11,700.00	105,350.00	3,023,847.28
Audio Visual Materials and Computer Software	1,401,557.13		34,769.50	101,659.65	1,334,666.98
<b>Total Capital Assets Being Depreciated</b>	<b>62,934,185.78</b>		<b>1,822,420.77</b>	<b>469,984.12</b>	<b>64,286,622.43</b>
Less Accumulated Depreciation for:					
Improvements Other Than Buildings	942,716.65	(66,285.23)	70,787.29		947,218.71
Buildings and Fixed Equipment	18,984,112.01	27,919.34	1,153,359.76		20,165,391.11
Furniture, Fixtures, and Equipment	3,491,765.17	(71,605.06)	366,361.61	257,685.28	3,528,836.44
Motor Vehicles	1,735,760.51	148,566.00	198,887.82	105,350.00	1,977,864.33
Audio Visual Materials and Computer Software	1,264,754.32	(131,806.74)	71,331.95	101,659.65	1,102,619.88
<b>Total Accumulated Depreciation</b>	<b>26,419,108.66</b>	<b>(93,211.69)</b>	<b>1,860,728.43</b>	<b>464,694.93</b>	<b>27,721,930.47</b>
<b>Total Capital Assets Being Depreciated, Net</b>	<b>36,515,077.12</b>	<b>93,211.69</b>	<b>(38,307.66)</b>	<b>5,289.19</b>	<b>36,564,691.96</b>
<b>Governmental Activities Capital Assets, Net</b>	<b>\$ 36,976,294.53</b>	<b>\$ 93,211.69</b>	<b>\$ 3,208,354.28</b>	<b>\$ 1,048,402.22</b>	<b>\$ 39,229,458.28</b>

Note (1): Accumulated depreciation includes adjustments that result in a net \$93,211.69 decrease to correct errors in the depreciation schedule.

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2010**

Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Pupil Transportation Services	347,453.82
Unallocated	1,420,062.92
	\$ 1,767,516.74
Total Depreciation Expense - Governmental Activities	

**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, 2010, to be \$90,000, 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, 2010, the paying agent held deposits invested in obligations of United States Government Agencies and Instrumentalities in the sinking fund totaling \$1,763,928.

The moneys received from the QZABs, Series 2001, were used for the purpose of financing capital outlay maintenance and renovations 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.

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2010**

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 a guaranteed investment 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, 2010, the paying agent held \$423,275.87 in deposits invested in a guaranteed investment contract.

The moneys received from the QZABs, Series 2006, were used for the purpose of financing capital outlay maintenance and renovations 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 QZAB's as of June 30:

Fiscal Year Ending June 30	Deposit Amount
2011	\$ 256,689
2012	256,689
2013	256,689
2014	256,689
2015	256,689
2016-2020	661,435
2021-2022	264,574
Total	\$ 2,209,454

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2010**

**7. BONDS PAYABLE**

Bonds payable at June 30, 2010, are as follows:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 2005B, Refunding	\$ 915,000	5.0	2018
Series 2009A, Refunding	95,000	3.00 - 5.00	2019
District Revenue Bonds:			
Series 1996, Refunding	<u>1,245,000</u>	5.125 - 5.250	2025
Subtotal	2,255,000		
Add: Unamortized Premium on Debt	79,162		
Less: Difference between the Reacquisition Price and Net Carrying Amount of Old Debt	<u>(36,683)</u>		
Total Bonds Payable	<u><u>\$ 2,297,479</u></u>		

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

➤ **State School Bonds**

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

➤ **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.

The District has pledged a combined total of \$1,827,800.04 of pari-mutuel tax revenues in connection with the Series 1996 Refunding District Revenue Bonds, described above. During the 2009-10 fiscal year, the District recognized pari-mutuel tax revenues totaling \$132,166.66 and expended \$122,625 (93 percent) of these revenues for debt service directly collateralized by these revenues. The pledged pari-mutuel tax revenues are committed until final maturity of the debt on June 1, 2025. Approximately 92 percent of this revenue stream has been pledged in connection with debt service on the revenue bonds.

