

SUMTER COUNTY DISTRICT SCHOOL BOARD

Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended
June 30, 2012



STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD MEMBERS AND SUPERINTENDENT

Board members and the Superintendent who served during the 2011-12 fiscal year are listed below:

	<u>District No.</u>
Haydn L. Evans	1
Christine S. Norris, Vice Chair from 11-22-11	2
Linda J. Winchester, Chair to 11-21-11	3
Kenneth P. Jones, Vice Chair to 11-21-11, Chair from 11-22-11	4
Kathie L. Joiner	5

Richard A. Shirley, 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 Debra Park, CPA, and the audit was supervised by Janice Priolo, CPA. For the information technology portion of this audit, the audit team leader was Shawn McCormick, CISA, and the supervisor was Heidi G. Burns, CPA, CISA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Manager, by e-mail at gregcenters@aud.state.fl.us or by telephone at (850) 487-9039.

This report and other reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 487-9175; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

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: Some inappropriate or unnecessary information technology (IT) access privileges existed, indicating a need for an improved review of employee IT access privileges.

Finding No. 2: The District did not timely deactivate the IT access privileges of some former employees.

Finding No. 3: District IT security controls related to user authentication needed improvement.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Child Nutrition Cluster and Race-to-the-Top programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that could have a direct and material effect on each of its major Federal programs.

Audit Objectives and Scope

Our audit objectives were to determine whether the Sumter 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. 2012-091.

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, 2012. 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

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



PHONE: 850-488-5534
FAX: 850-488-6975

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 Sumter County District School Board, as of and for the fiscal year ended June 30, 2012, 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 7 percent of the assets and 26 percent of the liabilities of the aggregate remaining fund information. Additionally, we did not audit the financial statements of The Villages Charter School, 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. The financial statements of the school internal funds were not audited in accordance with *Government Auditing Standards*. 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 Sumter County District School Board as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows 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 Sumter 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, BUDGETARY COMPARISON SCHEDULE - GENERAL AND MAJOR SPECIAL REVENUE FUNDS, SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS PLAN, and NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**, as listed in the table of contents, 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 (OMB) 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 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,



David W. Martin, CPA
January 28, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Sumter County District School Board has prepared the following discussion and analysis to (a) assist the reader in focusing on significant financial issues, (b) provide an overview and analysis of the District's financial activities, (c) identify changes in the District's financial position, (d) identify material deviations from the approved budget, and (e) highlight significant issues in individual funds, for the fiscal year ended June 30, 2012. 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 immediately following the MD&A.

FINANCIAL HIGHLIGHTS

- Overall, the District's financial position declined from the prior fiscal year. The District's total net assets decreased by \$1,692,621 (or 4 percent). This may be compared to an increase of \$2,158,721 (or 5 percent) for the prior fiscal year.
- During the current fiscal year, General Fund expenditures and other financing uses exceeded revenues and other financing sources by \$1,104,427. This may be compared to the prior fiscal year's results in which General Fund revenues and other financing sources exceeded expenditures and other financing uses by \$1,447,832.

OVERVIEW OF FINANCIAL STATEMENTS

The basic financial statements consist of three components:

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

In addition, this report presents certain required supplementary information, which includes the MD&A, budgetary comparison schedules, a schedule of funding progress for the other postemployment benefits plan, and notes to required supplementary information.

Government-wide Financial Statements

The government-wide financial statements provide both short-term and long-term information about the District's overall financial condition in a manner similar to those of a private-sector business. The statements include a statement of net assets and a statement of activities that are designed to provide consolidated financial information about the governmental activities of the District presented on the accrual basis of accounting. The statement of net assets provides information about the District's financial position, its assets and liabilities, using an economic resources measurement focus. The difference between the assets and liabilities, the net assets, is a measure of the District's financial health. 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 units – The District presents one separate legal entity in this report, The Villages Charter School, Inc. (Corporation), which operates The Villages Charter Elementary School, The Villages Charter Middle School, and The Villages Charter High School. Although a legally separate organization, the Corporation is included in this report because it meets the criteria for inclusion provided by generally accepted accounting principles. Financial information for the Corporation is reported separately from the financial information presented for the primary government.

The Sumter County School Board Leasing Corporation (Leasing Corporation), although also a legally separate entity, was formed to facilitate financing for the acquisition of facilities and equipment for the District. Due to the substantive economic relationship between the District and the Leasing Corporation, the Leasing Corporation has been included (blended) as an integral part of the primary government.

Over a period of time, changes in the District's net assets are an indication of improving or deteriorating financial condition. This information should be evaluated in conjunction with other nonfinancial factors, such as changes in the District's property tax base, student enrollment, and the condition of the District's capital assets, including its school buildings and administrative facilities.

Fund Financial Statements

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

Proprietary Funds: Proprietary funds may be established to account for activities in which a fee is charged for services. The District maintains one type of proprietary fund, which is an internal service fund. Internal service funds are used to report activities that provide goods and services to support the District's other programs and functions through user charges. The District uses the internal service funds to account for its self-insured workers' compensation program and its health insurance programs. Since these services predominantly benefit governmental rather than business-type functions, the internal service funds have been included within governmental activities in the government-wide financial statements.

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

This section is used to present condensed financial information from the government-wide statements that compare the current fiscal year to the prior fiscal year.

Total assets of the District amount to \$88,435,297 and \$89,258,429 as of June 30, 2012, and 2011, respectively. The current ratio is 11.15:1 with current assets of \$14,247,834 and current liabilities of \$1,277,721. The other assets not considered to be current assets for the purpose of computing the current ratio include capital credits receivable, deferred charges, and cash and cash equivalents and investments restricted for capital improvements of \$3,998,663 and for debt service of \$393,121. The prior fiscal year current ratio was 12.90:1 with current assets of \$13,972,308 and current liabilities of \$1,083,038.

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, 2012, compared to net assets as of June 30, 2011:

Net Assets, End of Year		
	Governmental Activities	
	6-30-12	6-30-11
Current Assets	\$ 14,247,834	\$ 13,972,308
Other Assets	4,996,600	8,076,967
Capital Assets (Net)	69,190,863	67,209,154
Total Assets	88,435,297	89,258,429
Long-Term Liabilities	41,999,212	41,324,406
Other Liabilities	1,277,721	1,083,038
Total Liabilities	43,276,933	42,407,444
Net Assets:		
Invested in Capital Assets -		
Net of Related Debt	34,625,863	32,734,154
Restricted	8,397,465	10,110,137
Unrestricted	2,135,036	4,006,694
Total Net Assets	\$ 45,158,364	\$ 46,850,985

The largest portion of the District's net assets (77 percent) reflects its investment in capital assets (e.g., land; buildings; 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 capital assets increased by \$1,981,709 from the prior fiscal year.

The restricted portion of the District's net assets (19 percent) represents resources that are subject to external restrictions on how they may be used. The unrestricted net assets (4 percent) may be used to meet the District'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, 2012, and June 30, 2011, are as follows:

Operating Results for the Fiscal Year Ended			
		Governmental Activities	
		6-30-12	6-30-11
Program Revenues:			
Charges for Services	\$	556,670	\$ 610,276
Operating Grants and Contributions		2,623,124	2,593,685
Capital Grants and Contributions		1,168,344	1,580,205
General Revenues:			
Property Taxes, Levied for Operational Purposes		35,229,919	39,775,967
Property Taxes, Levied for Capital Projects		10,576,559	9,887,259
Grants and Contributions Not Restricted to Specific Programs		18,716,887	22,613,000
Unrestricted Investment Earnings		112,367	200,261
Miscellaneous		825,799	825,184
Total Revenues		69,809,669	78,085,837
Functions/Program Expenses:			
Instruction		42,973,249	45,232,757
Pupil Personnel Services		2,306,039	2,764,493
Instructional Media Services		672,686	807,278
Instruction and Curriculum Development Services		1,883,017	2,250,261
Instructional Staff Training Services		1,179,684	1,327,212
Instruction Related Technology		669,609	790,477
School Board		472,969	460,465
General Administration		695,012	507,018
School Administration		2,715,672	2,815,645
Facilities Acquisition and Construction		556,516	1,697,490
Fiscal Services		505,824	604,717
Food Services		3,105,626	3,131,311
Central Services		771,354	882,915
Pupil Transportation Services		2,974,136	2,648,717
Operation of Plant		3,556,666	3,489,796
Maintenance of Plant		1,563,386	1,605,084
Administrative Technology Services		245,704	270,311
Community Services		806	
Unallocated Interest on Long-Term Debt		1,595,512	1,595,906
Unallocated Depreciation Expense		3,006,568	3,040,297
Loss on Disposal of Capital Assets		52,255	4,966
Total Functions/Program Expenses		71,502,290	75,927,116
Increase (Decrease) in Net Assets	\$	(1,692,621)	\$ 2,158,721

The largest revenue source is property tax revenue (66 percent). Property tax revenue levied for operational purposes decreased by \$4,546,048. The decrease in operating property tax revenues is due to the expiration of the critical needs millage levy of 0.250 and a decrease in the required local effort millage from 5.009 to 4.249. Notable during the current fiscal year is the decrease of \$3,896,113 in grants and contributions not restricted to specific programs, most of which was due to the conclusion of most Federal economic stimulus programs.

Instruction expenditures decreased by \$2,259,508. This decrease in instruction expenditures was primarily due to a significant decrease in payments made to the Corporation, which was a result of the decrease in property tax revenues. Other expenditures were consistent with the prior fiscal year due to budget constraints.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Major Governmental Funds

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

At fiscal year-end, the District's governmental funds reported combined ending fund balances of \$14,472,882, a decrease of \$2,701,874, in comparison with the prior fiscal year. The following schedule indicates the fund balances and the total changes in fund balances by major fund and other governmental (nonmajor) funds as reported in the basic financial statements for the fiscal years ended June 30, 2012, and June 30, 2011.

Fund Balance	2012	2011	Increase (Decrease)	Percentage Change
Major Governmental Funds				
General Fund	\$ 8,300,802	\$ 9,405,229	\$ (1,104,427)	-11.74%
Special Revenue - Other Federal Programs Fund		1,026.00		
Capital Projects - Local Capital Improvement	3,269,614	6,061,503	(2,791,889)	-46.06%
Other Governmental Funds (Nonmajor)	2,902,466	1,706,998	1,194,442	69.97%
Total	<u>\$ 14,472,882</u>	<u>\$ 17,174,756</u>	<u>\$ (2,701,874)</u>	<u>-15.73%</u>

Note: Does not include the Special Revenue - Federal Economic Stimulus Fund, which reports revenues to the extent of expenditures and does not maintain a fund balance.

The General Fund is the District's chief operating fund. At the end of the current fiscal year, unassigned fund balance was \$3,397,030, while the total fund balance was \$8,300,802.

