

DESOTO 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>
Rodney W. Hollingsworth, Vice Chair from 11-22-11	1
Karen K. Chancey, Vice Chair to 11-21-11, Chair from 11-22-11	2
Deborah D. Snyder	3
William Stanko	4
Ronny R. Allen, Chair to 11-21-11	5

Adrian H. Cline, Superintendent

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

The audit team leader was Cesar A. Mayorga, and the audit was supervised by Deirdre F. Waigand, CPA. 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.

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**DESOTO COUNTY DISTRICT SCHOOL BOARD
TABLE OF CONTENTS**

	PAGE NO.
EXECUTIVE SUMMARY.....	i
INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS.....	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
BASIC FINANCIAL STATEMENTS	
Statement of Net Assets	10
Statement of Activities.....	12
Balance Sheet – Governmental Funds	14
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets.....	16
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	18
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	20
Statement of Fiduciary Assets and Liabilities – Fiduciary Funds.....	21
Notes to Financial Statements	22
OTHER REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule – General and Major Special Revenue Funds.....	44
Schedule of Funding Progress – Other Postemployment Benefits Plan.....	46
Notes to Required Supplementary Information.....	47
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	48
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>.....	50
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133.....	52
SCHEDULE OF FINDINGS AND QUESTIONED COSTS.....	54
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS.....	58
EXHIBIT A MANAGEMENT'S RESPONSE	59

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, with the exception of The Community Green, Corporation, which comprises a significant portion of the aggregate discretely presented component units.

Summary of Report on Internal Control and Compliance

We noted a certain matter involving the District's internal control over financial reporting and its operation that we consider to be a material weakness as summarized below.

MATERIAL WEAKNESS

Finding No. 1: Financial reporting procedures could be improved to ensure that accounts, transactions, and note disclosures are properly reported on the financial statements.

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.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Child Nutrition Cluster, Title I, Special Education Cluster, Race-to-the-Top, and Education Jobs Fund 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. However, we did note noncompliance and control deficiency findings as summarized below.

Federal Awards Finding No. 1: District records did not evidence the basis for using Education Jobs Fund resources to pay for contracted nursing services, resulting in \$33,401 of questioned costs.

Federal Awards Finding No. 2: The District did not have procedures to monitor its compliance with maintenance of effort requirements, resulting in \$48,262 of questioned costs.

Audit Objectives and Scope

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

- Presented the District's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements or on a major Federal program;
- Established internal controls that promote and encourage: 1) compliance with applicable laws, rules, regulations, contracts, and grant agreements; 2) the economic and efficient operation of the District; 3) the reliability of records and reports; and 4) the safeguarding of District assets;
- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements, and those applicable to the District's major Federal programs; and
- Taken corrective actions for findings included in our report No. 2012-119.

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.



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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the DeSoto County District School Board, as of and for the fiscal year ended June 30, 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 16 percent of the assets and 99 percent of the liabilities of the aggregate remaining fund information. Additionally, we did not audit the financial statements of the aggregate discretely presented component units. 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 aggregate discretely presented component units, are based on the reports of the other auditors.

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

Pursuant to Section 218.39(1)(e), Florida Statutes, an audit of The Community Green, Corporation (Charter School), was performed by other auditors. The auditors of the Charter School found material weaknesses in internal control as they were unable to obtain adequate audit evidence for \$14,686 of \$22,206 in food services supplies expenditures, \$9,585 of cash expenditures, and \$5,101 of other expenditures. As a result, the auditors issued a qualified opinion on the Charter School's financial statements.

In our opinion, based on our audit and the reports of the other auditors, except for the effects of such adjustments, if any, as might have been determined to be necessary had adequate evidence of the Charter School expenditures been available for audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information for the DeSoto County District School Board as of June 30, 2012, and the respective changes in financial position thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS, 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
February 27, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Key financial highlights for the 2011-2012 fiscal year are as follows:

- In total, net assets decreased \$282,470.89, which represents a 0.6 percent decrease from the 2010-11 fiscal year.
- General revenues totaled \$41,943,019.09 or 93.2 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions totaled \$3,045,333.96 or 6.8 percent of all revenues.
- Expenses totaled \$45,270,823.94. Only \$3,045,333.96 of these expenses is offset by program specific charges, with the remainder being paid from general revenues. Total expenses exceed revenues by \$282,470.89.
- The unassigned fund balance of the General Fund, which is available for general appropriation by the Board, totaled \$9,132,729.81 at June 30, 2012, or 27.5 percent of total General Fund expenditures.
- The DeSoto County District School Board entered into a contract with The Community Green, Corporation (Charter School) for the 2011-12 fiscal year. The Charter School reported a total net assets deficit of \$14,584 at June 30, 2012, and the Charter School's charter was terminated January 15, 2012. To assess the accuracy of the Charter School's financial statements for the 2011-12 fiscal year, the District paid for an audit of the Charter School.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements consist of three components:

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

Government-wide Financial Statements

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

The government-wide statements present the District's activities in 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 two separate entities in this report, The DeSoto County Education Foundation, Inc., and The Community Green, Corporation, d/b/a The Community Green Charter School. Although legally separate organizations, the component units are included in the report because they meet the criteria for inclusion provided by generally accepted accounting principles. Financial information for these component units are reported separately from the financial information presented for the primary government.

Fund Financial Statements

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

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

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

The governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances provide detailed information about the District's most significant funds. The District's major funds are the General Fund, Special Revenue - Other Federal Programs Fund, Special Revenue – Federal Economic Stimulus Fund, Debt Service – Other Debt Service Fund, and Capital Projects – Local Capital Improvement Fund. Data from the other governmental funds are combined into a single, aggregated presentation.

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

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

responsible for ensuring that the assets reported in these funds are used only for their intended purposes. The District uses agency funds to account for resources held for student activities and groups.

Notes to Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. The following is a summary of the District's net assets as of June 30, 2012, compared to net assets as of June 30, 2011:

	Net Assets, End of Year		
	Governmental Activities		
	6-30-12	6-30-11	Change
Current and Other Assets	\$23,077,509.19	\$23,421,025.46	\$ (343,516.27)
Capital Assets	38,437,115.57	38,429,410.02	7,705.55
Total Assets	61,514,624.76	61,850,435.48	(335,810.72)
Long-Term Liabilities	10,866,059.05	10,427,056.53	439,002.52
Other Liabilities	1,917,792.91	2,410,135.26	(492,342.35)
Total Liabilities	12,783,851.96	12,837,191.79	(53,339.83)
Net Assets:			
Invested in Capital Assets -			
Net of Debt	31,584,036.33	31,403,363.45	180,672.88
Restricted	11,998,505.72	11,534,763.15	463,742.57
Unrestricted	5,148,230.75	6,075,117.09	(926,886.34)
Total Net Assets	\$48,730,772.80	\$49,013,243.69	\$ (282,470.89)

The largest portion of the District's net assets (64.8 percent) reflects its investment in capital assets (e.g., land, buildings and fixed equipment, furniture, fixtures, and equipment), less any related debt still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending.

The restricted portion of the District's net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets total \$5,148,230.75, which may be used to meet the government's ongoing obligations to students, employees, and creditors.

The key elements of the changes in the District's net assets for the fiscal years ended June 30, 2012, and June 30, 2011, are as follows:

Operating Results for the Fiscal Year Ended			
	Governmental Activities		
	6-30-12	6-30-11	Change
Program Revenues:			
Charges for Services	\$ 541,615.29	\$ 525,773.25	\$ 15,842.04
Operating Grants and Contributions	2,316,660.43	2,212,573.84	104,086.59
Capital Grants and Contributions	187,058.24	522,649.06	(335,590.82)
General Revenues:			
Property Taxes, Levied for Operational Purposes	8,848,310.08	9,470,941.46	(622,631.38)
Property Taxes, Levied for Capital Projects	2,219,487.19	2,291,515.01	(72,027.82)
Grants and Contributions Not Restricted to Specific Programs	29,715,216.22	33,694,940.21	(3,979,723.99)
Unrestricted Investment Earnings	225,967.08	266,839.99	(40,872.91)
Miscellaneous	934,038.52	1,299,346.07	(365,307.55)
Total Revenues	44,988,353.05	50,284,578.89	(5,296,225.84)
Functions/Program Expenses:			
Instruction	24,008,412.81	26,491,127.69	(2,482,714.88)
Pupil Personnel Services	2,230,743.57	2,124,306.25	106,437.32
Instructional Media Services	490,183.85	553,187.32	(63,003.47)
Instruction and Curriculum Development Services	1,151,966.92	1,362,886.32	(210,919.40)
Instructional Staff Training Services	686,995.97	564,809.49	122,186.48
Instruction Related Technology	386,484.73	302,059.02	84,425.71
Board of Education	257,846.87	269,158.11	(11,311.24)
General Administration	539,186.19	637,733.94	(98,547.75)
School Administration	2,186,922.08	2,265,006.31	(78,084.23)
Facilities Acquisition and Construction	388,949.13	706,303.21	(317,354.08)
Fiscal Services	611,100.84	571,550.99	39,549.85
Food Services	2,549,508.40	2,407,520.79	141,987.61
Central Services	509,077.76	538,117.03	(29,039.27)
Pupil Transportation Services	1,869,638.06	1,825,748.68	43,889.38
Operation of Plant	3,025,058.40	2,930,202.15	94,856.25
Maintenance of Plant	1,557,715.77	1,639,378.45	(81,662.68)
Administrative Technology Services	577,569.77	603,732.99	(26,163.22)
Community Services	59,027.85	1,232.00	57,795.85
Unallocated Interest on Long-Term Debt	105,161.98	113,859.23	(8,697.25)
Unallocated Depreciation Expense	2,068,633.59	2,897,077.53	(828,443.94)
Loss on Disposal of Capital Assets	10,639.40	4,415.10	6,224.30
Total Functions/Program Expenses	45,270,823.94	48,809,412.60	(3,538,588.66)
Increase (Decrease) in Net Assets	\$ (282,470.89)	\$ 1,475,166.29	\$ (1,757,637.18)

The largest revenue source is the State of Florida (51 percent). Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data, and is designed to maintain equity in funding across all Florida school districts, taking into consideration the District's funding ability based on the local property tax base. Grants and contributions not restricted to specific programs decreased by \$3,979,723.99, primarily due to a decrease in FEFP funding totaling \$2,509,856.43, a decrease in Special Revenue – Federal Economic Stimulus funding totaling \$940,130.89, and a decrease in Special Revenue – Other Federal Programs funding totaling \$320,993.27. Other State revenues are primarily for the acquisition, construction, and maintenance of educational facilities. Capital grants and contributions decreased by \$335,590.82 due, in part, to a decrease in Public Education Capital Outlay special maintenance allocations.

Total governmental expenses for the 2011-12 fiscal year decreased by \$3,538,588.66 from the prior fiscal year due mainly to the closing of two Department of Juvenile Justice (DJJ) facilities totaling \$1,794,702.53; a decrease in facilities acquisition and construction expenses of \$317,354.08; and a decrease in the unallocated depreciation expenses of \$828,443.94. Instruction expenses decreased by \$2,482,714.88 due, in part, to the DJJ facility closing and also due in part to the decline in Federal economic stimulus funding mentioned above.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Major Governmental Funds

The General Fund is the District's chief operating fund. At the end of the current fiscal year, the unassigned fund balance is \$9,132,729.81, while the total fund balance is \$10,710,660.46. The unassigned fund balance decreased by \$89,114.22 from the prior fiscal year unassigned fund balance of \$9,221,844.03, while the total fund balance increased by \$431,833.01 during the fiscal year. Key factors are as follows:

- A net decrease in State revenues of \$2,763,705.24 is primarily due to a decrease in FEFP revenue and other State funding sources.
- A decrease in property tax revenues of \$622,631.38 is due to a decrease in assessed valuations and expiration of the 0.25 mill levy for critical operating needs.
- Total expenditures decreased by \$1,713,900.18, or 4.9 percent, primarily due to the DJJ closings and lower Florida Retirement System contributions rates for employers.

The Special Revenue – Other Federal Programs Fund accounts for certain Federal grant program resources, and expenditures and revenues decreased by \$320,993.27 each, or approximately 6.2 percent, due mainly to the elimination of the Twenty-First Century Community Learning Centers program.

The Special Revenue - Federal Economic Stimulus Fund accounts for Federal stimulus program resources, and expenditures and revenues decreased by \$940,130.89 each, or approximately 33.1 percent, due mainly to decreased funding.

The Debt Service – Other Debt Service Fund accounts for the accumulation of resources to the fiscal agent for the Qualified Zone Academy Bonds, and the fund balance increased by \$292,748.65, as a result of scheduled sinking fund payments and investment income.

The Capital Projects – Local Capital Improvement Fund has a total fund balance of \$6,103,568.12, which is restricted for the acquisition, construction, and maintenance of capital assets. The fund balance decreased by \$465,936.17 due to the Nocatee Elementary School Cafeteria Expansion Project and a decrease in local capital tax dollars. It should be noted that \$999,266.74 of fund balance has been encumbered for specific projects.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the course of the 2011-12 fiscal year, the District amended its General Fund budget several times, which resulted in a decrease in total budgeted revenues amounting to \$396,909.81, or 1.2 percent. At the same time, final appropriations were less than the original budgeted amounts by \$177,098.51 or 0.5 percent. Budget revisions were primarily due to a reduction in State unweighted full time equivalent (UFTE) revenue associated with the closure of two DJJ facilities, a decrease in local revenue, and corresponding adjustments to planned expenditures to ensure maintenance of an adequate fund balance.

Actual revenues were in line with the final budgeted amounts while actual expenditures were \$5,060,292.41, or 13.2 percent less than final budget amounts. The decrease in expenditures was primarily due to continued cost

containment measures implemented by the District. The actual ending fund balance exceeded the estimated fund balance contained in the final amended budget by \$4,979,897.02.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets for its governmental activities as of June 30, 2012, amounted to \$38,437,115.57 (net of accumulated depreciation). This investment in capital assets includes land; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; construction in progress; and audio visual materials and computer software.

Major capital asset events during the current fiscal year included construction and renovations totaling \$1,169,257.77 for the Nocatee Elementary School Cafeteria Expansion Project.

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 \$6,855,166.61, comprised of \$4,894,169 Qualified Zone Academy Bonds payable and \$1,960,997.61 in other bonds payable. During the fiscal year, retirement of debt amounted to \$173,240.73.

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

OTHER MATTERS OF SIGNIFICANCE

On July 10, 2012, the Board approved the refunding of the Series 1996, Refunding District Revenue Bonds, as discussed in note 17 to the financial statements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Board's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, DeSoto County District School Board, 530 LaSolona Avenue, Arcadia, Florida 34266.

BASIC FINANCIAL STATEMENTS

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

	Primary Government Governmental Activities	Component Units
ASSETS		
Cash and Cash Equivalents	\$ 19,749,089.51	\$ 87,008.00
Investments	206,268.22	
Due from Other Agencies	293,247.13	
Grants Receivable		7,500.00
Inventories	71,706.56	
Cash With Fiscal Agent	14,000.00	
Restricted Cash and Cash Equivalents		126,577.00
Restricted Investments	2,741,110.40	
Deferred Charges	2,087.37	
Capital Assets:		
Nondepreciable Capital Assets	1,655,133.42	
Depreciable Capital Assets, Net	36,781,982.15	
TOTAL ASSETS	\$ 61,514,624.76	\$ 221,085.00
LIABILITIES		
Payroll Deductions and Withholdings	\$ 1,167,304.73	\$
Accounts Payable	270,742.19	21,764.00
Due to Other Agencies	540.00	
Deposits Payable	441,216.13	
Deferred Revenue		6,302.00
Estimated Insurance Claims Payable	37,989.86	
Long-Term Liabilities:		
Portion Due Within One Year	503,187.75	
Portion Due After One Year	10,362,871.30	
Total Liabilities	12,783,851.96	28,066.00
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	31,584,036.33	
Restricted for:		
State Required Carryover Programs	1,118,489.56	
Debt Service	3,172,606.20	
Capital Projects	6,540,067.25	
Food Service	734,295.00	
Career and Adult Education	325,743.93	
Scholarships - Expendable		78,214.00
Scholarships - Nonexpendable		2,000.00
Other Purposes	107,303.78	40,820.00
Unrestricted	5,148,230.75	71,985.00
Total Net Assets	48,730,772.80	193,019.00
TOTAL LIABILITIES AND NET ASSETS	\$ 61,514,624.76	\$ 221,085.00