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2010**

Annual requirements to amortize all bonded debt outstanding as of June 30, 2010, are as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
<b>State School Bonds:</b>			
2011	\$ 154,950.00	\$105,000.00	\$49,950.00
2012	155,000.00	110,000.00	45,000.00
2013	154,650.00	115,000.00	39,650.00
2014	154,000.00	120,000.00	34,000.00
2015	158,000.00	130,000.00	28,000.00
2016-2019	<u>474,250.00</u>	<u>430,000.00</u>	<u>44,250.00</u>
<b>Total State School Bonds</b>	<u>1,250,850.00</u>	<u>1,010,000.00</u>	<u>240,850.00</u>
<b>District Revenue Bonds:</b>			
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	122,318.76	70,000.00	52,318.76
2016-2020	608,606.26	405,000.00	203,606.26
2021-2025	<u>610,312.50</u>	<u>525,000.00</u>	<u>85,312.50</u>
<b>Total District Revenue Bonds</b>	<u>1,827,800.04</u>	<u>1,245,000.00</u>	<u>582,800.04</u>
<b>Total</b>	<u>\$ 3,078,650.04</u>	<u>\$ 2,255,000.00</u>	<u>\$ 823,650.04</u>

**8. CHANGES IN LONG-TERM LIABILITIES**

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

Description	Beginning Balance	Additions	Deductions	Ending Balance	Due In One Year
<b>GOVERNMENTAL ACTIVITIES</b>					
Estimated Liability for Long-Term Claims	\$ 100,000.00	\$	\$ 10,000.00	\$ 90,000.00	\$ 10,000.00
Qualified Zone Academy Bonds Payable	4,894,169.00			4,894,169.00	
Bonds Payable	2,454,884.33	120,998.81	278,404.07	2,297,479.07	160,000.00
Compensated Absences Payable	2,298,021.75	279,951.24	372,512.45	2,205,460.54	383,554.54
Other Postemployment Benefits Payable	<u>643,591.00</u>	<u>777,326.00</u>	<u>283,013.00</u>	<u>1,137,904.00</u>	
<b>Total Governmental Activities</b>	<u>\$ 10,390,666.08</u>	<u>\$ 1,178,276.05</u>	<u>\$ 943,929.52</u>	<u>\$ 10,625,012.61</u>	<u>\$ 553,554.54</u>

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

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2010**

**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	\$ 1,007,518.36	\$
Debt Service:		
Other Debt Service	211,031.90	
Capital Projects:		206,805.91
Public Education Capital Outlay		
Local Capital Improvement		1,011,744.35
<b>Total</b>	<b>\$ 1,218,550.26</b>	<b>\$ 1,218,550.26</b>

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 2010-11 fiscal year budget as a result of purchase orders outstanding at June 30, 2010.

Because revenues of grants accounted for in the Special Revenue – Other Fund and the Special Revenue – ARRA Economic Stimulus 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 grant funds. However, purchase orders outstanding for grants accounted for in the Special Revenue – Other Fund and Special Revenue - ARRA Economic Stimulus Fund total \$57,030.43 and \$242,026.24, respectively, at June 30, 2010.

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2010**

**11. SCHEDULE OF STATE REVENUE SOURCES**

The following is a schedule of the District’s State revenue for the 2009-10 fiscal year:

<u>Source</u>	<u>Amount</u>
Florida Education Finance Program	\$ 17,990,768.11
Categorical Educational Program - Class Size Reduction	5,019,688.00
Workforce Development Program	810,533.00
Adults with Disabilities	246,320.58
Motor Vehicle License Tax (Capital Outlay and Debt Service)	185,072.00
Racing Commission Funds	132,166.66
Gross Receipts Tax (Public Education Capital Outlay)	117,575.00
Mobile Home License Tax	48,921.95
Food Service Supplement	40,588.00
Miscellaneous	21,205.04
Discretionary Lottery Funds	<u>13,674.00</u>
 Total	 <u><u>\$ 24,626,512.34</u></u>

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

**12. PROPERTY TAXES**

The following is a summary of millages and taxes levied on the 2009 tax roll for the 2009-10 fiscal year:

<u>GENERAL FUND</u>	<u>Millages</u>	<u>Taxes Levied</u>
Nonvoted School Tax:		
Required Local Effort	5.269	\$ 9,392,492.40
Basic Discretionary Local Effort	0.748	1,333,380.97
Critical Operating Need	0.250	445,648.72
 <u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	<u>1.500</u>	<u>2,673,892.31</u>
 Total	 <u><u>7.767</u></u>	 <u><u>\$ 13,845,414.40</u></u>

**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.

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2010**

FRS is a single retirement system administered by the Florida 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, 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.