During the current fiscal year, the total fund balance decreased by \$1,104,427. While expenditures and other financing uses increased by \$1,597,886 from the prior fiscal year, revenues and other financing sources decreased \$954,373.

The following schedule shows the changes in General Fund revenues and transfers in for fiscal years ended June 30, 2012, and June 30, 2011.

General Fund	2012	2011	Increase (Decrease)	Percentage Change
Revenues:				
Federal Revenues	\$ 59,888	\$ 58,983	\$ 905	1.53%
State Revenues	13,031,636	10,691,460	2,340,176	21.89%
Property Taxes	35,229,919	39,775,967	(4,546,048)	-11.43%
Other Local Revenue	855,245	923,214	(67,969)	-7.36%
Total	<u>49,176,688</u>	<u>51,449,624</u>	<u>(2,272,936)</u>	<u>-4.42%</u>
Other Financing Sources:				
Transfers	6,860,550	5,579,776	1,280,774	22.95%
Insurance Loss Recoveries	37,789		37,789	100.00%
Total	<u>6,898,339</u>	<u>5,579,776</u>	<u>1,318,563</u>	<u>23.63%</u>
Total Revenues and Other Financing Sources	<u>\$ 56,075,027</u>	<u>\$ 57,029,400</u>	<u>\$ (954,373)</u>	<u>-1.67%</u>

State revenues increased from the prior fiscal year. However, property taxes decreased, due to a reduction in required local effort, established by the State revenue funding formula and expiration of the 0.25 mills critical operating needs levy. Other local revenues decreased slightly.

The following schedule shows the changes in General Fund expenditures (by major object) for fiscal years ended June 30, 2012 and June 30, 2011.

General Fund	2012	2011	Increase (Decrease)	Percentage Change
Expenditures:				
Salaries	\$ 27,591,680	\$ 25,329,460	\$ 2,262,220	8.93%
Employee Benefits	6,418,817	7,561,993	(1,143,176)	-15.12%
Purchased Services	18,451,907	18,034,735	417,172	2.31%
Energy Services	1,672,836	1,693,888	(21,052)	-1.24%
Materials and Supplies	1,529,550	1,440,031	89,519	6.22%
Capital Outlay	1,053,351	1,002,027	51,324	5.12%
Other	461,313	465,853	(4,540)	-0.97%
Total	<u>57,179,454</u>	<u>55,527,987</u>	<u>1,651,467</u>	<u>2.97%</u>
Other Financing Uses:				
Transfers Out	<u>0</u>	<u>53,581</u>	<u>(53,581)</u>	
Total Expenditures and Other Financing Uses	<u>\$ 57,179,454</u>	<u>\$ 55,581,568</u>	<u>\$ 1,597,886</u>	<u>2.87%</u>

The increase in salaries was due to the termination of most Federal economic stimulus programs, which paid some General Fund expenditures in prior fiscal years. The decrease in employee benefits was due to the new 3 percent required employee contribution to the Florida Retirement System and lower contribution rates for all classes. Other expenditures were consistent with the prior fiscal year.

The Special Revenue – Federal Economic Stimulus Fund has total revenues and expenditures of \$483,819 each. The resources for these funds were mainly used for instructional and instructional support expenditures. Because grant revenues attributed to grants accounted for in this fund are not recognized until expenditures are incurred, this fund generally does not accumulate a fund balance.

The Capital Projects – Local Capital Improvement Fund has a total fund balance of \$3,269,614, which is restricted for the acquisition, construction, and maintenance of capital assets. The fund balance decreased by \$2,791,890 in the current fiscal year as a result of major new construction. It should be noted that \$727,505 is encumbered for specific projects.

Proprietary Funds

The internal service funds account for the District's workers' compensation self-insurance program and also the health insurance programs. Unrestricted net assets of the internal service funds total \$2,183,170 at June 30, 2012, decreasing \$329,809 from June 30, 2011.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the 2011-12 fiscal year, the District amended its General Fund budget several times. Final budgeted revenues are in line with original amounts.

Final appropriations and transfers out were also more than the original budgeted amounts by \$2,224,899. However, the District's actual expenditures are \$5,171,782 below the final budgeted expenditure amount. Each fiscal year the District budgets in full for all funds available for categorical and restricted purposes, even though the full amount is not spent, and significant unexpended portions are carried over to the succeeding fiscal year.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets for its governmental activities as of June 30, 2012, amounts to \$69,190,863 (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; and construction in progress.

- During the 2011-12 fiscal year, the District obtained additional land adjacent to Lake Panasoffkee Elementary School. There was no additional investment by the District, as land was exchanged with an adjacent property owner.
- The District completed South Sumter Middle School building renovations at a cost of \$265,827.
- The District completed South Sumter High School bleacher renovations at a cost of \$124,721.
- The District also completed Wildwood Middle High School bleacher renovations of \$122,897.
- Other construction projects in progress include the Webster Elementary School Administration Building and Wildwood Middle High School classroom renovations.

Major contract commitments at fiscal year-end for construction activity amounted to \$377,431. 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, 2012, the District has total long-term debt outstanding of \$34,565,000. This amount is comprised of \$4,300,000 of bonds and \$30,265,000 of certificates of participation. During the current fiscal year, retirement of debt amounted to \$3,520,000. The District issued new debt in the amount of \$3,610,000, of which \$2,280,000 was used to defease outstanding debt.

State School Bonds outstanding at June 30, 2012, accounted for \$690,000 of the total bonds 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. Proceeds were used for new school construction and the remainder of the District's long-term debt is paid solely by specified revenue sources.

Additional information on the District's long-term debt can be found in notes 5 through 8 to the financial statements.

REQUESTS FOR INFORMATION

This report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate compliance and accountability for its resources. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Sumter County School Board, 2680 WC 476, Bushnell, Florida 33513.

BASIC FINANCIAL STATEMENTS

SUMTER COUNTY DISTRICT SCHOOL BOARD STATEMENT OF NET ASSETS June 30, 2012

	Primary Government Governmental Activities	Component Unit
ASSETS		
Cash and Cash Equivalents	\$ 17,478,118.32	\$ 595,966.00
Investments	213,844.00	
Accounts Receivable	1,646.75	23,835.00
Due from Other Agencies	515,971.43	
Prepaid Items	6,929.00	22,557.00
Inventories	423,108.45	6,644.00
Deferred Charges	375,931.05	
Capital Credits Receivable	228,884.98	
Capital Assets:		
Nondepreciable Capital Assets	6,601,126.47	
Depreciable Capital Assets, Net	62,589,736.51	686,562.00
TOTAL ASSETS	\$ 88,435,296.96	\$ 1,335,564.00
LIABILITIES		
Salaries and Benefits Payable	\$ 384,474.52	\$
Payroll Deductions and Withholdings	272.89	
Accounts Payable	890,667.53	986,829.00
Sales Tax Payable	21.23	
Due to Other Agencies	2,285.00	
Deferred Revenue		111,959.00
Long-Term Liabilities:		
Portion Due Within One Year	1,732,993.00	
Portion Due After One Year	40,266,218.91	
Total Liabilities	43,276,933.08	1,098,788.00
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	34,625,862.98	686,562.00
Restricted for:		
State Required Carryover Programs	2,226,411.85	
Debt Service	393,120.88	
Capital Projects	5,184,963.71	
Food Service	592,968.76	
Unrestricted	2,135,035.70	(449,786.00)
Total Net Assets	45,158,363.88	236,776.00
TOTAL LIABILITIES AND NET ASSETS	\$ 88,435,296.96	\$ 1,335,564.00

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

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**SUMTER COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2012**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
Instruction	\$ 42,973,249.53	\$ 23,117.65	\$	\$
Pupil Personnel Services	2,306,038.64			
Instructional Media Services	672,686.45			
Instruction and Curriculum Development Services	1,883,016.54			
Instructional Staff Training Services	1,179,684.50			
Instruction Related Technology	669,608.56			
School Board	472,968.94			
General Administration	695,012.29			
School Administration	2,715,672.33			
Facilities Acquisition and Construction	556,515.70			995,368.07
Fiscal Services	505,824.30			
Food Services	3,105,626.23	517,746.01	2,623,123.69	
Central Services	771,353.86			
Pupil Transportation Services	2,974,135.90	15,806.11		
Operation of Plant	3,556,665.56			
Maintenance of Plant	1,563,386.00			
Administrative Technology Services	245,703.83			
Community Services	805.59			
Unallocated Interest on Long-Term Debt	1,595,511.89			172,975.76
Unallocated Depreciation/Amortization Expense	3,006,567.90			
Loss on Disposal of Capital Assets	52,255.30			
Total Primary Government	71,502,289.84	556,669.77	2,623,123.69	1,168,343.83
Component Unit				
The Villages Charter School, Inc.	\$ 20,422,957.00	\$ 3,753,295.00	\$ 511,947.00	\$ 898,847.00
General Revenues:				
Taxes:				
Property Taxes, Levied for Operational Purposes				
Property Taxes, Levied for Capital Projects				
Grants and Contributions Not Restricted to Specific Programs				
Unrestricted Investment Earnings				
Miscellaneous				
Total General Revenues				
Change in Net Assets				
Net Assets - Beginning				
Net Assets - Ending				

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

Net (Expense) Revenue and Changes in Net Assets		
	Primary Government	Component
	Governmental	Unit
	Activities	
\$	(42,950,131.88)	\$
	(2,306,038.64)	
	(672,686.45)	
	(1,883,016.54)	
	(1,179,684.50)	
	(669,608.56)	
	(472,968.94)	
	(695,012.29)	
	(2,715,672.33)	
	438,852.37	
	(505,824.30)	
	35,243.47	
	(771,353.86)	
	(2,958,329.79)	
	(3,556,665.56)	
	(1,563,386.00)	
	(245,703.83)	
	(805.59)	
	(1,422,536.13)	
	(3,006,567.90)	
	(52,255.30)	
	(67,154,152.55)	
		(15,258,868.00)
	35,229,918.79	
	10,576,559.42	
	18,716,887.38	15,216,567.00
	112,366.93	
	825,798.59	216,475.00
	65,461,531.11	15,433,042.00
	(1,692,621.44)	174,174.00
	46,850,985.32	62,602.00
\$	45,158,363.88	\$ 236,776.00