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

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

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
Instruction	\$ 24,008,412.81	\$ 114,346.88	\$	\$
Pupil Personnel Services	2,230,743.57			
Instructional Media Services	490,183.85			
Instruction and Curriculum Development Services	1,151,966.92			
Instructional Staff Training Services	686,995.97			
Instruction Related Technology	386,484.73			
School Board	257,846.87			
General Administration	539,186.19			
School Administration	2,186,922.08			
Facilities Acquisition and Construction	388,949.13			32,670.08
Fiscal Services	611,100.84			
Food Services	2,549,508.40	370,628.74	2,316,660.43	
Central Services	509,077.76			
Pupil Transportation Services	1,869,638.06	56,639.67		
Operation of Plant	3,025,058.40			
Maintenance of Plant	1,557,715.77			
Administrative Technology Services	577,569.77			
Community Services	59,027.85			
Unallocated Interest on Long-Term Debt	105,161.98			154,388.16
Unallocated Depreciation Expense	2,068,633.59			
Loss on Disposal of Capital Assets	10,639.40			
Total Primary Government	\$ 45,270,823.94	\$ 541,615.29	\$ 2,316,660.43	\$ 187,058.24
Component Units				
Charter School/Education Foundation	\$ 683,973.00	\$ 0.00	\$ 43,407.00	\$ 0.00
General Revenues:				
Taxes:				
Property Taxes, Levied for Operational Purposes				
Property Taxes, Levied for Capital Projects				
Grants and Contributions Not Restricted to Specific Programs				
Unrestricted Investment Earnings				
Miscellaneous				
Total General Revenues				
Change in Net Assets				
Net Assets - Beginning				
Net Assets - Ending				

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

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		Component
Governmental		Units
Activities		
\$	(23,894,065.93)	\$
	(2,230,743.57)	
	(490,183.85)	
	(1,151,966.92)	
	(686,995.97)	
	(386,484.73)	
	(257,846.87)	
	(539,186.19)	
	(2,186,922.08)	
	(356,279.05)	
	(611,100.84)	
	137,780.77	
	(509,077.76)	
	(1,812,998.39)	
	(3,025,058.40)	
	(1,557,715.77)	
	(577,569.77)	
	(59,027.85)	
	49,226.18	
	(2,068,633.59)	
	(10,639.40)	
	(42,225,489.98)	
		(640,566.00)
	8,848,310.08	
	2,219,487.19	
	29,715,216.22	671,668.00
	225,967.08	1,963.00
	934,038.52	
	41,943,019.09	673,631.00
	(282,470.89)	33,065.00
	49,013,243.69	159,954.00
\$	48,730,772.80	\$ 193,019.00

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

	General Fund	Special Revenue - Other Federal Programs Fund	Special Revenue - Federal Economic Stimulus Fund	Debt Service - Other Debt Service Fund
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
ASSETS				
Cash and Cash Equivalents	\$ 12,448,600.27	\$	\$	\$ 56,637.52
Investments				
Due from Other Funds	50,535.15			
Due from Other Agencies	45,151.36	94,582.30		
Inventories	18,155.67			
Cash With Fiscal Agent	14,000.00			
Restricted Investments				2,741,110.40
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 12,576,442.45</u>	<u>\$ 94,582.30</u>	<u>\$</u>	<u>\$ 2,797,747.92</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Payroll Deductions and Withholdings	\$ 1,167,304.73	\$	\$	\$
Accounts Payable	218,731.27	44,047.15		
Due to Other Funds		50,535.15		
Due to Other Agencies	540.00			
Deposits Payable	441,216.13			
Estimated Insurance Claims Payable	37,989.86			
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>1,865,781.99</u>	<u>94,582.30</u>	<u> </u>	<u> </u>
Fund Balances:				
Nonspendable:				
Inventory	18,155.67			
Restricted for:				
State Required Carryover Programs	1,118,489.56			
Food Service				
Debt Service				2,797,747.92
Capital Projects				
Career and Adult Education	325,743.93			
Other Purposes	107,303.78			
Total Restricted Fund Balance	<u>1,551,537.27</u>	<u> </u>	<u> </u>	<u>2,797,747.92</u>
Assigned to Financial Aid Fees	8,237.71	<u> </u>	<u> </u>	<u> </u>
Unassigned Fund Balance	<u>9,132,729.81</u>	<u> </u>	<u> </u>	<u> </u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>10,710,660.46</u>	<u> </u>	<u> </u>	<u>2,797,747.92</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 12,576,442.45</u>	<u>\$ 94,582.30</u>	<u>\$ 0.00</u>	<u>\$ 2,797,747.92</u>

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

Capital Projects - Local Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
\$ 5,928,135.66	\$ 1,315,716.06	\$ 19,749,089.51
182,531.86	23,736.36	206,268.22
		50,535.15
	153,513.47	293,247.13
	53,550.89	71,706.56
		14,000.00
		2,741,110.40
<u>\$ 6,110,667.52</u>	<u>\$ 1,546,516.78</u>	<u>\$ 23,125,956.97</u>
\$ 7,099.40	\$ 864.37	\$ 1,167,304.73
		270,742.19
		50,535.15
		540.00
		441,216.13
		37,989.86
<u>7,099.40</u>	<u>864.37</u>	<u>1,968,328.06</u>
	53,550.89	71,706.56
		1,118,489.56
	680,744.11	680,744.11
	374,858.28	3,172,606.20
6,103,568.12	436,499.13	6,540,067.25
		325,743.93
		107,303.78
<u>6,103,568.12</u>	<u>1,492,101.52</u>	<u>11,944,954.83</u>
		8,237.71
		9,132,729.81
<u>6,103,568.12</u>	<u>1,545,652.41</u>	<u>21,157,628.91</u>
<u>\$ 6,110,667.52</u>	<u>\$ 1,546,516.78</u>	<u>\$ 23,125,956.97</u>

**DESOTO 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 \$ 21,157,628.91

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. 38,437,115.57

Debt issuance costs are not expensed in the government-wide statements, but are reported as deferred charges and amortized over the life of the debt. 2,087.37

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:

Estimated Liability for Long-Term Claims	\$ 70,000.00	
Qualified Zone Academy Bonds Payable	4,894,169.00	
Bonds Payable	1,960,997.61	
Other Postemployment Benefits Payable	2,210,269.00	
Compensated Absences Payable	<u>1,730,623.44</u>	<u>(10,866,059.05)</u>

Total Net Assets - Governmental Activities \$ 48,730,772.80

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

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

	General Fund	Special Revenue - Other Federal Programs Fund	Special Revenue - Federal Economic Stimulus Fund	Debt Service - Other Debt Service Fund
Revenues				
Intergovernmental:				
Federal Direct	\$ 56,168.22	\$ 4,824,504.21	\$ 1,908,242.56	\$
Federal Through State and Local State	180,620.58 22,612,678.32			
Local:				
Property Taxes	8,848,310.08			
Charges for Services - Food Service				
Miscellaneous	1,208,339.11	3,021.75		85,362.69
Total Local Revenues	<u>10,056,649.19</u>	<u>3,021.75</u>		<u>85,362.69</u>
Total Revenues	<u>32,906,116.31</u>	<u>4,827,525.96</u>	<u>1,908,242.56</u>	<u>85,362.69</u>
Expenditures				
Current - Education:				
Instruction	19,302,248.90	3,001,004.83	1,352,410.77	
Pupil Personnel Services	1,557,716.80	628,043.14		
Instructional Media Services	481,137.12			
Instruction and Curriculum Development Services	712,911.72	421,080.82	5,654.27	
Instructional Staff Training Services	304,787.52	258,953.20	113,620.91	
Instruction Related Technology	254,685.40	6,539.99	113,252.71	
School Board	251,502.70			
General Administration	334,488.26	168,139.82	31,890.38	
School Administration	2,122,528.02		28,220.00	
Facilities Acquisition and Construction	77,690.79			
Fiscal Services	603,158.87			
Food Services	9,709.72			
Central Services	414,318.64	39,248.81	50,146.42	
Pupil Transportation Services	1,805,747.22	29,775.28	7,385.21	
Operation of Plant	2,942,655.52	59,778.99		
Maintenance of Plant	1,462,922.93			
Administrative Technology Services	529,289.00		39,040.53	
Community Services	56,669.89			
Fixed Capital Outlay:				
Facilities Acquisition and Construction	600.00			
Other Capital Outlay	9,319.77	214,961.08	166,621.36	
Debt Service:				
Principal	10,000.00			
Interest and Fiscal Charges				
Total Expenditures	<u>33,244,088.79</u>	<u>4,827,525.96</u>	<u>1,908,242.56</u>	
Excess (Deficiency) of Revenues Over Expenditures	<u>(337,972.48)</u>			<u>85,362.69</u>
Other Financing Sources (Uses)				
Transfers In	843,232.76			207,385.96
Insurance Loss Recoveries	5,666.10			
Transfers Out	(86,885.00)			
Total Other Financing Sources (Uses)	<u>762,013.86</u>			<u>207,385.96</u>
Net Change in Fund Balances	424,041.38			292,748.65
Increase in Nonspendable Inventory	7,791.63			
Fund Balances, Beginning	10,278,827.45			2,504,999.27
Fund Balances, Ending	<u>\$ 10,710,660.46</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 2,797,747.92</u>