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.

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2010**

**FRS Retirement Contribution Rates**

The Florida Legislature establishes, and may amend, contribution rates for each membership class of FRS. During the 2009-10 fiscal year, contribution rates were as follows:

Class	<u>Percent of Gross Salary</u>	
	<u>Employee</u>	<u>Employer (A)</u>
Florida Retirement System, Regular	0.00	9.85
Florida Retirement System, Elected County Officers	0.00	16.53
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 to the Plan for the fiscal years ended June 30, 2008, June 30, 2009, and June 30, 2010, totaled \$2,652,096.47, \$2,279,007.30, and \$2,144,708.80, respectively, which were equal to the required contributions for each fiscal year. There were 73 PEORP participants during the 2009-10 fiscal year. Required contributions made to PEORP totaled \$212,391.59.

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.

**14. OTHER POSTEMPLOYMENT BENEFITS**

**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, are eligible to participate in the District’s medical, prescription drug, and life insurance coverage. The District subsidizes the premium rates paid by 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

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2010**

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 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.** Plan 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 the 2009-10 fiscal year, 139 retirees received other postemployment benefits. The District provided required contributions of \$283,013 toward the annual OPEB cost, net of retiree contributions totaling \$196,373, which represents 0.9 percent of covered payroll.

**Annual OPEB Cost and Net OPEB Obligations.** 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 Government Accounting Standards Board 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:

<u>Description</u>	<u>Amount</u>
Normal Cost (service cost for one year)	\$ 374,408
Amortization of Unfunded Actuarial Accrued Liability	<u>409,354</u>
Annual Required Contribution	783,762
Interest on Net OPEB Obligation	25,744
Adjustment to Annual Required Contribution	<u>(32,180)</u>
Annual OPEB Cost (Expense)	777,326
Contribution Toward the OPEB Cost	<u>(283,013)</u>
Increase in Net OPEB Obligation	494,313
Net OPEB Obligation, Beginning of Year	<u>643,591</u>
Net OPEB Obligation, End of Year	<u><u>\$ 1,137,904</u></u>

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2010**

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, 2010 and the preceding year, were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Beginning Balance, July 1, 2008	\$ 0	0%	\$ 0
2008-09	954,505	32.6%	643,591
2009-10	777,326	36.4%	1,137,904

**Funded Status and Funding Progress.** As of January 1, 2010, the most recent valuation date, the actuarial accrued liability for benefits was \$8,028,085, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$8,028,085 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$21,795,474, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 36.8 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 the plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**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 OPEB actuarial valuation as of January 1, 2010, used the entry age normal cost actuarial method to establish the unfunded actuarial liability as of June 30, 2010, and the 2009-10 fiscal year annual contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 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 9 percent initially for the calendar year 2010, reduced by 0.5 percent per year, to an ultimate rate of 5 percent after 8 years. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll over a 20-year period on a closed basis. The remaining amortization period at June 30, 2010, is 19 years.

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2010**

**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
DeSoto High School Classroom Conversion:			
Contractor	\$ 1,992,132.71	\$ 1,466,054.46	\$ 526,078.25
Architect	19,765.00	16,845.00	2,920.00
Total	<u>\$ 2,011,897.71</u>	<u>\$ 1,482,899.46</u>	<u>\$ 528,998.25</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.

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. 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.

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2010**

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
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
2008-09	\$ 44,609.14	\$ 249,742.74	\$ (263,341.48)	\$ 31,010.40
2009-10	31,010.40	266,098.46	(256,379.02)	40,729.84

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.