**SUMTER COUNTY
DISTRICT SCHOOL BOARD
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2012**

	General Fund	Special Revenue - Federal Economic Stimulus Fund	Capital Projects - Local Capital Improvement Fund
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and Cash Equivalents	\$ 9,619,625.98	\$	\$ 2,059,479.48
Investments			
Accounts Receivable	1,646.75		
Due from Other Funds	178,333.19		1,657,390.55
Due from Other Agencies	69,707.36	110,920.45	
Prepaid Items	6,929.00		
Inventories	378,094.11		
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 10,254,336.39</u>	<u>\$ 110,920.45</u>	<u>\$ 3,716,870.03</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Salaries and Benefits Payable	\$ 34,245.04	\$	\$
Payroll Deductions and Withholdings	272.89		
Accounts Payable	259,319.58	102,575.03	447,256.53
Sales Tax Payable	21.23		
Due to Other Funds	1,657,390.55	8,345.42	
Due to Other Agencies	2,285.00		
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>1,953,534.29</u>	<u>110,920.45</u>	<u>447,256.53</u>
Fund Balances:			
Nonspendable:			
Inventory	378,094.11		
Restricted for:			
Federal Required Carryover Programs			
State Required Carryover Programs	2,226,411.85		
Debt Service			
Capital Projects			3,269,613.50
Food Service			
Total Restricted Fund Balance	<u>2,226,411.85</u>	<u> </u>	<u>3,269,613.50</u>
Assigned to:			
Budgetary Carryforwards	2,265,250.47		
Other	34,016.09		
Total Assigned Fund Balance	<u>2,299,266.56</u>	<u> </u>	<u> </u>
Unassigned Fund Balance	<u>3,397,029.58</u>	<u> </u>	<u> </u>
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>8,300,802.10</u>	<u> </u>	<u>3,269,613.50</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 10,254,336.39</u>	<u>\$ 110,920.45</u>	<u>\$ 3,716,870.03</u>

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

Other Governmental Funds	Total Governmental Funds
\$ 2,690,168.25	\$ 14,369,273.71
177,770.15	177,770.15
	1,646.75
	1,835,723.74
283,752.49	464,380.30
	6,929.00
45,014.34	423,108.45
\$ 3,196,705.23	\$ 17,278,832.10
\$ 42,764.84	\$ 77,009.88
	272.89
81,486.39	890,637.53
	21.23
169,987.77	1,835,723.74
	2,285.00
294,239.00	2,805,950.27
45,014.34	423,108.45
1,026.38	1,026.38
	2,226,411.85
393,120.88	393,120.88
1,915,350.21	5,184,963.71
547,954.42	547,954.42
2,857,451.89	8,353,477.24
	2,265,250.47
	34,016.09
	2,299,266.56
	3,397,029.58
2,902,466.23	14,472,881.83
\$ 3,196,705.23	\$ 17,278,832.10

**SUMTER COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012**

Total Fund Balances - Governmental Funds **\$ 14,472,881.83**

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. 69,190,862.98

Capital credits to be received in future years are not available to liquidate liabilities in the governmental funds, but are accrued in the government-wide statements. 228,884.98

Deferred issuance costs on certificates of participation are not expensed in the government-wide statements, but are reported as deferred charges, and amortized over the life of the debt. 375,931.05

Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. 2,183,169.95

Long-term liabilities are not due and payable in the fiscal year and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at fiscal year-end consist of:

Bonds Payable	\$ 4,300,000.00	
Certificates of Participation	30,265,000.00	
Compensated Absences Payable	4,229,399.91	
Other Postemployment Benefits Payable	2,498,967.00	(41,293,366.91)

Total Net Assets - Governmental Activities **\$ 45,158,363.88**

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

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**SUMTER COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2012**

	General Fund	Special Revenue - Federal Economic Stimulus Fund	Capital Projects - Local Capital Improvement Fund
Revenues			
Intergovernmental:			
Federal Direct	\$ 59,888.36	\$	\$
Federal Through State and Local State	13,031,635.69	483,819.33	
Local:			
Property Taxes	35,229,918.79		10,576,559.42
Charges for Services - Food Service			
Miscellaneous	855,245.54		24,081.78
Total Local Revenues	<u>36,085,164.33</u>	<u></u>	<u>10,600,641.20</u>
Total Revenues	<u>49,176,688.38</u>	<u>483,819.33</u>	<u>10,600,641.20</u>
Expenditures			
Current - Education:			
Instruction	39,634,889.90	147,231.93	
Pupil Personnel Services	1,835,099.36	21,984.00	
Instructional Media Services	679,584.26		
Instruction and Curriculum Development Services	823,189.90	732.06	
Instructional Staff Training Services	495,523.86	71,539.14	
Instruction Related Technology	569,169.27	78,293.49	
School Board	467,016.75		
General Administration	451,143.21	8,505.15	
School Administration	2,588,640.57		
Facilities Acquisition and Construction	144,892.03		
Fiscal Services	527,473.19		
Food Services	14,156.18		
Central Services	660,004.96	123,193.56	
Pupil Transportation Services	2,894,602.15		
Operation of Plant	3,507,370.12		
Maintenance of Plant	1,541,212.58		
Administrative Technology Services	243,141.03		
Community Services	805.59		
Fixed Capital Outlay:			
Facilities Acquisition and Construction			5,097,311.75
Other Capital Outlay	101,539.37	32,340.00	
Debt Service:			
Principal			
Interest and Fiscal Charges			
Total Expenditures	<u>57,179,454.28</u>	<u>483,819.33</u>	<u>5,097,311.75</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(8,002,765.90)</u>	<u></u>	<u>5,503,329.45</u>
Other Financing Sources (Uses)			
Transfers In	6,860,550.07		
District Revenue Refunding Bonds Issued			
Discount on Refunding Bonds			
Payments to Refunded Bonds Escrow Agent			
Insurance Loss Recoveries	37,789.00		
Transfers Out			(8,295,219.17)
Total Other Financing Sources (Uses)	<u>6,898,339.07</u>	<u></u>	<u>(8,295,219.17)</u>
Net Change in Fund Balances	(1,104,426.83)		(2,791,889.72)
Fund Balances, Beginning	9,405,228.93		6,061,503.22
Fund Balances, Ending	<u>\$ 8,300,802.10</u>	<u>\$ 0.00</u>	<u>\$ 3,269,613.50</u>

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

Other Governmental Funds	Total Governmental Funds
\$ 157,373.42	\$ 217,261.78
7,329,600.23	7,813,419.56
1,446,037.87	14,477,673.56
	45,806,478.21
517,746.01	517,746.01
21,966.07	901,293.39
<u>539,712.08</u>	<u>47,225,517.61</u>
9,472,723.60	69,733,872.51
2,549,144.22	42,331,266.05
494,879.70	2,351,963.06
	679,584.26
982,993.00	1,806,914.96
592,996.18	1,160,059.18
	647,462.76
	467,016.75
144,982.76	604,631.12
107,364.96	2,696,005.53
4,750.00	149,642.03
	527,473.19
3,033,001.56	3,047,157.74
24,352.38	807,550.90
17,496.54	2,912,098.69
	3,507,370.12
	1,541,212.58
	243,141.03
	805.59
35,265.54	5,132,577.29
152,392.97	286,272.34
1,240,000.00	1,240,000.00
<u>1,595,511.89</u>	<u>1,595,511.89</u>
10,975,131.70	73,735,717.06
<u>(1,502,408.10)</u>	<u>(4,001,844.55)</u>
2,333,516.59	9,194,066.66
3,610,000.00	3,610,000.00
(67,818.85)	(67,818.85)
(2,280,000.00)	(2,280,000.00)
	37,789.00
<u>(898,847.49)</u>	<u>(9,194,066.66)</u>
2,696,850.25	1,299,970.15
1,194,442.15	(2,701,874.40)
<u>1,708,024.08</u>	<u>17,174,756.23</u>
\$ 2,902,466.23	\$ 14,472,881.83

**SUMTER 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, 2012**

Net Change in Fund Balances - Governmental Funds \$ (2,701,874.40)

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 expense in the current fiscal year. 2,033,963.96

The loss on the disposal of capital assets during the current fiscal year is reported in the statement of activities. In the governmental funds, the cost of these assets was recognized as an expenditure in the year purchased. Thus, the change in net assets differs from the change in fund balance by the undepreciated cost of the disposed assets. (52,255.30)

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 earned in excess of the amount paid in the current period. (81,809.93)

Long-term debt proceeds and other debt service activities 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 proceeds exceeded repayments in the current period.

Refunding Bonds Issued	\$ (3,610,000.00)	
Refunded Bonds	2,280,000.00	
Bonds Principal Payments	220,000.00	
Certificates of Participation Principal Payments	<u>1,020,000.00</u>	(90,000.00)

Deferred charges associated with long-term debt issued in the current fiscal year are reported in the statement of activities, but are not a current financial resource and, therefore, are not reported in the governmental funds. This is the net increase in deferred charges during the current fiscal year.

Deferred Charges, June 30, 2012	\$375,931.05	
Deferred Charges, June 30, 2011	<u>331,476.26</u>	44,454.79

Capital credits to be received in future years are accrued in the government-wide statements, but the credits do not provide current financial resources and are not recognized in the governmental funds.

Capital Credits Receivable, June 30, 2012	\$ 228,884.98	
Capital Credits Receivable, June 30, 2011	<u>220,545.40</u>	8,339.58

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. (523,631.00)

Internal service funds are used by management to charge the cost of certain activities, such as insurance, to individual funds. The net expense of internal service funds is reported with governmental activities. (329,809.14)

Change in Net Assets - Governmental Activities \$ (1,692,621.44)

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

**SUMTER COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF NET ASSETS -
PROPRIETARY FUNDS
June 30, 2012**

	Governmental Activities - Internal Service Funds
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 3,108,844.61
Due From Other Agencies	51,591.13
Total Current Assets	3,160,435.74
Noncurrent Assets:	
Investments in SBA Fund B Surplus Funds Trust Fund	36,073.85
TOTAL ASSETS	\$ 3,196,509.59
LIABILITIES	
Current Liabilities:	
Salaries and Benefits Payable	\$ 307,464.64
Accounts Payable	30.00
Estimated Insurance Claims Payable	150,000.00
Total Current Liabilities	457,494.64
Noncurrent Liabilities:	
Estimated Insurance Claims Payable	555,845.00
Total Liabilities	1,013,339.64
NET ASSETS	
Unrestricted	2,183,169.95
TOTAL LIABILITIES AND NET ASSETS	\$ 3,196,509.59

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

**SUMTER COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2012**

	Governmental Activities - Internal Service Funds
OPERATING REVENUES	
Premium Revenues	\$ 5,559,464.50
OPERATING EXPENSES	
Salaries	27,871.44
Employee Benefits	5,560.14
Purchased Services	81,402.82
Insurance Claims	121,982.94
Insurance Premiums	5,676,625.61
Total Operating Expenses	5,913,442.95
Operating Loss	(353,978.45)
NONOPERATING REVENUES	
Interest Revenue	20,375.52
Increase in Fair Value of Investments	3,793.79
Total Nonoperating Revenues	24,169.31
Change in Net Assets	(329,809.14)
Total Net Assets - Beginning	2,512,979.09
Total Net Assets - Ending	\$ 2,183,169.95