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

Capital Projects - Local Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
\$	\$	\$
	2,277,437.43	56,168.22
	356,261.82	9,190,804.78
		22,968,940.14
2,219,487.19		11,067,797.27
	370,628.74	370,628.74
75,999.30	8,675.27	1,381,398.12
<u>2,295,486.49</u>	<u>379,304.01</u>	<u>12,819,824.13</u>
<u>2,295,486.49</u>	<u>3,013,003.26</u>	<u>45,035,737.27</u>
		23,655,664.50
		2,185,759.94
		481,137.12
		1,139,646.81
		677,361.63
		374,478.10
		251,502.70
		534,518.46
		2,150,748.02
309,959.83		387,650.62
		603,158.87
	2,506,769.74	2,516,479.46
		503,713.87
		1,842,907.71
		3,002,434.51
	76,529.38	1,539,452.31
		568,329.53
		56,669.89
1,629,676.37	3,607.68	1,633,884.05
	115,242.60	506,144.81
	170,000.00	180,000.00
	<u>108,129.31</u>	<u>108,129.31</u>
<u>1,939,636.20</u>	<u>2,980,278.71</u>	<u>44,899,772.22</u>
<u>355,850.29</u>	<u>32,724.55</u>	<u>135,965.05</u>
86,885.00		1,137,503.72
		5,666.10
<u>(908,671.46)</u>	<u>(141,947.26)</u>	<u>(1,137,503.72)</u>
<u>(821,786.46)</u>	<u>(141,947.26)</u>	<u>5,666.10</u>
(465,936.17)	(109,222.71)	141,631.15
	(323.30)	7,468.33
<u>6,569,504.29</u>	<u>1,655,198.42</u>	<u>21,008,529.43</u>
<u>\$ 6,103,568.12</u>	<u>\$ 1,545,652.41</u>	<u>\$ 21,157,628.91</u>

DESOTO COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2012

Net Change in Fund Balances - Governmental Funds \$ 141,631.15

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. 18,344.95

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 fiscal year purchased. Thus, the change in net assets differs from the change in fund balance by the undepreciated cost of the disposed assets. (10,639.40)

Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayment in the current fiscal year. 170,000.00

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

Net increase in expenses from unamortized premiums	\$ 6,540.00	
Net decrease in expenses from refunding costs	(3,299.27)	
Net decrease in expenses from deferred charges	<u>(273.40)</u>	2,967.33

The purchases method is used to account for inventories, except for donated foods, which are reported under the consumption method in the governmental funds; while in the government-wide statements, inventories are accounted for under the consumption method. 7,468.33

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 fiscal year. (33,903.25)

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. (588,340.00)

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

Change in Net Assets - Governmental Activities \$ (282,470.89)

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

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

	Agency Funds
ASSETS	
Cash and Cash Equivalents	\$ 293,229.00
LIABILITIES	
Internal Accounts Payable	\$ 293,229.00

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity. The DeSoto 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 Desoto 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 DeSoto County.

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

Discretely Presented Component Units. The DeSoto County Education Foundation, Inc. (Foundation), is a separate not-for-profit corporation organized and operated as a direct-support organization to receive, hold, invest, and administer property and to make expenditures to and for the benefit of the District. Because of the nature and significance of its relationship with the District, the Foundation is considered a component unit.

The Community Green, Corporation (Charter School), a not-for-profit corporation organized and operated as a charter school and was sponsored by the District to provide an educational program for students in grades kindergarten through seventh. The Charter School was considered a component unit of the District since it was fiscally dependent on the District to levy taxes for its support. The Charter School closed on December 27, 2011, and the charter was terminated on January 15, 2012.

The financial data reported on the accompanying statements was derived from the Foundation's and Charter School's audited financial statements for the fiscal year ended June 30, 2012, and the period ended January 31, 2012, respectively. The audit reports are 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 units.

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

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 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.

- **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 – Other Federal Programs Fund** – to account for certain Federal grant program resources.
- **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.
- **Debt Service – Other Debt Service Fund** – to account for the accumulation of resources for, and the payment of, long-term debt principal and interest.
- **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.

Additionally, the District reports the following fiduciary fund type:

- **Agency Funds** – to account for resources of the school internal funds, which are used to administer moneys collected at several schools in connection with school, student athletic, class, and club activities.

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

Government-wide financial statements are prepared using the accrual basis of accounting, as are the fiduciary funds financial statements. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized in the year for which

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

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 15 days of the end of the current fiscal year. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made. Under the modified accrual basis of accounting, expenditures are generally recognized when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, other postemployment benefits, and compensated absences, which are recognized when due. Allocations of cost, such as depreciation, are not recognized in governmental funds.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed. 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 Foundation, shown as a discretely presented component unit, uses the enterprise fund accounting and financial reporting standards established by GASB. The Foundation uses the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred.

The Charter School was accounted for as a governmental organization and followed 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, and short-term, highly liquid investments with original maturities of three months or less. Investments classified as cash equivalents include amounts placed with the State Board of Administration (SBA) in Florida PRIME, formerly known as the Local Government Surplus Funds Trust Fund Investment Pool.

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

Investments consist of amounts placed in 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.

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

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 obligations of United States Government agencies and instrumentalities and a guaranteed investment contract held by a trustee under a paying agent agreement in connection with the Qualified Zone Academy Bonds (QZABs) financing arrangements 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 cost on 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 purchased, except that United States Department of Agriculture donated foods are recorded as expenditures at the time the individual items are requisitioned for consumption. The purchased foods and supplies inventory balance and the transportation parts inventory balances are offset on the balance sheet by a nonspendable fund balance account which indicates that they do not constitute "spendable resources" even though they are a component of current assets.

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

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

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

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

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

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

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

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

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

State Revenue Sources. Significant revenues from State sources for current operations include the Florida Education Finance Program administered by the Florida Department of Education (Department) under the provisions of Section 1011.62, Florida Statutes. In accordance with this law, the District determines and reports the number of full-time equivalent (FTE) students and related data to the Department. The Department performs certain edit checks on the reported number of 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 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 DeSoto County Property Appraiser, and property taxes are collected by the DeSoto County Tax Collector.

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

The Board adopted the 2011 tax levy on September 13, 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 DeSoto County Tax Collector at fiscal year-end but not yet remitted to the District.

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

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

2. BUDGETARY COMPLIANCE AND ACCOUNTABILITY

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

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

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	\$ 369,364.16
Fund B	5.73 Year Average	182,531.86
Debt Service Accounts	6 Months	23,736.36
Guaranteed Investment Contract (2)	September 28, 2012	729,093.11
Obligations of United States Government		
Agencies and Instrumentalities (3)	August 1, 2012	2,012,017.29
Total Investments		<u>\$ 3,316,742.78</u>

Notes:

- (1) These investments are reported as cash equivalents for financial statement reporting purposes.
- (2) This investment is held under a trust agreement in connection with the Series 2006 QZABs. (See Note 6.)
- (3) This investment is held under a trust agreement in connection with the sinking fund requirement related to the Series 2001 QZABs. (See Note 6.)

Interest Rate Risk

- Interest rate risk is the risk that changes in interest rates that will adversely affects the fair value of an investment. The District's investment policy requires investment maturities to commensurate with the District's cash flow needs. The intent to invest in securities with maturities longer than three years must be disclosed in writing to the Board. The District's participation in Fund B is involuntary.
- 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 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 the 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 weighted average duration calculation. At June 30, 2012, based on expected 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.

Credit Risk

- Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's investment policy limits investments to Securities and Exchange Commission registered money market funds with the highest credit rating from a nationally recognized rating agency; interest-bearing time deposits or savings accounts; direct obligations of the United States Treasury; Federal agencies and instrumentalities; registered open-end or closed-end management-type investment company or investment trusts with portfolios limited to United States Treasury or agency obligations which are properly collateralized; as well as Florida PRIME or any authorized intergovernmental investment pool.