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**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, 2010**

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
<b>Revenues</b>				
Intergovernmental:				
Federal Direct	\$ 40,000.00	\$ 51,678.61	\$ 51,678.61	\$
Federal Through State and Local	253,584.75	197,744.31	197,744.31	
State	23,648,552.26	24,151,292.84	24,151,292.84	
Local:				
Property Taxes	10,257,664.00	11,003,781.32	11,003,781.32	
Miscellaneous	744,997.71	1,303,601.45	1,303,601.45	
<b>Total Revenues</b>	<b>34,944,798.72</b>	<b>36,708,098.53</b>	<b>36,708,098.53</b>	
<b>Expenditures</b>				
Current - Education:				
Instruction	21,901,821.39	21,795,094.73	19,746,126.35	2,048,968.38
Pupil Personnel Services	1,307,280.98	1,285,612.09	1,267,212.83	18,399.26
Instructional Media Services	533,442.54	564,042.03	534,322.62	29,719.41
Instruction and Curriculum Development Services	1,091,268.25	1,103,229.58	935,364.78	167,864.80
Instructional Staff Training Services	440,041.90	456,201.84	242,707.47	213,494.37
Instruction Related Technology	322,695.00	321,029.87	304,795.04	16,234.83
School Board	366,410.00	330,393.66	245,283.40	85,110.26
General Administration	697,801.65	497,764.72	315,018.61	182,746.11
School Administration	2,218,332.16	2,295,959.86	2,223,426.64	72,533.22
Facilities Acquisition and Construction	74,526.00	83,677.74	79,461.92	4,215.82
Fiscal Services	646,864.42	942,165.04	588,101.07	354,063.97
Food Services		14,350.02	14,350.02	
Central Services	423,443.79	453,562.56	407,203.30	46,359.26
Pupil Transportation Services	1,707,350.53	1,782,298.31	1,537,001.16	245,297.15
Operation of Plant	3,599,373.71	3,599,694.22	3,138,821.75	460,872.47
Maintenance of Plant	1,706,327.73	1,806,054.87	1,441,281.77	364,773.10
Administrative Technology Services	558,237.25	761,293.92	626,716.19	134,577.73
Community Services	1,997.21	1,997.21	1,994.91	2.30
Fixed Capital Outlay:				
Facilities Acquisition and Construction		30,635.06	30,635.06	
Other Capital Outlay		28,019.75	28,019.75	
Debt Service:				
Principal	10,000.00	10,000.00	10,000.00	
<b>Total Expenditures</b>	<b>37,607,214.51</b>	<b>38,163,077.08</b>	<b>33,717,844.64</b>	<b>4,445,232.44</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(2,662,415.79)</b>	<b>(1,454,978.55)</b>	<b>2,990,253.89</b>	<b>4,445,232.44</b>
<b>Other Financing Sources</b>				
Transfers In	844,640.00	1,007,518.36	1,007,518.36	
<b>Net Change in Fund Balances</b>	<b>(1,817,775.79)</b>	<b>(447,460.19)</b>	<b>3,997,772.25</b>	<b>4,445,232.44</b>
Increase in Inventory Reserve			2,169.60	2,169.60
Fund Balances, Beginning	3,935,294.63	3,920,419.97	3,920,419.97	
<b>Fund Balances, Ending</b>	<b>\$ 2,117,518.84</b>	<b>\$ 3,472,959.78</b>	<b>\$ 7,920,361.82</b>	<b>\$ 4,447,402.04</b>

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)
\$ 4,283,843.70	\$ 6,625,136.12	\$ 5,273,031.94	\$ (1,352,104.18)	\$ 3,091,809.31	\$ 4,705,539.47	\$ 2,855,830.92	\$ (1,849,708.55)
<u>4,283,843.70</u>	<u>6,625,136.12</u>	<u>5,273,031.94</u>	<u>(1,352,104.18)</u>	<u>3,091,809.31</u>	<u>4,705,539.47</u>	<u>2,855,830.92</u>	<u>(1,849,708.55)</u>
2,889,478.13	4,550,493.18	3,819,939.25	730,553.93	2,282,874.87	3,059,000.10	1,809,676.96	1,249,323.14
434,949.31	599,634.97	482,817.18	116,817.79	216,201.00	405,378.96	313,731.58	91,647.38
225.87	29,999.16	29,062.58	936.58				
541,365.77	603,560.26	465,773.51	137,786.75	131,947.00	265,623.00	132,502.76	133,120.24
184,446.87	300,149.61	99,902.44	200,247.17	192,913.00	409,267.30	131,122.67	278,144.63
	3,749.50	3,062.00	687.50		2,691.00		2,691.00
45,298.37	216,906.72	187,864.15	29,042.57	153,489.44	220,584.79	130,302.63	90,282.16
15,584.04	25,501.04	15,816.08	9,684.96		43,466.29	43,466.29	
	12,500.00		12,500.00		4,480.80	4,480.80	
				83,100.00			
73,231.02	115,208.21	70,662.94	44,545.27		13,599.78	9,099.78	4,500.00
57,307.05	97,725.80	45,674.14	52,051.66	31,284.00			
172.20	17,766.06	516.06	17,250.00				
21,127.79	3,127.79	3,127.79					
20,657.28	20,657.28	20,657.28					
	28,156.54	28,156.54			281,447.45	281,447.45	
<u>4,283,843.70</u>	<u>6,625,136.12</u>	<u>5,273,031.94</u>	<u>1,352,104.18</u>	<u>3,091,809.31</u>	<u>4,705,539.47</u>	<u>2,855,830.92</u>	<u>1,849,708.55</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**