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

**SUMTER COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2012**

	Governmental Activities - Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Premiums	\$ 5,580,854.66
Cash Payments to Suppliers for Goods and Services	(5,729,384.63)
Cash Payments for Insurance Claims	(142,617.94)
Cash Received from Other Receipts	263,681.05
Net Cash Used by Operating Activities	(27,466.86)
CASH FLOWS FROM INVESTING ACTIVITIES	
Sales and Maturities of Investments	8,759.01
Interest Income	20,375.52
Net Cash Provided by Investing Activities	29,134.53
Net Increase in Cash and Cash Equivalents	1,667.67
Cash and Cash Equivalents, Beginning	3,107,176.94
Cash and Cash Equivalents, Ending	\$ 3,108,844.61
 Reconciliation of Operating Loss to Net Cash Used by Operating Activities:	
Operating Loss	\$ (353,978.45)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Changes in Assets and Liabilities:	
Decrease in Accounts Receivable	72,981.29
Decrease in Due From Other Funds	263,681.05
Increase in Due From Other Agencies	(51,591.13)
Decrease in Accounts Payable	(245,389.26)
Increase in Salaries and Benefits Payable	307,464.64
Decrease in Estimated Insurance Claims Payable	(20,635.00)
Total Adjustments	326,511.59
Net Cash Used by Operating Activities	\$ (27,466.86)
 Noncash Investing, Capital, and Financing Activities	
Change in Fair Value of Investments	\$ 3,793.79

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

**SUMTER COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES -
FIDUCIARY FUNDS
June 30, 2012**

	Agency Funds
ASSETS	
Cash and Cash Equivalents	\$ 452,944
LIABILITIES	
Internal Accounts Payable	\$ 452,944

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

**SUMTER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity. The Sumter County District School Board (Board) has direct responsibility for operation, control, and supervision of District schools and is considered a primary government for financial reporting. The Sumter County School District (District) is considered part of the Florida system of public education. The governing body of the District is the 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 Sumter 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 the application of these criteria, the following component units are included within the District's reporting entity:

Blended Component Unit. The Sumter County School Board Leasing Corporation (Leasing Corporation), was formed to facilitate financing for the acquisition of facilities and equipment as further discussed in note 5. Due to the substantive economic relationship between the District and the Leasing Corporation, the financial activities of the Leasing Corporation are included in the accompanying basic financial statements. Separate financial statements for the Leasing Corporation are not published.

Discretely Presented Component Unit. The component unit columns in the government-wide financial statements include the financial data of the District's other component unit.

The Villages Charter School, Inc. (Corporation), is a not-for-profit corporation organized pursuant to Chapter 617, Florida Statutes, the Florida Not For Profit Corporation Act, and Section 1002.33, Florida Statutes. The Corporation operates The Villages Charter Elementary School, The Villages Charter Middle School, and The Villages Charter High School under a charter approved by their sponsor, the Board. The Corporation is considered to be a component unit of the District since it is fiscally dependent on the District to levy taxes for its support.

The financial data reported on the accompanying statements was derived from the Corporation's audited financial statements for the fiscal year ended June 30, 2012. The audit report is filed in the District's administrative offices.

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 District and its component unit.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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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 is not readily associated with a particular function and is reported as unallocated.

Program revenues include charges paid by the recipient of the goods or services offered by the program, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of direct expenses with program revenues identifies 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 except for interfund services provided and used.

- Fund Financial Statements - Fund financial statements report detailed information about the District in the governmental, proprietary, and fiduciary funds. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is reported in a separate column. Nonmajor funds are aggregated and reported in a single column. Because the focus of governmental fund financial statements differs from the focus of government-wide financial statements, a reconciliation is presented with each of the governmental fund financial statements.

The District reports the following major governmental funds:

- General Fund – to account for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.
- Special Revenue – Federal Economic Stimulus Fund – to account for certain Federal grant program resources related to the American Recovery and Reinvestment Act (ARRA) and other Federal stimulus programs.
- 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, renovation and remodeling projects, and debt service payments on certificates of participation.

Additionally, the District reports the following proprietary and fiduciary fund types:

- Internal Service Funds – to account for the District's individual self-insured workers' compensation program, and health, dental, and vision insurance plans.
- 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.

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

Governmental fund financial statements are prepared using the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers revenues to be available if they are collected within 30 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.

Proprietary funds are accounted for as proprietary activities under standards issued by the Financial Accounting Standards Board through November 1989, and applicable standards issued by GASB. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds' principal ongoing operations. The principal operating revenues of the District's internal service funds are charges for workers' compensation insurance premiums. Operating expenses include insurance claims and excess coverage premiums. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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. When committed, assigned, or unassigned resources are available for use in governmental fund financial statements, it is the District's policy to use committed resources first, followed by assigned resources, and then unassigned resources as they are needed.

The Corporation is accounted for as a governmental organization and follows the same accounting model as the District's governmental activities.

Deposits and Investments. The District's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term, highly liquid investments with original maturities of three months or less. Investments classified as cash equivalents include the unrestricted amounts placed in money market accounts and 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

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financial institution collateral pool as required by Chapter 280, Florida Statutes. The statement of cash flows considers cash as those accounts used as demand deposit accounts.

Investments consist of amounts placed in the SBA debt service accounts for investment of debt service moneys, amounts placed with the 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 the SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, 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 0.83481105 at June 30, 2012. Fund B is not subject to participant withdrawal requests. Distributions from Fund B, as determined by the 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 liquid balance within Florida PRIME.

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

Inventories. Inventories consist of expendable supplies held for consumption in the course of District operations. Inventories are stated at weighted average cost, or last invoice, which approximates the first-in, first-out basis, except that the 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 used rather than purchased.

Prepaid Items. Prepaid items are reported in the governmental funds under the purchases method.

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 for furniture, fixtures and equipment, motor vehicles, audio visual materials, and computer software; and \$100,000 for improvements other than buildings and buildings and fixed equipment. 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.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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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 - 40 years
Buildings and Fixed Equipment	10 - 50 years
Furniture, Fixtures, and Equipment	3 - 15 years
Motor Vehicles	5 - 10 years

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

Long-Term Liabilities. Long-term obligations that will be financed from resources to be received in the future by governmental funds are reported as liabilities in the government-wide statement of net assets. Premiums and discounts on debt issues, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

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

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

**SUMTER COUNTY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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the General Fund is restricted in the governmental fund financial statements for the balance of categorical and earmarked educational program resources.

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

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

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

The Board adopted the 2011 tax levy on September 6, 2011. 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 Sumter 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

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

- Budgets are prepared, public hearings are held, and original budgets are adopted annually for all governmental fund types in accordance with procedures and time intervals prescribed by law and State Board of Education rules.
- Appropriations are controlled at the object level (e.g., salaries, purchased services, and capital outlay) within each activity (e.g., instruction, pupil personnel services, and school administration) and may be amended by resolution at any Board meeting prior to the due date for the annual financial report.

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

3. INVESTMENTS

As of June 30, 2012, the District has the following investments and maturities:

Investments	Maturities	Fair Value
SBA:		
Florida PRIME (1)	38 Day Average	\$ 4,134,912.46
Fund B (2)	5.73 Year Average	185,882.70
Debt Service Accounts	6 Months	22,161.82
Certificates of Deposit (1)	August 2012 - June 2013	66,017.00
Dreyfus Treasury Prime Cash Management Fund (2)	35 Day Average	5,799.48
Total Investments, Primary Government		<u><u>\$ 4,414,773.46</u></u>

Notes:

- (1) These investments are reported as cash equivalents for financial statement reporting purposes.
- (2) Pursuant to the trust agreements, the Trustee for the District's Series 2006 Certificates of Participation holds all or part of these investments in trust accounts as follows: Fund B \$149,808.85 and Dreyfus \$5,799.48.

➤ Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District's investment policy limits investments of current short-term funds to a maximum of 12 months.

Investments of bond reserves, construction moneys, and other core funds shall have a term appropriate to the need for moneys, and in accordance with debt covenants, but in no event shall exceed five years. For construction proceeds of tax-exempt debt issues, such investments shall not exceed three years.

Florida PRIME had a weighted average days to maturity (WAM) of 38 days at June 30, 2012. 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. Due to the nature of the securities in Fund B, the interest rate risk information required by GASB Statement No. 40 (i.e., specific identification, duration, weighted average maturity, segmented time distribution, or simulation model) is not available. An estimate of the weighted average life (WAL) is available. In the calculation of the WAL, the time at which an expected principal amount is to be received, measured in years, is weighted by the principal amount received at that time divided by the sum of all expected principal payments. The principal amounts used in the WAL calculation are not discounted to present value as they would be in a weighted average duration calculation. At June 30, 2012, based on expected future cash flows, the WAL of Fund B is estimated at 5.73 years. However, because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the WAL. Participation in Fund B is involuntary.

**SUMTER COUNTY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

➤ **Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Section 218.415(17), Florida Statutes, limits investments to the SBA's Florida PRIME, or any other intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Section 163.01, Florida Statutes; Securities and Exchange Commission (SEC) registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits in qualified public depositories, as defined in Section 280.02, Florida Statutes; and direct obligations of the United States Treasury.

The District's investment policy limits investments to Florida PRIME or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Section 163.01, Florida Statutes; United States Treasury securities, including but not limited to notes, bills, bonds, strips, and State and Local Government Series; obligations of United States government agencies and instrumentalities; SEC registered money market funds with the highest rating and in compliance with Title 17, Section 270.2a-7, Code of Federal Regulations; securities or other interest in any open-end or closed-end management type investment company or investment trust registered under the Investment Company Act of 1940; certificates of deposit that are either Federal Deposit Insurance Corporation insured or in State qualified public depositories; and other investments permitted by State statute and not prohibited by this policy as may be recommended by the Superintendent and approved in advanced by the Board.

The District's investments in the 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 the SBA for managing interest rate risk and credit risk for this account.

As of June 30, 2012, the District's investment in Florida PRIME is rated AAAm by Standard & Poor's. Fund B is unrated.

As of June 30, 2012, the District's investment in the Dreyfus Treasury Prime Cash Management Fund is rated AAAm by Standard & Poor's and Aaa-mf by Moody's Investors Service.

The District's investment in certificates of deposit is in qualified public depositories.

➤ **Custodial Credit Risk**

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the District will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. 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 requires that securities, with the exception of certificates of deposit, shall be held with a third party custodian; and all securities purchased by, and all collateral obtained by the District be properly designated as a asset of the District. A third-party custodian is defined as any bank 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

**SUMTER COUNTY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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the state of Florida. The securities must be held in an account separate and apart from the assets of the financial institution. Certificates of deposit shall be placed in the provider's safekeeping department for the term of the deposit.