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

- 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.
- The District's investment in Florida PRIME is rated AAAm by Standard & Poor's. Fund B is unrated.
- The District's investments in obligations of United States Government agencies and instrumentalities, and the guaranteed investment contract, are authorized under agreements with the QZAB paying agents. The agreements authorize the investment of available fund amounts in certain eligible securities, including, without limitation, the Federal National Mortgage Association and Federal Home Loan Mortgage Corporation. These investments, totaling \$2,741,110.40, were rated AAA by Moody's Investors Service.

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 addresses custodial credit risk in that all securities would be held with a third party custodian as evidenced by safekeeping receipts, and all securities purchased by, and all collateral obtained by, the District should be properly designated as an asset of the District.
- Restricted investments of \$2,741,110.40 in obligations of United States Government agencies and instrumentalities, and the guaranteed investment contract, are held in custodial accounts by the QZAB paying agents.

Concentration of Credit Risk

- Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The risk and diversification characteristics of the investments in the Board's managed investment portfolio shall be structured so as to provide sufficient liquidity to meet obligations of the Board in a timely manner, meet the investment objectives, and meet the standards of care. Portfolio diversification requires prior approval of the Superintendent and Board.
- The United States Government agencies and instrumentalities and guaranteed investment contract investments are for Federal National Mortgage Association and Federal Home Loan Mortgage Corporation securities. These investments are 83 percent of the District's total investments and 100 percent of the investments in the Debt Service – Other Debt Service Fund. These investments are made pursuant to agreements with the QZAB paying agents (see note 6).

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

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	\$ 331,142.20	\$	\$	\$ 331,142.20
Construction in Progress	3,700,500.82	1,198,796.75	3,575,306.35	1,323,991.22
Total Capital Assets Not Being Depreciated	4,031,643.02	1,198,796.75	3,575,306.35	1,655,133.42
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	1,604,562.05	87,757.86		1,692,319.91
Buildings and Fixed Equipment	53,745,356.00	3,420,055.17		57,165,411.17
Furniture, Fixtures, and Equipment	4,915,523.56	443,544.11	308,655.30	5,050,412.37
Motor Vehicles	2,949,629.28	287,336.00	154,873.81	3,082,091.47
Audio Visual Materials and Computer Software	1,522,497.98	224,795.00	155,557.70	1,591,735.28
Total Capital Assets Being Depreciated	64,737,568.87	4,463,488.14	619,086.81	68,581,970.20
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	926,809.38	87,133.94		1,013,943.32
Buildings and Fixed Equipment	21,820,507.49	1,364,681.70		23,185,189.19
Furniture, Fixtures, and Equipment	3,981,488.73	352,122.16	302,589.23	4,031,021.66
Motor Vehicles	2,342,689.53	167,653.49	154,873.81	2,355,469.21
Audio Visual Materials and Computer Software	1,268,306.74	97,042.30	150,984.37	1,214,364.67
Total Accumulated Depreciation	30,339,801.87	2,068,633.59	608,447.41	31,799,988.05
Total Capital Assets Being Depreciated, Net	34,397,767.00	2,394,854.55	10,639.40	36,781,982.15
Governmental Activities Capital Assets, Net	\$ 38,429,410.02	\$ 3,593,651.30	\$ 3,585,945.75	\$ 38,437,115.57

The District's capital assets serve multiple functions; however, depreciation expense is not allocated to the various functions on the statement of activities, but is shown as unallocated depreciation expense.

5. ESTIMATED LIABILITY FOR LONG-TERM CLAIMS

Chapter 91-327, Special Acts of Florida, directed the DeSoto County District School Board, commencing December 1, 1991, to make annual payments of \$10,000 to an individual for the rest of the life of the individual as of a result of an accident that occurred during a physical education class at DeSoto High School. The Board estimated the total liability at June 30, 2012 to be \$70,000, which is recorded as a long-term liability in the government-wide statement of net assets. Payment is made on December 1 of each year.

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

6. QUALIFIED ZONE ACADEMY BONDS PAYABLE

The District entered into a financing arrangement on April 17, 2001, which arrangement was characterized as a lease-purchase agreement, with First Union National Bank whereby the District secured financing of certain equipment and improvements in the total amount of \$1,119,618. Also, on April 17, 2001, the District borrowed \$1,264,000 from First Union National Bank for certain capital projects and repairs of the District. Both the lease-purchase agreement and the note, which totaled \$2,383,618, were structured to qualify as Qualified Zone Academy Bonds (QZABs), pursuant to Section 1397E of the Internal Revenue Code, as amended. There is no interest cost to the District for borrowing moneys under this program. Mandatory annual deposits beginning on April 16, 2002, and ending on April 16, 2015, are to be made to a District sinking fund account with a paying agent. Such deposits are to be held and accumulated by the paying agent and applied solely to the payment of the rental payments under the lease-purchase agreement and the payments due under the note on the final rental payment date. On April 16, 2015, the paying agent will pay the sum of \$2,383,618 to the lessor. As of June 30, 2012, the paying agent held deposits invested in obligations of United States Government agencies and instrumentalities in the sinking fund totaling \$2,012,017.29.

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

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

Repayment of the original \$2,510,551 financing proceeds is due in full on September 28, 2021. In connection with the financing, the District entered into a sinking fund forward delivery agreement dated September 28, 2006, requiring annual lease payments of \$132,287, beginning on September 28, 2007 and ending on September 28, 2021. The forward delivery agreement provides a guaranteed investment return of 3.25 percent per annum, whereby the required deposits, along with the accrued interest, will be sufficient to repay the debt at maturity. The invested assets accumulated pursuant to the forward delivery agreement are held under a custodial agreement until the debt matures. As of June 30, 2012, the paying agent held \$729,093.11 in deposits invested in a guaranteed investment contract.

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

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

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

Fiscal Year Ending June 30	Deposit Amount
2013	\$ 256,689
2014	256,689
2015	256,689
2016	132,287
2017	132,287
2018-2022	661,435
Total	<u>\$ 1,696,076</u>

7. BONDS PAYABLE

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

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 2005B, Refunding	\$ 730,000	5.0	2018
Series 2009A, Refunding	65,000	4.0 - 5.0	2019
District Revenue Bonds:			
Series 1996, Refunding	1,130,000	5.125 - 5.250	2025
Subtotal	1,925,000		
Add: Unamortized Premium on Debt	64,613		
Less: Difference between the Reacquisition Price	(28,615)		
Total Bonds Payable	<u>\$ 1,960,998</u>		

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

➤ State School Bonds

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

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

investment of debt service fund resources, and compliance with reserve requirements are administered by the State Board of Education and the State Board of Administration.

➤ **District Revenue Bonds**

These bonds are authorized by Chapter 78-947, Laws of Florida, which provides that the bonds be secured from the pari-mutuel tax proceeds distributed annually to DeSoto County from the State's Pari-mutuel Tax Collection Trust Fund pursuant to Chapter 550, Florida Statutes (effective July 1, 2000, tax proceeds 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 has pledged a total of \$1,585,868.78 of pari-mutuel tax revenues in connection with the Series 1996, Refunding District Revenue Bonds, described above. During the 2011-12 fiscal year, the District recognized pari-mutuel tax revenues totaling \$132,166.66 and expended \$122,935.32 (93 percent) of these revenues for debt service directly collateralized by these revenues. The pledged pari-mutuel tax revenues are committed until final maturity of the debt on June 1, 2025. Approximately 94 percent of this revenue stream has been pledged in connection with debt service on the revenue bonds.

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

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2013	\$154,650.00	\$115,000.00	\$39,650.00
2014	154,000.00	120,000.00	34,000.00
2015	158,000.00	130,000.00	28,000.00
2016	156,500.00	135,000.00	21,500.00
2017	159,750.00	145,000.00	14,750.00
2018-2019	158,000.00	150,000.00	8,000.00
Total State School Bonds	940,900.00	795,000.00	145,900.00
District Revenue Bonds:			
2013	123,981.26	65,000.00	58,981.26
2014	120,650.00	65,000.00	55,650.00
2015	122,318.76	70,000.00	52,318.76
2016	123,731.26	75,000.00	48,731.26
2017	119,887.50	75,000.00	44,887.50
2018-2022	610,125.00	450,000.00	160,125.00
2023-2025	365,175.00	330,000.00	35,175.00
Total District Revenue Bonds	1,585,868.78	1,130,000.00	455,868.78
Total	\$ 2,526,768.78	\$ 1,925,000.00	\$ 601,768.78

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

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					
Estimated Liability for Long-Term Claims	\$ 80,000.00	\$	\$ 10,000.00	\$ 70,000.00	\$ 10,000.00
Qualified Zone Academy Bonds Payable	4,894,169.00			4,894,169.00	
Bonds Payable	2,134,238.34		173,240.73	1,960,997.61	180,000.00
Compensated Absences Payable	1,696,720.19	353,349.00	319,445.75	1,730,623.44	313,187.75
Other Postemployment Benefits Payable	1,621,929.00	878,214.00	289,874.00	2,210,269.00	
Total Governmental Activities	<u>\$ 10,427,056.53</u>	<u>\$ 1,231,563.00</u>	<u>\$ 792,560.48</u>	<u>\$ 10,866,059.05</u>	<u>\$ 503,187.75</u>

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

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	\$ 50,535.15	\$
Special Revenue - Other Federal Programs		50,535.15
Total	<u>\$ 50,535.15</u>	<u>\$ 50,535.15</u>

At fiscal year-end, the District had expenditures in its Special Revenue – Other Federal Programs Fund for special revenue projects that had not yet been reimbursed by the grantor agencies. These expenditures were paid from the General Fund.