Actuarial Valuation Date	Actuarial Value of Assets  (A)	Actuarial Accrued Liability (AAL) - Entry Age (B)	Unfunded AAL (UAAL)  (B-A)	Funded Ratio  (A/B)	Covered Payroll  (C)	UAAL as a Percentage of Covered Payroll  [(B-A)/C]
October 1, 2006	\$ 0	\$ 11,754,336	\$ 11,754,336	0.0%	\$ 22,247,869	52.8%
January 1, 2010	0	8,028,085	8,028,085	0.0%	21,795,474	36.8%

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2010**

**1. BUDGETARY BASIS OF ACCOUNTING**

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

**2. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS**

The January 1, 2010, unfunded actuarial liability of \$8,028,085 was significantly lower than the October 1, 2006, liability of \$11,754,336 as a result of benefit changes and other changes in liabilities and costs as discussed below:

- Effective January 1, 2008, the District began offering a Medicare Advantage (MA-PD) Plan. The vast majority of retirees age 65 and older are now enrolled in this plan.
- The number of retirees with medical coverage included in the current valuation decreased by 50 percent following migration of retirees age 65 and older to the MA-PD plan. In addition, this valuation assumed that 80 percent of eligible retirees will let their coverage lapse under the core District plan and that many of those lapsing will switch to the MA-PD plan.
- The amortization period is now calculated as a level percent of payroll over a 20 year period. The previous valuation's amortization period was 30 years.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Fiscal Year Ended June 30, 2010**

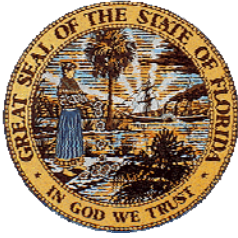
Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)
<b>United States Department of Agriculture:</b>			
Indirect:			
Child Nutrition Cluster:			
Florida Department of Education:			
School Breakfast Program	10.553	321	\$ 317,470.75
National School Lunch Program	10.555	300, 350	1,491,433.49
Summer Food Service Program for Children	10.559	323	11,640.85
Florida Department of Agriculture and Consumer Services:			
National School Lunch Program	10.555 (2)	None	<u>128,102.85</u>
<b>Total Child Nutrition Cluster</b>			<u>1,948,647.94</u>
Florida Department of Education:			
ARRA - Child Nutrition Discretionary Grants Limited Availability	10.579	371	<u>80,647.45</u>
<b>Total United States Department of Agriculture</b>			<u>2,029,295.39</u>
<b>United States Department of Education:</b>			
Indirect:			
Special Education Cluster:			
Florida Department of Education:			
Special Education - Grants to States	84.027	263	1,124,128.20
Special Education - Preschool Grants	84.173	267	37,997.54
ARRA - Special Education - Grants to States, Recovery Act	84.391	263	511,033.26
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	267	19,374.55
Highlands County District School Board:			
Special Education - Grants to States	84.027	None	75,393.46
Special Education - Preschool Grants	84.173	None	16,964.04
Putnam County District School Board:			
Special Education - Grants to States	84.027	None	<u>89,167.52</u>
<b>Total Special Education Cluster</b>			1,874,058.57
Title I, Part A Cluster:			
Florida Department of Education:			
Title I Grants to Local Educational Agencies	84.010	212, 222, 223, 226, 228	2,549,815.53
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	212, 223, 226	<u>470,480.70</u>
<b>Total Title I, Part A Cluster</b>			3,020,296.23
Education for Homeless Children and Youth Cluster:			
Florida Department of Education:			
Education for Homeless Children and Youth	84.196	127	46,242.66
ARRA - Education for Homeless Children and Youth, Recovery Act	84.387	127	<u>35,172.76</u>
<b>Total Education for Homeless Children and Youth Cluster</b>			81,415.42
State Fiscal Stabilization Fund Cluster:			
Florida Department of Education:			
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	591	1,603,028.00
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	592	<u>136,094.20</u>
<b>Total State Stabilization Fund Cluster</b>			1,739,122.20