4. CHANGES IN CAPITAL ASSETS

Changes in capital assets are presented in the table below:

	Beginning Balance	Additions	Deletions	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	\$ 2,057,053.91	\$	\$	\$ 2,057,053.91
Construction in Progress	633,332.80	4,424,184.46	513,444.70	4,544,072.56
Total Capital Assets Not Being Depreciated	2,690,386.71	4,424,184.46	513,444.70	6,601,126.47
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	2,589,828.50			2,589,828.50
Buildings and Fixed Equipment	84,661,024.21	513,444.70	55,705.20	85,118,763.71
Furniture, Fixtures, and Equipment	4,406,856.94	291,770.34	284,652.66	4,413,974.62
Motor Vehicles	6,274,354.05	301,213.00	574,506.81	6,001,060.24
Total Capital Assets Being Depreciated	97,932,063.70	1,106,428.04	914,864.67	98,123,627.07
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	941,385.21	134,336.75		1,075,721.96
Buildings and Fixed Equipment	24,932,622.51	2,079,354.30	55,705.20	26,956,271.61
Furniture, Fixtures, and Equipment	3,417,621.92	313,919.25	253,189.03	3,478,352.14
Motor Vehicles	4,121,666.45	455,593.54	553,715.14	4,023,544.85
Total Accumulated Depreciation	33,413,296.09	2,983,203.84	862,609.37	35,533,890.56
Total Capital Assets Being Depreciated, Net	64,518,767.61	(1,876,775.80)	52,255.30	62,589,736.51
Governmental Activities Capital Assets, Net	\$ 67,209,154.32	\$ 2,547,408.66	\$ 565,700.00	\$ 69,190,862.98

The District's capital assets serve several functions; accordingly, depreciation expense, which totaled \$2,983,203.84, was reported as unallocated on the Statement of Activities.

5. CERTIFICATES OF PARTICIPATION

The District entered into a financing arrangement on December 1, 1998, and supplemental agreements dated July 1, 2002, May 1, 2006, and January 1, 2007, in which each arrangement was characterized as a lease-purchase agreement, with the Sumter County School Board Leasing Corporation (Leasing Corporation) whereby the District secured financing of various educational facilities in the total amount of \$5,100,000 for the Series 1998 Certificates of Participation, \$15,625,000 for the Series 2002 Certificates of Participation, \$16,695,000 for the

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Series 2006 Certificates of Participation, and \$13,860,000 for the Series 2007 Certificates of Participation. The Series 1998 Certificates of Participation were used, in part, to advance-refund the District's Lease Revenue Debt dated July 1, 1990, of approximately \$2,100,000. The Series 2007 Certificates of Participation were used to partially advance refund the Series 1998 and 2002 Certificates of Participation. The financings were accomplished through the issuance of certificates of participation, to be repaid from the proceeds of rents paid by the District.

As a condition of the financing arrangements, the District has given ground leases on District property to the Leasing Corporation, with a rental fee of \$1 per year. The initial term of the leases are 20 years commencing on December 1, 1998, for the Series 1998 Certificates of Participation; 25 years commencing on July 1, 2002, for the Series 2002 Certificates of Participation; 25 years commencing on May 1, 2006, for the Series 2006 Certificates of Participation; and 20 years commencing on January 1, 2007, for the Series 2007 Certificates of Participation. The properties covered by the ground lease are, together with the improvements constructed thereon from the financing proceeds, leased back to the District. If the District fails to renew the lease and to provide for the rent payments through to term, the District may be required to surrender the sites included under the Ground Lease Agreement for the benefit of the securers of the certificates for a period of time specified by the arrangement which may be up to 24.5 years from the date of inception of the arrangements.

The District properties included in the ground lease dated December 1, 1998, include land on which the projects are to be constructed. The projects funded from the Series 1998 Certificates of Participation include the following:

Series 1998 Certificates of Participation (partially refunded by Series 2007, Certificates of Participation)

- District Media and Administrative Building
- Bushnell Elementary School Addition
- Webster Elementary School Addition
- North Sumter Intermediate School Addition
- South Sumter Middle School Addition
- Wildwood Middle School Addition

The District properties included in the ground lease dated July 1, 2002, include land on which the projects are to be constructed. The projects funded from the Series 2002 Certificates of Participation include construction and other improvements to the following:

Series 2002 Certificates of Participation (partially refunded by Series 2007, Certificates of Participation)

- Bushnell Elementary School Addition
- Wildwood Middle School
- Webster Elementary School
- North Sumter Intermediate School
- West Street School
- South Sumter High School

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➤ South Sumter Middle School

The District properties included in the ground lease dated May 1, 2006, include land on which the projects are to be constructed. The projects funded from the Series 2006 Certificates of Participation include construction and other improvements to the following:

Series 2006 Certificates of Participation

- Webster Elementary School
- North Sumter Intermediate School
- South Sumter High School
- South Sumter Middle School

The lease payments are payable by the District semiannually, on July 1 and January 1, at interest rates ranging from 3.625 to 4.8 percent. The following is a schedule by years of future minimum lease payments under the lease agreement together with the present value of minimum lease payments as of June 30:

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 2,343,789.63	\$ 1,060,000.00	\$ 1,283,789.63
2014	2,339,945.50	1,100,000.00	1,239,945.50
2015	2,343,407.50	1,150,000.00	1,193,407.50
2016	2,340,131.50	1,195,000.00	1,145,131.50
2017	2,344,784.00	1,250,000.00	1,094,784.00
2018-2022	11,728,380.50	7,095,000.00	4,633,380.50
2023-2027	11,734,424.77	8,760,000.00	2,974,424.77
2028-2031	9,478,597.00	8,655,000.00	823,597.00
Total Minimum Lease Payments	<u>\$ 44,653,460.40</u>	<u>\$30,265,000.00</u>	<u>\$ 14,388,460.40</u>

6. BONDS PAYABLE

Bonds payable at June 30, 2012, are as follows:

<u>Bond Type</u>	<u>Amount Outstanding</u>	<u>Interest Rates (Percent)</u>	<u>Annual Maturity To</u>
State School Bonds:			
Series 2005A	\$ 560,000	5.0	2016
Series 2005B, Refunding	130,000	5.0	2018
District Revenue Bonds:			
Series 2011, Refunding	<u>3,610,000</u>	2.00 - 4.75	2042
Total Bonds Payable	<u>\$ 4,300,000</u>		

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

➤ **State School Bonds**

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

➤ **District Revenue Bonds**

These bonds are generally referred as "Capital Improvement and Refunding Certificates , Series 2011" and are authorized by Chapter 71-932, Laws of Florida, Special Acts of 1971, as amended by Chapter 76-439, Laws of Florida, Special Acts 1976. The bonds are payable solely from and secured by a lien upon and pledge of the revenues distributed to the District from moneys deposited to the credit of the Pari-mutuel Tax Collection Trust Fund pursuant to Chapter 550, Florida Statutes, and allocated to the District as provided by law (effective July 1, 2000, tax proceeds were distributed pursuant to Section 212.20(6)(d)7.a., Florida Statutes (2001), now Section 212.20(6)(d)6.a., Florida Statutes (2011)). 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 pledged a total of \$6,554,228 of pari-mutuel tax revenues in connection with the Series 2011 District Revenue Bonds, described above. During the 2011-12 fiscal year, the District recognized pari-mutuel tax revenues totaling \$223,250 and expended \$224,299.67 (101 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, or October 1, 2041. Approximately 98 percent of this revenue stream has been pledged in connection with debt service on the revenue bonds.

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Annual requirements to amortize all bonded debt outstanding as of June 30, 2012, are as follows:

Fiscal Year Ending June 30, 2012	Total	Principal	Interest
State School Bonds:			
2013	\$ 179,500.00	\$ 145,000.00	\$ 34,500.00
2014	172,250.00	145,000.00	27,250.00
2015	180,000.00	160,000.00	20,000.00
2016	182,000.00	170,000.00	12,000.00
2017	38,500.00	35,000.00	3,500.00
2018	36,750.00	35,000.00	1,750.00
Total State School Bonds	789,000.00	690,000.00	99,000.00
District Revenue Bonds:			
2013	241,856.26	90,000.00	151,856.26
2014	220,168.76	70,000.00	150,168.76
2015	218,550.01	70,000.00	148,550.01
2016	221,781.26	75,000.00	146,781.26
2017	219,812.51	75,000.00	144,812.51
2019-2022	1,096,100.05	410,000.00	686,100.05
2023-2027	1,092,321.90	495,000.00	597,321.90
2028-2032	1,084,262.50	605,000.00	479,262.50
2033-2037	1,081,337.50	760,000.00	321,337.50
2038-2042	1,078,037.50	960,000.00	118,037.50
Total District Revenue Bonds	6,554,228.25	3,610,000.00	2,944,228.25
Total	<u>\$ 7,343,228.25</u>	<u>\$ 4,300,000.00</u>	<u>\$ 3,043,228.25</u>

7. DEFEASED DEBT

On November 23, 2011, the Board issued \$3,610,000 in Capital Improvement and Refunding Revenue Certificates, Series 2011, at a discount, with interest rates ranging from 2.0 to 4.75 percent, to advance-refund \$2,280,000 outstanding Race Track Revenue Refunding Bonds, Series 1998, with interest rates ranging from 4.4 to 5.0 percent. The net proceeds from the refunding of \$3,445,986 (after payment of \$26,131 in accrued interest, and \$137,883 in underwriting fees, insurance and other insurance costs) were used to retire the outstanding Race Track Revenue Refunding Bonds, Series 1998, on December 26, 2011, in the amount of \$2,280,000, and also provided the District with funds in the amount of \$1,165,986 to be used for new construction. The financing was structured to provide additional capital funding, not economic gain; however, the refunding portion of the Capital Improvement and Refunding Revenue Certificates, Series 2011, resulted in a net present value savings of approximately \$32,000, or 1.39 percent of the par amount of the refunded certificates.

As a result, the Race Track Revenue Refunding Bonds, Series 1998, are considered defeased and have been removed from the District's government-wide financial statements.

In prior years, the Certificates of Participation (COPs), Series 1998 and Series 2002, were advance-refunded by the District and considered defeased in substance by placing a portion of the proceeds of the COPs, Series 2007, in

**SUMTER COUNTY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

an irrevocable trust to provide for all future debt service payments on the old COPs. Accordingly, the trust account assets and the liability for the in-substance defeased COPs are not included in the District's financial statements. On June 30, 2012, \$1,315,000 of outstanding COPs Series 1998, and \$11,520,000 of outstanding COPs Series 2002, are considered defeased in substance.