**DESOTO 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	\$ 843,232.76	\$ 86,885.00
Debt Service - Other Debt Service	207,385.96	
Capital Projects - Local Capital Improvement	86,885.00	908,671.46
Nonmajor Governmental		141,947.26
Total	<u>\$ 1,137,503.72</u>	<u>\$ 1,137,503.72</u>

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

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.

➤ **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 District also classifies \$441,285.42 as assigned that are constrained to be used for specific purposes based on actions of the Superintendent and Director of Finance, as authorized by Board Policy 90.15, and not included in other categories.

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

➤ 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:

<u>Source</u>	<u>Amount</u>
Florida Education Finance Program	\$ 16,298,846.57
Categorical Educational Program - Class Size Reduction	5,223,242.00
Workforce Education Program	803,803.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	184,282.16
Adults with Disabilities	179,468.79
Racing Commission Funds	132,166.66
Mobile Home License Tax	47,792.09
Food Service Supplement	39,223.00
Discretionary Lottery Funds	14,975.00
Miscellaneous	45,140.87
Total	\$ 22,968,940.14

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

12. PROPERTY TAXES

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

<u></u>	<u>Millages</u>	<u>Taxes Levied</u>
<u>GENERAL FUND</u>		
Nonvoted School Tax:		
Required Local Effort	5.229	\$ 7,931,881
Basic Discretionary Local Effort	0.748	1,134,638
<u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	1.500	2,275,353
Total	7.477	\$ 11,341,872

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

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.

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, Senior Management Service 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.

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

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
Florida Retirement System, Senior Management Service	3.00	6.27
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 \$2,144,708.80, \$2,370,148.88, and \$1,614,704.15, respectively, which were equal to the required contributions for each fiscal year.

There were 98 District participants in the Investment Plan during the 2011-12 fiscal year. The District's contributions, including employee contributions, to the Investment Plan totaled \$133,922.59, 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.

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, former employees who retire from the District, and eligible dependents, are eligible to participate in the District's medical, prescription drug, and life insurance coverages. The District subsidizes the premium rates paid by retirees by allowing them to participate in the OPEB Plan at the blended group premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the OPEB Plan on average than those of active employees. Additionally, certain retirees receive insurance coverage at a lower (explicitly subsidized) premium rate than active employees. The District pays, upon retirement, for retirees who accrued 20 years of service with the

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

District, the first year of premiums for medical and prescription drug coverage. Retirees are not required to enroll in the Federal Medicare program in order to remain covered under the program; however, since membership in Medicare Part A is automatic, the OPEB Plan pays as secondary for all eligible retirees, and for eligible retirees that enroll in Medicare Part B. The OPEB Plan does not issue a stand-alone report, and is not included in the report of a public employee retirement system or another entity.

Funding Policy. Plan contribution requirements of the District and Plan members are established and may be amended through action from the Board. The District has not advance-funded or established a funding methodology for the annual OPEB costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go-basis. For the 2011-12 fiscal year, 153 retirees received other postemployment benefits. The District provided required contributions of \$289,874 toward the annual OPEB cost, net of retiree contributions totaling \$246,144, which represents 1.3 percent of covered payroll.

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

Description	Amount
Normal Cost (service cost for one year)	\$ 417,189
Amortization of Unfunded Actuarial Accrued Liability	486,255
Annual Required Contribution	903,444
Interest on Net OPEB Obligation	64,877
Adjustment to Annual Required Contribution	(90,107)
Annual OPEB Cost (Expense)	878,214
Contribution Toward the OPEB Cost	(289,874)
Increase in Net OPEB Obligation	588,340
Net OPEB Obligation, Beginning of Year	1,621,929
Net OPEB Obligation, End of Year	\$ 2,210,269

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

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

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2009-10	\$ 777,326	36.4%	\$ 1,137,904
2010-11	808,562	40.1%	1,621,929
2011-12	878,214	33.0%	2,210,269

Funded Status and Funding Progress. As of January 1, 2012, the most recent valuation date, the actuarial accrued liability for benefits was \$8,582,625, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$8,582,625 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$21,674,711, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 39.6 percent.

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

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

The District's OPEB actuarial valuation as of January 1, 2012, used the entry age normal cost actuarial method to establish the unfunded actuarial liability as of June 30, 2012. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets. The actuarial assumptions also included a payroll growth rate of 4 percent per year, and an annual healthcare cost trend of 8.5 percent initially for the calendar year 2012, reduced to an ultimate rate of 5.45 percent after 8 years. The investment rate of return and payroll growth assumptions include a general price inflation rate of 3 percent. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll over a 20-year period on a closed basis. The remaining amortization period at June 30, 2012, is 18 years.

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

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	Special Revenue - Other Federal Programs	Special Revenue - Federal Economic Stimulus	Capital Projects - Local Capital Improvement	Nonmajor Governmental Funds	Total Governmental Funds
<u>\$ 135,271.63</u>	<u>\$ 577,914.30</u>	<u>\$ 183.95</u>	<u>\$ 999,266.74</u>	<u>\$ 60,657.86</u>	<u>\$ 1,773,294.48</u>

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

Project	Contract Amount	Completed to Date	Balance Committed
Nocatee Elementary School Cafeteria Expansion:			
Contractor	\$ 796,693.90	\$ 741,092.00	\$ 55,601.90
Architect	14,586.25	13,987.45	598.80
Direct Purchases	427,917.43	414,178.32	13,739.11
Total	<u>\$ 1,239,197.58</u>	<u>\$ 1,169,257.77</u>	<u>\$ 69,939.81</u>

16. RISK MANAGEMENT PROGRAMS

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

The District makes premium contributions to the Trust to pay for its coverage. The interlocal agreement which establishes the Trust is not intended to create a partnership or other legal entity whereby one member assumes the obligations of another member or the obligations of the Trust in general, except for the payment of premiums. Should a deficit develop in the Trust, after excess reinsurance recoveries, whereby claims or other

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

expenses cannot be paid, each individual member shall assume liability for the costs of claims brought against that member as if such member were individually self-insured. Each member shall thereafter be responsible for its individual costs, including, but not limited to, claims administration without an obligation to, or right of contribution from, other members.

The District also participates in a self-insured employee group dental insurance program. Effective January 1, 2009, Combined Insurance Services, Incorporated, a third-party administrator was awarded the dental administrative services. Premiums charged are based on the District's claims experience, and a flat administrative rate of \$1,500. The program has low risk due to low trend factors and a claims expense ceiling of \$2,000 per calendar year. Ultimate liability for claims remains with the District and, accordingly, the insurance risks are not transferred. The District accounts for the insurance program in the General Fund.

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

Fiscal Year	Beginning-of-Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-End
2010-11	\$ 40,729.84	\$ 270,005.37	\$ (266,344.47)	\$ 44,390.74
2011-12	44,390.74	221,538.23	(227,939.11)	37,989.86

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

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

17. SUBSEQUENT EVENT

On July 10, 2012, the Board approved the refunding of the Series 1996, Refunding District Revenue Bonds in the amount of \$1,056,972.