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)  
For the Fiscal Year Ended June 30, 2010**

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)
<b>United States Department of Education (Continued):</b>			
Florida Department of Education:			
Adult Education - Basic Grants to States	84.002	191, 193	142,947.55
Migrant Education - State Grant Program	84.011	217	399,104.47
Career and Technical Education - Basic Grants to States	84.048	161	107,593.92
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	25,967.37
Twenty-First Century Community Learning Centers	84.287	244	283,877.73
Education Technology State Grants	84.318	121	15,165.08
Rural Education	84.358	110	152,244.05
English Language Acquisition Grants	84.365	102	84,759.68
Improving Teacher Quality State Grants	84.367	224	282,060.37
Highlands County District School Board:			
Safe and Drug-Free Schools and Communities - National Programs	84.184	None	1,245.00
Washington County District School Board:			
Reading First State Grants	84.357	None	2,850.00
<b>Total United States Department of Education</b>			<u>8,212,707.64</u>
<b>United States Department of Homeland Security:</b>			
Indirect:			
Florida Department of Community Affairs:			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	None	9,331.02
Florida Department of Education:			
Homeland Security Grant Program	97.067	532	21,127.79
<b>Total United States Department of Homeland Security</b>			<u>30,458.81</u>
<b>United States Department of Defense:</b>			
Direct:			
Army Junior Reserve Officers Training Corps	None	N/A	51,678.61
<b>Total Expenditures of Federal Awards</b>			<u>\$ 10,324,140.45</u>

Notes: (1) Basis of Presentation. The Schedule of Expenditures of Federal Awards represents amounts expended from Federal programs during the 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. Donated foods are valued at fair value as determined at the time of donation.



DAVID W. MARTIN, CPA  
AUDITOR GENERAL

# AUDITOR GENERAL STATE OF FLORIDA

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



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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, 2010, 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. For the school internal funds and the discretely presented component unit, 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 *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis.

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

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 22, 2011



DAVID W. MARTIN, CPA  
AUDITOR GENERAL

# AUDITOR GENERAL STATE OF FLORIDA

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

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR 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 (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major Federal programs for the fiscal year ended June 30, 2010. 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 its 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 OMB *Circular A-133*. 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 compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the fiscal year ended June 30, 2010.

### 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 to determine auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB *Circular A-133*, 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 deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis.

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

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

Respectfully submitted,



David W. Martin, CPA  
February 22, 2011

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**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 a material weakness(es)?	None reported
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 a 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 <i>Circular A-133</i> ?	No
Identification of major programs:	Title I, Part A Cluster (CFDA Nos. 84.010 and 84.389 - ARRA); Migrant Education – State Grant Program (CFDA No. 84.011); Special Education Cluster (CFDA Nos. 84.027, 84.173, 84.391 - ARRA, and 84.392 - ARRA); and State Fiscal Stabilization Fund Cluster (CFDA Nos. 84.394 - ARRA and 84.397 - ARRA)
Dollar threshold used to distinguish between Type A and Type B programs:	\$309,724
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, 2010**

**ADDITIONAL MATTERS**

**Finding No. 1: Performance Assessments**

Section 1012.34(3), Florida Statutes, requires the District to establish annual performance assessment procedures for instructional personnel and school administrators. When evaluating the performance of employees, the procedures must primarily include consideration of student performance, using results from student achievement tests, such as the Florida Comprehensive Assessment Test (FCAT), pursuant to Section 1008.22(3), Florida Statutes, at the school where the employee works. Additional employee performance assessment criteria prescribed by Section 1012.34(3)(a), Florida Statutes, include evaluation measures such as the employee's ability to maintain appropriate discipline, knowledge of subject matter, ability to plan and deliver instruction, use of technology in the classroom, and other professional competencies established by rules of the State Board of Education and Board policies. Section 1012.34(3)(d), Florida Statutes, requires that, if an employee is not performing satisfactorily, the performance evaluator must notify the employee in writing and describe the unsatisfactory performance.