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
GOVERNMENTAL ACTIVITIES					
Bonds Payable	\$ 3,190,000.00	\$ 3,610,000.00	\$ 2,500,000.00	\$ 4,300,000.00	\$ 235,000.00
Certificates of Participation Payable	31,285,000.00		1,020,000.00	30,265,000.00	1,060,000.00
Compensated Absences Payable	4,147,589.98	364,303.11	282,493.18	4,229,399.91	287,993.00
Estimated Insurance Claims Payable	726,480.00	121,982.94	142,617.94	705,845.00	150,000.00
Other Postemployment Benefits Payable	1,975,336.00	865,651.00	342,020.00	2,498,967.00	
Total Governmental Activities	<u>\$ 41,324,405.98</u>	<u>\$ 4,961,937.05</u>	<u>\$ 4,287,131.12</u>	<u>\$ 41,999,211.91</u>	<u>\$ 1,732,993.00</u>

For the governmental activities, compensated absences and other postemployment benefits are generally liquidated with resources of the General Fund. The estimated insurance claims are generally liquidated with the resources of the Workers' Compensation Insurance Internal Service Fund, as discussed in notes 18 and 19.

9. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

Funds	Interfund	
	Receivables	Payables
Major:		
General	\$ 178,333.19	\$ 1,657,390.55
Special Revenue:		
Federal Economic Stimulus		8,345.42
Capital Projects:		
Local Capital Improvement	1,657,390.55	
Nonmajor Governmental		169,987.77
Total	<u>\$ 1,835,723.74</u>	<u>\$ 1,835,723.74</u>

Interfund receivables and payables are temporary loans of cash between funds allowable under Section 1011.09, Florida Statutes, for a period of less than 13 months. The temporary loans do not restrict, impede, or limit implementation or fulfillment of the original purposes for which the moneys were received in the fund providing the advancement.

**SUMTER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	\$ 6,860,550.07	\$
Capital Projects:		
Local Capital Improvement		8,295,219.17
Nonmajor Governmental	2,333,516.59	898,847.49
Total	<u>\$ 9,194,066.66</u>	<u>\$ 9,194,066.66</u>

Interfund transfers represent permanent transfers of moneys between funds. In general, funds are transferred from capital projects funds to the General Fund to reimburse the General Fund for allowable expenditures, such as capital asset purchases, maintenance, charter school capital outlay, and property insurance premiums. Additionally, funds are transferred from the Capital Projects - Local Capital Improvement Fund to nonmajor debt service funds to make debt service payments for the certificates of participation.

10. FUND BALANCE REPORTING

The District reports its governmental fund balances in the following categories, as applicable:

➤ **Nonspendable**

The net current financial resources that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. Generally, not in spendable form means that an item is not expected to be converted to cash.

➤ **Restricted**

The portion of fund balance on which constraints have been placed by creditors, grantors, contributors, laws or regulations of other governments, constitutional provisions, or enabling legislation. Restricted fund balance places the most binding level of constraint on the use of fund balance. The District classifies most of its fund balances other than General Fund as restricted, as well as unspent State categorical and earmarked educational funding reported in the General Fund, that are legally or otherwise restricted.

➤ **Committed**

The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the highest level of decision-making authority (i.e., the Board). These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same action it employed to previously commit the amounts. The District did not have any committed fund balances at June 30, 2012.

➤ **Assigned**

The portion of fund balance that is intended to be used for specific purposes, but is neither restricted nor committed. Assigned amounts include those that have been set aside for a specific purpose by an authorized government body or official, but the constraint imposed does not satisfy the criteria to be classified as restricted or committed. This category includes any remaining positive amounts, for governmental funds other than the General Fund, not classified as nonspendable, restricted, or committed. The Board has appropriated existing fund balance to eliminate a projected budgetary deficit in the 2012-13 fiscal year in an

**SUMTER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

amount equal to the projected excess of appropriations over expected revenues. The District's approved budget for the 2012-13 fiscal year reflects a budget shortfall of \$2,265,250.47 expected to be paid from the ending fund balance in these financial statements and is considered assigned fund balance. The Board also assigned \$34,016.09 for miscellaneous purposes.

➤ **Unassigned**

The portion of fund balance that is the residual classification for the General Fund. This balance represents amounts that have not been assigned to other funds and that have not been restricted, committed, or assigned for specific purposes.

11. SCHEDULE OF STATE REVENUE SOURCES

The following is a schedule of the District's State revenue sources for the 2011-12 fiscal year:

Source	Amount
Categorical Educational Program - Class Size Reduction	\$8,129,130.00
Florida Education Finance Program	3,469,023.00
Charter School Capital Outlay Funding	898,847.49
Voluntary Pre-K	473,430.22
School Recognition	387,225.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	269,496.34
Workforce Development Program	235,983.00
Food Service Supplement	58,441.00
Mobile Home License Tax	49,439.47
Discretionary Lottery Funds	23,576.00
Miscellaneous	483,082.04
Total	\$ 14,477,673.56

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

**SUMTER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

12. PROPERTY TAXES

The following is a summary of millages and taxes levied on the 2011 tax roll for the 2011-12 fiscal year:

<u>GENERAL FUND</u>	<u>Millages</u>	<u>Taxes Levied</u>
Nonvoted School Tax:		
Required Local Effort	4.249	\$31,144,924.66
Basic Discretionary Local Effort	0.748	5,482,796.81
 <u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	1.500	10,994,913.39
 Total	<u>6.497</u>	<u>\$47,622,634.86</u>

13. FLORIDA RETIREMENT SYSTEM

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

Employees enrolled in the Plan prior to July 1, 2011, vest at six years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at eight years of creditable service. All vested members, enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of service. All members enrolled in the Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 65 or any time after 33 years of creditable service. Members of both Plans may include up to 4 years of credit for military service toward creditable 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.

**SUMTER COUNTY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined-benefit plan. District employees participating in DROP are not eligible to participate in this program. Employer and employee contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The Investment Plan is funded by employer and employee contributions that are based on salary and membership class (Regular Class, Elected County Officers Class, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Employees in the Investment Plan vest at one year of service.

The State of Florida establishes contribution rates for participating employers and employees. Contribution rates during the 2011-12 fiscal year were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	3.00	4.91
Florida Retirement System, Elected County Officers	3.00	11.14
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	4.42
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 0.03 percent for administrative costs of the Investment Plan.

(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 including employee contributions for the fiscal years ended June 30, 2010, June 30, 2011, and June 30, 2012, totaled \$3,097,638.24, \$3,407,961.42, and \$1,978,231.10, respectively, which were equal to the required contributions for each fiscal year.

There were 120 District participants in the Investment Plan during the 2011-12 fiscal year. The District's contributions including employee contributions to the Investment Plan totaled \$354,153.36, which was equal to the required contribution for the 2011-12 fiscal year.

Financial statements and other supplementary information of the FRS are included in the State's Comprehensive Annual Financial Report, which is available from the Florida Department of Financial Services. An annual report on the 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.

**SUMTER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

14. OTHER POSTEMPLOYMENT BENEFITS PAYABLE

Plan Description. The Other Postemployment Benefits Plan (OPEB Plan) is a single-employer defined benefit plan administered by the District. Pursuant to the provisions of Section 112.0801, Florida Statutes, employees who retire from the District are eligible to participate in the District's health and hospitalization plan for medical, prescription drug coverage, and life insurance coverage. The District subsidizes the premium rates paid by retirees by allowing them to participate in the OPEB Plan at reduced or blended group (implicitly subsidized) 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 OPEB Plan on average than those of active employees. The District does not offer any explicit subsidies for retiree coverage. Retirees are assumed to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible. The OPEB Plan does not issue a stand-alone report, and is not included in the report of a public employee retirement system or other entity.

Funding Policy. Plan contribution requirements of the District and OPEB Plan members are established and may be amended through recommendations of the Insurance Committee and action from the Board. The District has not advance-funded or established a funding methodology for the annual OPEB costs or the net OPEB obligation, and the OPEB Plan is financed on a pay-as-you-go basis. For the 2011-12 fiscal year, 174 retirees received other postemployment benefits. The District provided required contributions of \$342,020 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees for claims expenses (net of reinsurance), administrative expenses, reinsurance premiums, and net of retiree contributions totaling \$527,472.49, which represents 1.89 percent of covered payroll.

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

**SUMTER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

Description	Amount
Normal Cost (service cost for one year)	\$ 370,518
Amortization of Unfunded Actuarial Accrued Liability	<u>540,516</u>
Annual Required Contribution	911,034
Interest on Net OPEB Obligation	59,260
Adjustment to Annual Required Contribution	<u>(104,643)</u>
Annual OPEB Cost (Expense)	865,651
Contribution Toward the OPEB Cost	<u>(342,020)</u>
Increase in Net OPEB Obligation	523,631
Net OPEB Obligation, Beginning of Year	<u>1,975,336</u>
Net OPEB Obligation, End of Year	<u><u>\$ 2,498,967</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the OPEB Plan, and the net OPEB obligation as of June 30, 2012, and the two preceding years, were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
<u> </u>	<u> </u>	<u> </u>	<u> </u>
2009-10	\$1,014,410	28.86%	\$1,366,886
2010-11	981,151	37.99%	1,975,336
2011-12	865,651	39.51%	2,498,967

Funded Status and Funding Progress. As of June 30, 2012, the most recent valuation date, the actuarial accrued liability for benefits was \$10,203,244, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$10,203,244 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$27,936,949, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 36.52 percent.

Actuarial valuations of an ongoing OPEB 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 OPEB 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

**SUMTER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

presents multiyear trend information about whether the actuarial value of OPEB 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 OPEB 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 June 30, 2012, used the projected unit credit cost method to estimate the unfunded actuarial liability as of June 30, 2012, and to estimate the District's 2011-12 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 3 percent rate of return on invested assets, which is the District's long-term expectation of investment returns under its investment policy. The actuarial assumptions also included a general inflation rate of 2.5 percent, an annual healthcare cost trend rate of 4 percent for the 2012 calendar year, changing by various decrements, to an ultimate rate of 4.24 percent after the 2085 calendar year. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2012, was 27 years.

15. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

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 following is a schedule of encumbrances at June 30, 2012:

Major Funds			
General	Capital Projects - Local Capital Improvement	Nonmajor Governmental Funds	Total Governmental Funds
\$ 49,223	\$ 727,505	\$ 26,265	\$ 802,993

**SUMTER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

Construction Contracts. Encumbrances include the following major construction contract commitments at fiscal year-end:

Project	Contract Amount	Completed to Date	Balance Committed
Webster Elementary School Administration Addition:			
Architect	\$ 299,639.00	\$ 291,685.60	\$ 7,953.40
Contractor	3,325,710.52	2,969,313.12	356,397.40
Wildwood Middle High School Classrooms:			
Architect	66,096.00	53,015.68	13,080.32
Total	<u>\$ 3,691,445.52</u>	<u>\$ 3,314,014.40</u>	<u>\$ 377,431.12</u>

16. JOINT VENTURES

The Board and the Lake-Sumter Community College (College) entered into a land use agreement on November 2, 1993, governing the use of a proposed joint-use facility (adult education and community college facility). This agreement provides, in part, for the appointment of a decision committee composed of individuals appointed by the parties to the agreement. The purpose of the committee is to make any necessary joint decisions regarding the facility. On January 18, 1995, the Board and the College entered into a statement of intent and operating agreement. The land use agreement was made a part of the operating agreement. The operating agreement established agreements between the parties relative to operations, expense prorations, and other matters not covered in the land use agreement. The operating agreement further provides that should the Board decide to vacate the facility, ownership shall revert to the College with no further obligation on the part of either party. However, if the College desires to acquire the facility, a 12-month minimum advance notice and mutual agreement between the parties is required. The term of the operating agreement runs concurrently with that of the land use agreement, which is 40 years.