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OTHER REQUIRED SUPPLEMENTARY INFORMATION

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

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	\$ 40,000.00	\$ 56,168.22	\$ 56,168.22	\$
Federal Through State and Local	91,496.72	180,620.58	180,620.58	
State	24,038,565.08	22,612,678.32	22,612,678.32	
Local:				
Property Taxes	8,610,722.00	8,848,310.08	8,848,310.08	
Miscellaneous	523,544.34	1,209,641.13	1,208,339.11	(1,302.02)
Total Local Revenues	9,134,266.34	10,057,951.21	10,056,649.19	(1,302.02)
Total Revenues	33,304,328.14	32,907,418.33	32,906,116.31	(1,302.02)
Expenditures				
Current - Education:				
Instruction	22,545,632.55	21,584,407.53	19,302,248.90	2,282,158.63
Pupil Personnel Services	1,328,852.14	1,646,221.12	1,557,716.80	88,504.32
Instructional Media Services	500,228.52	501,292.10	481,137.12	20,154.98
Instruction and Curriculum Development Services	948,010.40	1,023,151.65	712,911.72	310,239.93
Instructional Staff Training Services	506,671.65	583,796.26	304,787.52	279,008.74
Instruction Related Technology	299,167.56	311,710.57	254,685.40	57,025.17
School Board	363,075.52	364,848.52	251,502.70	113,345.82
General Administration	637,844.43	667,364.74	334,488.26	332,876.48
School Administration	2,230,030.41	2,230,803.99	2,122,528.02	108,275.97
Facilities Acquisition and Construction	71,307.81	77,965.11	77,690.79	274.32
Fiscal Services	595,193.70	770,453.26	603,158.87	167,294.39
Food Services		9,709.72	9,709.72	
Central Services	511,919.78	555,750.77	414,318.64	141,432.13
Pupil Transportation Services	1,663,120.37	1,863,320.73	1,805,747.22	57,573.51
Operation of Plant	3,851,076.70	3,486,425.55	2,942,655.52	543,770.03
Maintenance of Plant	1,819,584.70	1,918,286.58	1,462,922.93	455,363.65
Administrative Technology Services	598,517.47	607,186.23	529,289.00	77,897.23
Community Services	1,246.00	81,767.00	56,669.89	25,097.11
Fixed Capital Outlay:				
Facilities Acquisition and Construction		600.00	600.00	
Other Capital Outlay		9,319.77	9,319.77	
Debt Service:				
Principal	10,000.00	10,000.00	10,000.00	
Total Expenditures	38,481,479.71	38,304,381.20	33,244,088.79	5,060,292.41
Excess (Deficiency) of Revenues Over Expenditures	(5,177,151.57)	(5,396,962.87)	(337,972.48)	5,058,990.39
Other Financing Sources (Uses)				
Transfers In	700,000.00	843,232.76	843,232.76	
Insurance Loss Recoveries		5,666.10	5,666.10	
Transfers Out			(86,885.00)	(86,885.00)
Total Other Financing Sources (Uses)	700,000.00	848,898.86	762,013.86	(86,885.00)
Net Change in Fund Balances	(4,477,151.57)	(4,548,064.01)	424,041.38	4,972,105.39
Increase in Nonspendable Inventory			7,791.63	7,791.63
Fund Balances, Beginning	10,278,827.45	10,278,827.45	10,278,827.45	
Fund Balances, Ending	\$ 5,801,675.88	\$ 5,730,763.44	\$ 10,710,660.46	\$ 4,979,897.02

Special Revenue - Other Federal Programs Fund				Special Revenue - Federal Economic Stimulus Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
\$ 4,792,647.90	\$ 6,539,108.28	\$ 4,824,504.21	\$ (1,714,604.07)	\$ 1,625,844.58	\$ 2,026,891.58	\$ 1,908,242.56	\$ (118,649.02)
		3,021.75	3,021.75				
		3,021.75	3,021.75				
4,792,647.90	6,539,108.28	4,827,525.96	(1,711,582.32)	1,625,844.58	2,026,891.58	1,908,242.56	(118,649.02)
2,788,374.36	3,894,898.59	3,001,004.83	893,893.76	1,343,954.79	1,352,410.77	1,352,410.77	
624,595.25	820,625.42	628,043.14	192,582.28	34,362.04			
				7,650.00			
628,439.05	557,354.85	421,080.82	136,274.03	11,894.55	5,654.27	5,654.27	
528,080.68	583,085.28	258,953.20	324,132.08	146,487.73	129,188.10	113,620.91	15,567.19
7,522.95	10,300.85	6,539.99	3,760.86	7,465.04	191,288.90	113,252.71	78,036.19
108,741.46	248,054.86	168,139.82	79,915.04	34,445.26	39,662.77	31,890.38	7,772.39
				1,592.47	28,220.00	28,220.00	
55,048.57	69,990.00	39,248.81	30,741.19	12,551.47	63,151.35	50,146.42	13,004.93
42,243.66	70,304.59	29,775.28	40,529.31	24,741.23	7,385.21	7,385.21	
9,601.92	69,532.76	59,778.99	9,753.77				
				700.00	43,308.85	39,040.53	4,268.32
	214,961.08	214,961.08			166,621.36	166,621.36	
4,792,647.90	6,539,108.28	4,827,525.96	1,711,582.32	1,625,844.58	2,026,891.58	1,908,242.56	118,649.02
\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

DESOTO 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	\$ 11,754,336	\$ 11,754,336	0.0%	\$ 22,247,869	52.8%
January 1, 2010	0	8,028,085	8,028,085	0.0%	21,795,474	36.8%
January 1, 2012	0	8,582,625	8,582,625	0.0%	21,674,711	39.6%

Note: (1) The District's OPEB valuation used the entry age normal cost method to estimate the actuarial accrued liability.

**DESOTO 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.

2. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS

The January 1, 2012, unfunded accrued actuarial liability of \$8,582,625 was slightly higher than the January 1, 2010, liability of \$8,028,085 as a result of benefit changes and other changes in cost and liability as discussed below:

- Effective January 1, 2008, the District began offering a Medicare Advantage (MA-PD) Plan. The majority of retirees age 65 and older are now enrolled in this plan. The number of retirees with medical coverage included in the current valuation assumed that 90 percent of eligible retirees would let their coverage lapse under the core District plan and that many of those lapsing would switch to the MA-PD plan. The rate at which employees who retire choose to continue health coverage under the core plan increased from 20 percent to 35 percent.
- The cost of coverage did not increase as much as projected in the January 1, 2010, valuation. However, the overall healthcare trend rate was revised upward.
- High-cost employer health plans excise tax provisions of the Affordable Care Act on the District plan are projected to result in a 6.24 percent increase in the cost of coverage for the plan year 2018, in addition to a 6 percent medical inflation assumed for that year for a total increase of 12.24 percent over 2017 costs.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**DESOTO 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)
United States Department of Agriculture:			
Indirect:			
Child Nutrition Cluster:			
Florida Department of Education:			
School Breakfast Program	10.553	321	\$ 147,009.69
National School Lunch Program	10.555	300, 350	680,524.61
Summer Food Service Program for Children	10.559	323	49,939.69
Florida Department of Agriculture and Consumer Services:			
School Breakfast Program	10.553	321	203,990.31
National School Lunch Program	10.555 (2)(A)	300, 350	<u>1,126,159.02</u>
Total Child Nutrition Cluster			<u>2,207,623.32</u>
Florida Department of Education:			
Fresh Fruit and Vegetable Program	10.582	330	41,271.55
Florida Department of Agriculture and Consumer Services:			
Fresh Fruit and Vegetable Program	10.582	330	<u>37,425.58</u>
Total United States Department of Agriculture			<u>2,286,320.45</u>
United States Department of Energy:			
Indirect:			
University of Central Florida:			
ARRA - State Energy Program	81.041 (2)(B)	None	<u>126,283.85</u>
United States Department of Education:			
Indirect:			
Special Education Cluster:			
Florida Department of Education:			
Special Education - Grants to States	84.027	263	1,073,062.83
Special Education - Preschool Grants	84.173	267	37,921.00
ARRA - Special Education - Grants to States, Recovery Act	84.391	263	48,412.39
Putnam County District School Board:			
Special Education - Grants to States	84.027	None	56,461.71
Sarasota County District School Board:			
Special Education - Grants to States	84.027	None	<u>2,060.00</u>
Total Special Education Cluster			1,217,917.93
Title I, Part A Cluster:			
Florida Department of Education:			
Title I Grants to Local Educational Agencies	84.010	212, 222, 223, 226, 228	2,357,102.86
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	212, 223, 226	<u>528,688.80</u>
Total Title I, Part A Cluster			2,885,791.66
Educational Technology State Grants Cluster:			
Florida Department of Education:			
Education Technology State Grants	84.318	122	76,672.93
ARRA - Education Technology State Grants, Recovery Act	84.386	121	<u>22,821.96</u>
Total Educational Technology State Grants Cluster			99,494.89
Florida Department of Education:			
Adult Education - Basic Grants to States	84.002	191, 193	170,880.32
Migrant Education - State Grant Program	84.011	217	446,537.99
Career and Technical Education - Basic Grants to States	84.048	161	110,045.29
Education for Homeless Children and Youth	84.196	127	64,881.06
Twenty-First Century Community Learning Centers	84.287	244	23,644.00
Rural Education	84.358	110	85,961.75
English Language Acquisition Grants	84.365	102	101,398.77
Improving Teacher Quality State Grants	84.367	224	182,828.43
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	RL111, RG311, RD211	278,833.41
Education Jobs Fund	84.410	541	<u>1,029,486.00</u>
Highlands County District School Board:			
Safe and Drug-Free Schools and Communities - National Programs	84.184	None	1,377.12
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	None	281.48
Putnam County District School Board:			
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	None	246.45
Washington County District School Board:			
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	None	<u>5,000.00</u>
Total United States Department of Education			<u>6,704,606.55</u>