The District established performance assessment procedures for instructional personnel based on criteria prescribed by Section 1012.34(3)(a), Florida Statutes. Instructional personnel typically maintained records, in consultation with their school principal or administrator, to establish specific goals addressing the improvement of student performance based on FCAT scores and other standardized tests, and they met periodically with their school administrator throughout the school year to assess the progress in meeting the projected goals. During the performance assessment process, evaluations of instructional personnel were based primarily on student performance. School administrator performance assessments included consideration of various competencies such as quality, communication, innovation, and initiative; however, District records did not sufficiently evidence that these competencies were based primarily on student performance. For example, the school administrator evaluation form did not provide a numeric or percentage indicator to show that student achievement was the primary contributing factor used to evaluate employee performance. In addition, District records did not demonstrate that the District considered each of the additional required assessment criteria for school administrators, such as the administrator's ability to maintain appropriate discipline. Without measuring school administrator performance by the required criteria, performance assessments of school administrators are incomplete and may not effectively communicate the employee's accomplishments or shortcomings.

The District is a participating member of Heartland Educational Consortium. In December 2010, the Consortium contracted with a consulting firm to design instructional and school administrator performance assessments for participating members of the Consortium to meet the statutory requirements.

**Recommendation: The District should establish procedures to ensure that performance assessments of school administrators are based primarily on student performance, and maintain records evidencing this.**

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**Finding No. 2: Compensation and Salary Schedules**


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Section 1001.42(5)(a), Florida Statutes, requires the Board to designate positions to be filled, prescribe qualifications for those positions, and provide for the appointment, compensation, promotion, suspension, and dismissal of employees, subject to the requirements of Chapter 1012, Florida Statutes. Section 1012.22(1)(c)2., Florida Statutes, provides that, for instructional personnel, the Board must base a portion of each employee's compensation on performance. In addition, Section 1012.22(1)(c)4., Florida Statutes, requires the Board to adopt a salary schedule with differentiated pay for instructional personnel and school-based administrators. The salary schedule is subject to negotiation as provided in Chapter 447, Florida Statutes, and must allow differentiated pay based on District-determined factors, including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties.

While compensation of instructional personnel is typically subject to collective bargaining, the Board had not adopted formal policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance pursuant to Section 1012.22(1)(c)2., Florida Statutes. Such policies and procedures could establish and clearly communicate the performance measures affecting instructional employee compensation. In addition, the Board had not adopted formal policies and procedures establishing the documented process to identify the instructional personnel and school-based administrators entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4., Florida Statutes. Such policies and procedures could specify the prescribed factors to be used as the basis for determining differentiated pay, the documented process for applying the prescribed factors, and the individuals responsible for making such determinations.

The 2009-10 fiscal year salary schedules and applicable union contracts for instructional personnel and school-based administrators provided pay levels based on various factors such as job classification, years of experience, level of education, and other factors. However, the District's procedures for documenting compliance with Section 1012.22(1)(c), Florida Statutes, could be improved, as follows:

- **Instructional Personnel.** The instructional personnel salary schedule and union contracts did not evidence that a portion of the compensation of each instructional employee was based on performance, contrary to Section 1012.22(1)(c)2., Florida Statutes.
- **School-based Administrators.** District personnel indicated that the school-based administrators' salary schedule included consideration for additional responsibilities, school demographics, and level of job performance difficulties by providing differing administrative pay grades for elementary, middle, and high schools based on the type school. However, the salary schedule did not evidence consideration of differentiated pay based on critical shortage areas for school-based administrators, contrary to Section 1012.22(1)(c)4., Florida Statutes.

Without Board-adopted policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance, and sufficiently identifying the basis for differentiated pay, the District may be limited in its ability to demonstrate that each instructional employee's performance correlated to their compensation and that the various differentiated pay factors were consistently considered and applied.

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**Recommendation:** The Board should adopt formal policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance, and differentiated pay of school-based administrators is appropriately identified on salary schedules, consistent with Section 1012.22(1)(c), Florida Statutes.