The Board entered into a lease agreement on July 1, 2006, and restated the lease on January 18, 2011, with The Villages of Lake-Sumter, Inc. The Board is leasing educational facilities owned by The Villages of Lake-Sumter, Inc., for operation by The Villages Charter School, Inc., for The Villages Charter Elementary, Middle, and High Schools. The restated lease agreement, effective July 1, 2010, establishes an annual rent equal to 25 percent of the 1.5 mill tax base multiplied by the millage rate assessed under Section 1011.71(2), Florida Statutes, for that lease year. The lease term ends on June 30, 2018.

**SUMTER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

17. MEMBERSHIP IN NONPROFIT CORPORATION

The District participates in a nonprofit electric cooperative, the Sumter Electric Cooperative, Inc. (Cooperative), established under Chapter 425, Florida Statutes. In accordance with this statute, revenues in excess of operating expenses, unless otherwise determined by the vote of the membership, are distributed on a pro rata basis to its members. The policy of the Cooperative is to credit the excess revenues to members' accounts. Capital credits are distributed only after the Cooperative attains a certain margin of profit required by the Rural Electrification Administration. At June 30, 2012, the accumulated credits to the District's account are \$228,884.98. During the 2011-12 fiscal year, the District received \$3,709.83 related to 2011 capital credits.

18. 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. Workers' compensation coverage is being provided on a self-insured basis up to specified limits. The District has entered into agreements with various insurance companies to provide specific excess coverage of claim amounts above the stated amount on an individual claim basis, and aggregate excess coverage when total claims minus specific excess coverage exceed the loss fund established annually by the District. The District has contracted with an insurance administrator to administer these self-insurance programs, including the processing, investigating, and payment of claims.

A liability in the amount of \$669,456 (discounted at 1 percent) and \$705,845 (undiscounted) was actuarially determined to cover estimated incurred, but not reported, workers' compensation claims payable at June 30, 2012. The District elected to use the most conservative approach to record the liability, using the undiscounted actuarial computation.

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

Fiscal Year	Beginning-of-Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-End
2010-11	\$ 722,267.00	\$ 136,933.95	\$ (132,720.95)	\$ 726,480.00
2011-12	726,480.00	121,982.94	(142,617.94)	705,845.00

The District's health, dental, and vision insurance plans are administered through internal service funds. The health insurance plan is being provided through purchased commercial insurance. The dental and vision plans are self-insured.

All other insurance is being provided through purchased commercial insurance with minimum deductibles for each line of coverage.

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

**SUMTER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

19. INTERNAL SERVICE FUNDS

The following is a summary of financial information as reported in the internal service funds for the 2011-12 fiscal year:

	Total	Workers' Compensation Insurance	Health/Dental/ Vision Insurance
	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 3,196,509.59</u>	<u>\$ 2,727,617.45</u>	<u>\$ 468,892.14</u>
Liabilities and Net Assets:			
Salaries, Benefits, and Payroll Taxes Payable	\$ 307,464.64	\$	\$ 307,464.64
Accounts Payable	30.00	30.00	
Estimated Insurance Claims Payable	705,845.00	705,845.00	
Compensated Absences Payable			
Net Assets:			
Unrestricted	<u>2,183,169.95</u>	<u>2,021,742.45</u>	<u>161,427.50</u>
Total Liabilities and Net Assets	<u>\$ 3,196,509.59</u>	<u>\$ 2,727,617.45</u>	<u>\$ 468,892.14</u>
Revenues:			
Premium Contributions	\$ 5,559,464.50	\$ 348,577.81	\$5,210,886.69
Interest Income	20,375.52	18,355.69	2,019.83
Increase in FMV of investments	<u>3,793.79</u>	<u>3,793.79</u>	
Total Revenues	5,583,633.81	370,727.29	5,212,906.52
Total Expenses	<u>5,913,442.95</u>	<u>236,817.34</u>	<u>5,676,625.61</u>
Change in Net Assets	<u>\$ (329,809.14)</u>	<u>\$ 133,909.95</u>	<u>\$ (463,719.09)</u>

20. SUBSEQUENT EVENTS

The Board authorized the issuance of a tax anticipation note (Note) in the amount of \$2,250,000. The proceeds will be used for operating expenses for the fiscal year ended June 30, 2013. The closing of the Note took place on September 13, 2012, and the Note matures on June 30, 2013. The stated interest rate is 1.13 percent.

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OTHER REQUIRED SUPPLEMENTARY INFORMATION

**SUMTER COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE -
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 2012**

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	\$ 54,000.00	\$ 54,000.00	\$ 59,888.36	\$ 5,888.36
Federal Through State and Local				
State	12,653,740.00	12,816,097.26	13,031,635.69	215,538.43
Local:				
Property Taxes	35,233,302.00	35,229,918.79	35,229,918.79	
Miscellaneous	580,838.10	551,164.52	855,245.54	304,081.02
Total Local Revenues	<u>35,814,140.10</u>	<u>35,781,083.31</u>	<u>36,085,164.33</u>	<u>304,081.02</u>
Total Revenues	<u>48,521,880.10</u>	<u>48,651,180.57</u>	<u>49,176,688.38</u>	<u>525,507.81</u>
Expenditures				
Current - Education:				
Instruction	40,800,771.08	42,816,204.49	39,634,889.90	3,181,314.59
Pupil Personnel Services	1,961,328.00	1,967,556.70	1,835,099.36	132,457.34
Instructional Media Services	726,179.56	726,207.54	679,584.26	46,623.28
Instruction and Curriculum Development Services	889,704.65	857,553.75	823,189.90	34,363.85
Instructional Staff Training Services	567,123.18	553,203.54	495,523.86	57,679.68
Instruction Related Technology	742,821.00	758,448.10	569,169.27	189,278.83
School Board	484,216.00	499,884.32	467,016.75	32,867.57
General Administration	331,794.00	506,857.00	451,143.21	55,713.79
School Administration	2,573,418.00	2,644,923.12	2,588,640.57	56,282.55
Facilities Acquisition and Construction	207,868.00	200,482.22	144,892.03	55,590.19
Fiscal Services	597,735.00	560,779.02	527,473.19	33,305.83
Food Services	2,675.00	14,191.92	14,156.18	35.74
Central Services	826,059.27	800,307.63	660,004.96	140,302.67
Pupil Transportation Services	3,247,120.00	3,316,985.41	2,894,602.15	422,383.26
Operation of Plant	3,919,125.76	3,866,138.35	3,507,370.12	358,768.23
Maintenance of Plant	1,798,169.00	1,777,987.00	1,541,212.58	236,774.42
Administrative Technology Services	350,830.00	351,768.00	243,141.03	108,626.97
Community Services	29,400.00	30,219.00	805.59	29,413.41
Fixed Capital Outlay:				
Other Capital Outlay		101,539.37	101,539.37	
Debt Service:				
Interest and Fiscal Charges	70,000.00			
Total Expenditures	<u>60,126,337.50</u>	<u>62,351,236.48</u>	<u>57,179,454.28</u>	<u>5,171,782.20</u>
Deficiency of Revenues Over Expenditures	<u>(11,604,457.40)</u>	<u>(13,700,055.91)</u>	<u>(8,002,765.90)</u>	<u>5,697,290.01</u>
Other Financing Sources				
Transfers In	6,377,302.00	6,860,550.07	6,860,550.07	
Insurance Loss Recoveries			37,789.00	37,789.00
Total Other Financing Sources	<u>6,377,302.00</u>	<u>6,860,550.07</u>	<u>6,898,339.07</u>	<u>37,789.00</u>
Net Change in Fund Balances	<u>(5,227,155.40)</u>	<u>(6,839,505.84)</u>	<u>(1,104,426.83)</u>	<u>5,735,079.01</u>
Fund Balances, Beginning	<u>9,405,228.93</u>	<u>9,405,228.93</u>	<u>9,405,228.93</u>	
Fund Balances, Ending	<u>\$ 4,178,073.53</u>	<u>\$ 2,565,723.09</u>	<u>\$ 8,300,802.10</u>	<u>\$ 5,735,079.01</u>

Special Revenue - Federal Economic Stimulus Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
\$ 857,062.07	\$ 1,011,289.83	\$ 483,819.33	\$ (527,470.50)
857,062.07	1,011,289.83	483,819.33	(527,470.50)
240,230.00	283,340.08	147,231.93	136,108.15
14,800.00	36,784.00	21,984.00	14,800.00
11,536.00	6,644.93	732.06	5,912.87
82,274.96	132,137.94	71,539.14	60,598.80
259,260.00	266,983.49	78,293.49	188,690.00
28,186.57	28,186.57	8,505.15	19,681.42
196,774.54	203,183.82	123,193.56	79,990.26
24,000.00	21,689.00		21,689.00
	32,340.00	32,340.00	
857,062.07	1,011,289.83	483,819.33	527,470.50
\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

SUMTER COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF FUNDING PROGRESS -
OTHER POSTEMPLOYMENT BENEFITS PLAN

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) (1)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(A)	(B)	(B-A)	(A/B)	(C)	[(B-A)/C]
October 1, 2006	\$ 0	\$ 10,436,711	\$ 10,436,711	0.0%	\$ 26,481,615	39.41%
June 30, 2010	0	11,157,073	11,157,073	0.0%	27,162,625	41.08%
June 30, 2012	0	10,203,244	10,203,244	0.0%	27,936,949	36.52%

Note: (1) The District's OPEB actuarial valuation used the projected unit credit cost method to estimate the actuarial accrued liability.

**SUMTER COUNTY
DISTRICT SCHOOL BOARD
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2012**

1. BUDGETARY BASIS OF ACCOUNTING

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**SUMTER COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2012**

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)	Amount Provided to Subrecipients
United States Department of Agriculture:				
Indirect:				
Child Nutrition Cluster:				
Florida Department of Education:				
School Breakfast Program	10.553	321	\$ 270,024.90	\$
National School Lunch Program	10.555	300, 350	695,754.77	
Summer Food Service Program for Children	10.559	323	18,124.88	
Florida Department of Agriculture and Consumer Services:				
School Breakfast Program	10.553	321	413,009.49	
National School Lunch Program	10.555 (2)	300, 350	1,141,276.73	
Summer Food Service Program for Children	10.559	323	26,491.92	
Total United States Department of Agriculture			2,564,682.69	
United States Department of Education:				
Direct:				
Advanced Placement Program	84.330	N/A	157,373.42	
Indirect:				
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027	262, 263	1,518,452.70	753.64
Special Education - Preschool Grants	84.173	266, 267	31,750.73	
Putnam County District School Board				
Special Education - Grants to States	84.027	None	928.30	
Washington County District School Board:				
Special Education - Grants to States	84.027	None	1,001.23	
Orange County District School Board:				
Special Education - Grants to States	84.027	None	16,031.38	
Total Special Education Cluster			1,568,164.34	753.64
Florida Department of Education:				
Adult Education - Basic Grants to States	84.002	191, 192, 193, 194, 195, 590	140,314.62	
Title I Grants to Local Educational Agencies	84.010	212, 220, 221, 226, 228	2,342,380.00	
Career and Technical Education - Basic Grants to States	84.048	151	94,848.88	4,254.42
Twenty-First Century Community Learning Centers	84.287	244	17,691.55	
Rural Education	84.358	110	101,074.13	
English Language Acquisition Grants	84.365	102	47,043.64	
Improving Teacher Quality State Grants	84.367	224	437,739.47	
ARRA - Education Technology State Grants, Recovery Act	84.386	121	94,500.68	
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	RL111	367,334.65	107,000.88
Education Jobs Fund	84.410	541	21,984.00	
Polk County District School Board:				
Voluntary Public School Choice	84.361	None	9,338.91	
Lake-Sumter Community College:				
Career and Technical Education - Basic Grants to States	84.048	None	6,322.00	
Total Indirect			5,248,736.87	112,008.94
Total United States Department of Education			5,406,110.29	112,008.94
United States Department of Defense:				
Direct:				
Army Junior Reserve Officers Training Corps	None	N/A	59,888.36	
Total Expenditures of Federal Awards			\$ 8,030,681.34	\$ 112,008.94

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. Includes \$135,080.03 of donated food received 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



PHONE: 850-488-5534
FAX: 850-488-6975

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 Sumter County District School Board as of and for the fiscal year ended June 30, 2012, 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 includes 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 Sumter County District School Board's financial statements. For 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. The financial statements of the school internal funds were not audited in accordance with *Government Auditing Standards*.

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.

Our **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*** 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
January 28, 2013



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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



PHONE: 850-488-5534
FAX: 850-488-6975

The President of the Senate, the Speaker of the
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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 Sumter County District School Board's compliance with the types of compliance requirements described in the *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, 2012. 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.

The District's basic financial statements include the operations of The Villages Charter School, Inc. (Corporation), reported as a discretely presented component unit on the accompanying basic financial statements. The Corporation received \$506,061 in Federal awards for the fiscal year ended June 30, 2012. Our audit did not extend to the operations of the Corporation because pursuant to the provisions of Section 1002.33(9)(j), Florida Statutes, the Corporation engaged other auditors to perform an audit in accordance with OMB Circular A-133.

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

In our opinion, the District complied, in all material respects, with the 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, 2012.

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.

Restricted Purpose Relating to Testing of Internal Control Over Compliance

The purpose of the provisions of this report addressing internal control over compliance is solely to describe the scope of our testing of internal control over compliance with the requirements that could have a direct and material effect on a major Federal program, and the results of that testing, and not to provide an opinion on the effectiveness of internal control over compliance. These provisions of our report are an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Circular A-133 in considering the entity's internal control over compliance. Accordingly, these provisions of our report are not suitable for any other purpose.

Respectfully submitted,



David W. Martin, CPA
January 28, 2013

**SUMTER COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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 Circular A-133?	No
Identification of major programs:	Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559) and Race-to-the-Top Incentive Grants (CFDA No. 84.395 - ARRA)
Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	Yes

**SUMTER COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

ADDITIONAL MATTERS

Finding No. 1: Information Technology – Access Privileges

Access controls are intended to protect data and information technology (IT) resources from unauthorized disclosure, modification, or destruction. Effective access controls provide employees access to IT resources based on a demonstrated need to view, change, or delete data and restrict employees from performing incompatible functions or functions outside of their areas of responsibility. For example, access privileges should typically be configured to enforce a separation of IT and application end-user duties whereby IT employees are restricted from performing end-user functions. In addition, appropriate restrictions of application end-user access privileges are necessary to preclude the possibility of one employee controlling all critical stages of a transaction process. Periodically reviewing IT access privileges assigned to employees promotes good internal control and is necessary to ensure that employees cannot access or modify IT resources inconsistent with their assigned job duties.

Although District management reviewed the access privileges assigned to the profiles created for the District's business application, the District had not conducted a review of employees' access privileges to ensure that the access privileges remained appropriate. Our audit tests of selected access privileges to the District's business application disclosed that some employees had access privileges that permitted the employees to perform incompatible duties. Specifically:

- Two IT employees were assigned access profiles that allowed the ability to update user accounts within the application module, although these privileges were unnecessary for their job duties. In addition, one of these IT employees was assigned an access profile that allowed update access privileges to all critical functions within the human resources module and the ability to process payments within the finance module, contrary to an appropriate separation of IT and application end-user duties.
- Two other IT employees were assigned access profiles that allowed the ability to process payments within the finance module, although these privileges were unnecessary for their job duties. Additionally, one of the IT employees and one finance department employee were assigned access profiles that allowed update access privileges to critical transactions within the finance module, including the ability to update vendor information and purchase orders and approve requisitions. This combination of access privileges was contrary to an appropriate separation of duties as it could result in an unauthorized vendor payment.
- One IT employee was assigned access profiles that allowed update access privileges to critical functions within the HR module, including the ability to update employee names and addresses, payroll information, direct deposit information, time entry, payroll adjustments, and other compensation. Such access privileges should generally be limited to designated HR department personnel.

Subsequent to our review, District management indicated that the above inappropriate access privileges were removed. Although the District had compensating controls in place (e.g., Director of Business and Institutional Services monitors expenditures, new vendors, journal entries, and purchase orders; and HR Director monitors changes to HR records) to mitigate the risks of these control deficiencies, the existence of the inappropriate or

unnecessary access privileges described above indicated a need for an improved District review of access privileges and increased the risk of unauthorized disclosure, modification, or destruction of District data and IT resources.

Recommendation: The District should improve its review of access privileges and timely deactivate any inappropriate or unnecessary access detected.

Finding No. 2: Information Technology – Timely Deactivation of Access Privileges

Effective IT access controls include provisions for the timely deactivation of employee access privileges when an employee is reassigned or terminated. Prompt action is necessary to ensure that reassigned or former employees' access privileges are not misused by the former employees or others to compromise data or IT resources.

To access the District's business application systems, employees were required to sign on and authenticate their identity both at the network and the application level. According to the District's *Management Information Services Operations Manual*, the personnel department is to notify the IT department's data processing section of any employee terminations, resignations, nonreappointments, or transfers. Our test of 36 former District employees who had terminated employment from July 1, 2011, through February 1, 2012, disclosed that although the business application accounts of 3 former employees included in our test had been deactivated upon termination, the network access privileges of the 3 former employees had been deactivated as of September 5, 2012, but had remained active for 257 to 607 days after termination of employment. Based on the 3 former employees' last logon dates, their network access privileges were not used subsequent to termination. However, when the network access privileges of reassigned or former employees are not timely deactivated, the risk is increased that the access privileges may be misused by the former employees or others to compromise the confidentiality, integrity, or availability of the District's network and information stored therein.

Recommendation: The District should improve its termination procedures to ensure that the network access privileges of reassigned or former employees are timely deactivated.

Finding No. 3: Information Technology – Security Controls - User Authentication

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 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 related to user authentication, the risk is increased that the confidentiality, integrity, and availability of District data and IT resources may be compromised.

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

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

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

PRIOR AUDIT FOLLOW-UP

The District had taken corrective actions for findings included in our report No. 2012-091.

MANAGEMENT'S RESPONSE

Management's response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

*SUMTER COUNTY
DISTRICT SCHOOL BOARD
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2012*

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
2012-091		There were no prior Federal audit findings.		

EXHIBIT A
MANAGEMENT'S RESPONSE



SUMTER COUNTY SCHOOL BOARD

"Preparing the next generation today"

Richard A. Shirley
Superintendent of Schools

BOARD MEMBERS

Haydn L. Evans

District 1

Christine S. Norris

District 2

Linda J. Winchester

District 3

Kenneth P. Jones

District 4

Michael T. Foote

District 5

TELEPHONE

(352) 793-2315

Administration

Ext. 208 Fax 793-4180

Elementary Education

Ext. 206 Fax 793-4180

Secondary Education

Ext. 200 Fax 793-4180

Student Services

Ext. 211 Fax 793-4180

Federal Programs

Ext. 204 Fax 793-4180

Finance

Ext. 232 Fax 793-4963

Personnel

Ext. 220 Fax 793-4963

Employee Benefits

Ext. 229 Fax 793-2096

Food Service

Ext. 238 Fax 793-4963

Human Resource

Ext. 221 Fax 793-4963

Data Processing

Ext. 241 Fax 793-4963

Exceptional Education

Ext. 259 Fax 793-1612

Library Media / Instructional Technology

Ext. 256 Fax 793-4377

Adult Education

793-5719 Fax 793-6508

Facilities

793-1281 Fax 793-9298

Warehouse

793-7906 Fax 793-9298

Transportation

793-5705 Fax 793-1083

The Villages Charter Schools

352-259-2350

Fax 352-259-3850

January 07, 2013

Mr. David W. Martin, CPA
Auditor General
State of Florida
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450

Re: Sumter County District School Board
Preliminary and Tentative Audit Findings
For Fiscal Year Ended June 30, 2012

Dear Mr. Martin:

This letter is intended as the Sumter County School District's response to the preliminary and tentative audit findings dated December 10, 2012, for the District's fiscal year ending June 30, 2012.

Finding No. 1: Information Technology – Access Privileges

The district will create a program to identify users with update authority based on user interface and use this to review appropriate access.

Finding No. 2: Information Technology – Timely Deactivation of Access Privileges

The Network Services technical personnel will revisit our procedures with Human Resources to improve checks and balances for timely deactivation of network access privileges of staff terminations and leave of absences.

Finding No. 3: Information Technology – Security Controls – User Authentication

Network Services will implement recommended changes in user authentication as appropriate in January 2013.

Please contact Deborah W. Smith at 352-793-2315 x246 if you have any questions.

Sincerely,

Richard A. Shirley
Superintendent

RAS/av

2680 West County Road 476 - Bushnell, Florida 33513
<http://www.sumter.k12.fl.us>