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**Finding No. 3: Information Technology – Management of Access Privileges**

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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 areas of responsibility.

We reviewed selected access privileges for the finance and human resource applications and the supporting operating system to determine the appropriateness of access privileges. As similarly noted in our report No. 2010-120, our audit disclosed various employees whose access privileges allowed them inappropriate or unnecessary access. Specifically, 45 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 inappropriate or unnecessary for their assigned job duties and should only be granted to selected IT employees.

The District had compensating controls in place (e.g., separation of the duties on 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.

The District purchased a new finance and payroll application system, which was implemented in January 2011. District personnel indicated that these incompatible access privileges will be addressed when configuring the new system.

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**Recommendation:** The District should review the appropriateness of access privileges and timely remove or adjust any inappropriate or unnecessary access detected to ensure that access privileges are compatible with employee job duties.

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**Finding No. 4: Information Technology – User Authentication, Logging, and Monitoring**

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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. A similar finding was noted in our report No. 2010-120.

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**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.

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**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

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

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**PRIOR AUDIT FOLLOW-UP**

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Except as discussed in the preceding paragraphs, the District had taken corrective actions for findings included in our report No. 2010-120.

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**MANAGEMENT'S RESPONSE**

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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  
For the Fiscal year Ended June 30, 2010*

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
2010-120 (1)	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) - Reporting and Special Tests and Provisions	Contrary to registration requirements for Federal Awards, the District did not timely renew its registration in the Central Contractor Registration database.	Corrected.	Registration for the Central Contractor Registration database was renewed in September 2009 and again in August 2010.

**EXHIBIT A**  
**MANAGEMENT'S RESPONSE**



**The School District of DeSoto**  
Adrian H. Cline  
Superintendent

February 22, 2011

Auditor General David W. Martin  
State of Florida  
G74 Claude Pepper Building  
111 West Madison Street  
Tallahassee, Florida 32399.1450

Dear Auditor General Martin:

The following are the School District of DeSoto responses to the preliminary and tentative audit findings and recommendations for the fiscal year ended June 30, 2010, received in this office on February 3, 2011:

**Finding 1: Performance Assessments**

As the school district works through the process of developing new teacher and principal performance assessments that meet the requirements of *Race to the Top*, the process used to evaluate school administrators will include numeric or percentage indicators to show that student performance on standardized and other assessments is the primary factor in evaluating the performance of principals. Currently, the 10 Florida Principal Leadership Standards comprise the basis for evaluating the performance of school administrators; however, student scores on FCAT and other assessments are routinely used to determine a principal's continued employment at that school or anywhere else in the district. Student performance data will continue to be integrated into these standards and used to evaluate a principal's performance on the job.

**EXHIBIT A**  
**MANAGEMENT'S RESPONSE (CONTINUED)**

**Finding 2: Compensation and Salary Schedules**

The DeSoto County School Board will develop and formally adopt policies to ensure that the appropriate portion of each instructional employee's compensation is based on student performance pursuant to Florida Statutes, Section 1012.22(1)(c)2.

An educational consultant, working with Heartland Educational Consortium member districts, is developing a teacher appraisal system that uses student performance data to determine in part the compensation of each instructional employee. The collective bargaining unit in the School District of DeSoto has been collaborating with administration and the consultant to ensure that the union has the appropriate input into the development of the salary schedule and accompanying contract language.

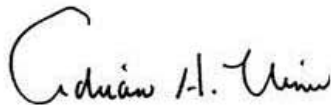
The DeSoto County School Board will develop and formally adopt policies to ensure that a system of differentiated pay is established for school administrators and that the appropriate portion of each school administrator's compensation is based on student performance pursuant to Florida Statutes, Section 1012.22(1)(c)4.

While principals' pay has always reflected the level of job performance difficulties, school demographics, and additional responsibilities, there has never been a need to identify "critical shortage areas for school based administrators" in a small rural district with only 5 schools. Because of its geographic location in the state and the socioeconomic level of its resident families, the School District of DeSoto at large has been considered an area with critical shortage needs. It has always been difficult to offer competitive salaries in order to attract experienced instructional and administrative employees to this area.

**Finding 3: Information and Technology (IT) Access Controls**

The DeSoto County School Board has converted to a new software program that addresses this finding.

Sincerely,



Superintendent

AHC:mrh

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