DESOTO COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
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)
United States Department of Health and Human Services:			
Indirect:			
Central Florida Behavioral Health Network, Inc.:			
Block Grants for Prevention and Treatment of Substance Abuse	93.959	None	\$ 55,521.00
United States Department of Homeland Security:			
Indirect:			
Florida Department of Education:			
State Domestic Preparedness Equipment Support Program	97.004	532	94,582.30
United States Department of Defense:			
Direct:			
Army Junior Reserve Officers Training Corps	None	N/A	56,168.22
Total Expenditures of Federal Awards			\$ 9,323,482.37

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:

(A) National School Lunch Program - Includes \$185,684.64 of donated food used during the fiscal year. Donated foods are valued at fair value as determined at the time of donation.

(B) State Energy Program - Represents the Federally-paid portion of solar panels and related site preparation and installation costs.



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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

INDEPENDENT AUDITOR'S REPORT ON 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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the DeSoto County District School Board as of and for the fiscal year ended June 30, 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 and was modified to address the other auditors' qualification on the Charter School due to a lack of audit evidence for certain expenditures. 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 aggregate discretely presented component units, as described in our report on the DeSoto County District School Board's financial statements. For the school internal funds and the aggregate discretely presented component units, this report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. However, as described in the **SCHEDULE OF**

FINDINGS AND QUESTIONED COSTS section of this report, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Financial Statement Finding No. 1 to be a material weakness.

Compliance and Other Matters

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

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
February 27, 2013



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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The President of the Senate, the Speaker of the
House of Representatives, and the
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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 DeSoto 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.

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. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding Nos. 1 and 2.

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. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding Nos. 1 and 2. A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 the response.

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
February 27, 2013

**DESOTO 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:

Except for the effects of adjustments that may have been necessary for a discretely presented component unit, there was no modification to the opinions on the financial statements.

Material weakness(es) identified?

Yes

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)?

Yes

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

Unqualified for all major programs

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

Yes

Identification of major programs:

Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559); Title I, Part A Cluster (CFDA Nos. 84.010 and 84.389 - ARRA); Special Education Cluster (CFDA Nos. 84.027, 84.173, and 84.391 - ARRA); ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act (CFDA No. 84.395 - ARRA); and Education Jobs Fund (CFDA No. 84.410).

Dollar threshold used to distinguish between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

Yes

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

FINANCIAL STATEMENT FINDING

MATERIAL WEAKNESS

Finding No. 1: Financial Reporting

State Board of Education Rule 6A-1.0071, Florida Administrative Code, and related instructions from the Florida Department of Education (FDOE) prescribe the exhibits and schedules that should be prepared as part of the District's annual financial report (AFR). Law and rules require that these exhibits and schedules be prepared in accordance with generally accepted accounting principles. One of the principal methods that a school district uses to provide accountability for its public resources is the preparation of its AFR. As such, District personnel should ensure that the report is accurate and contains all required disclosures so that users, such as the Board, Superintendent, District management, and other interested parties, can appropriately evaluate, among other things, District operations, budgetary compliance, and financial condition.

Our review of the District's 2011-12 fiscal year AFR, as submitted to the FDOE and presented for audit, disclosed that financial reporting procedures could be improved. For example:

- District personnel did not identify and report all liabilities at fiscal year-end, resulting in underreported facilities, acquisition, and construction expenditures, and construction-related payables, totaling \$79,669.39 each in the Capital Projects – Local Capital Improvement Fund, and instructional expenditures and related payables totaling \$66,019.31 each in the Special Revenue – Other Federal Programs Fund.
- The basic financial statements are required to include notes to financial statements to describe and explain financial statement presentations, and make other required disclosures relating to the District's activity. Financial statement note disclosures included a description of significant construction contracts outstanding at fiscal year-end; however, the District did not reduce its construction commitment outstanding at fiscal year-end for District direct purchases, resulting in overstatement of contract commitments outstanding by \$504,686.

Reporting errors such as the above, which occurred mainly because of oversights, may cause financial statement users to incorrectly assess the District's construction activity and financial position. We extended our audit procedures to determine the adjustments necessary to properly report account balances, transactions, and note disclosures on the District's financial statements, and District personnel accepted these adjustments. However, our extended audit procedures cannot substitute for management's responsibility to implement adequate controls over financial reporting.

In addition, during the 2011-12 fiscal year, the District sponsored the Community Green Charter School (Charter School), a separate not-for-profit corporation organized to provide an educational program for students in grades kindergarten through seven and reported on the District's financial statements as part of the aggregate discretely presented component units. Section 218.39(1)(e), Florida Statutes, requires an annual financial audit of each charter school and the Board obtained the Charter School's 2011-12 fiscal year audit dated August 17, 2012. However, the

audit disclosed a material weakness over the expense process as the auditors were unable to obtain adequate audit evidence for \$14,686 of \$22,206 in food services supplies expenditures, \$9,585 of cash expenditures, and \$5,101 of other expenditures, resulting in a qualified opinion on the Charter School's financial statements. The Charter School closed on December 27, 2011, and the charter terminated on January 15, 2012.

Further, professional auditing standards require that when other auditors report on a significant portion of an entity's financial statements, and the opinions contained in the reports are not unqualified, appropriate disclosures (qualifications) should be made in the auditor's report. Therefore, our report on the District's financial statements includes a qualification to that effect.

Recommendation: **Recommendation:** The District should improve its financial reporting procedures to ensure that financial statement accounts, transactions, and note disclosures are properly reported.

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Federal Awards Finding No. 1:
Federal Agency: United States Department of Education
Pass-Through Entity: Florida Department of Education
Program: Education Jobs Fund (CFDA No. 84.410)
Finding Type: Noncompliance and Significant Deficiency
Questioned Costs: \$33,401

Procurement. United States Office of Management and Budget Circular A-87, Attachment A, Section C.1., provides, in part, that to be allowable under Federal awards, costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards and be adequately documented. During the 2011-12 fiscal year, the District had Education Jobs Fund program expenditures totaling \$1.03 million and paid the County Health Department \$40,000 for Pre-K nursing services on a reimbursement basis, of which \$33,401 was paid by the Federal Education Jobs Fund program. While the program provides funding for compensation and benefits of teachers and other employees who provide school-level educational and related services, District records did not evidence the basis upon which these resources could be used for contracted nursing services. Consequently, the \$33,401 represents questioned costs subject to disallowance by the grantor (FDOE). Subsequent to our inquiry, the District reimbursed the program for the questioned costs from the General Fund.

Recommendation: The District should continue its efforts to ensure that Federal expenditures comply with Federal regulations and grant terms.

Federal Awards Finding No. 2:
Federal Agency: United States Department of Education
Pass-Through Entity: Florida Department of Education
Program: Special Education Cluster (CFDA Nos. 84.027, 84.173, and 84.391-ARRA)
Finding Type: Noncompliance and Significant Deficiency
Questioned Costs: \$48,262

Matching, Level of Effort, Earmarking – Maintenance of Effort. Title 34, Sections 300.203 and 300.204, Code of Federal Regulations, require that the amount of State and local funds expended by the District on special education related services during the audit period be at least equal, in total or average per capita, to that of the prior fiscal year.

Allowances for decreases in maintenance of effort may be made for certain reasons such as the departure of special education personnel; a decrease in the enrollment of students with disabilities; and the termination of costly expenditures for long-term purchases, such as the acquisition of equipment and the construction of school facilities.

The District did not have procedures to monitor its compliance with the maintenance of effort requirements during the 2011-12 fiscal year, and District records indicated that State and local expenditures, in total and average per capita, decreased from the 2010-11 fiscal year to the 2011-12 fiscal year, as shown below:

Source	Fiscal Years		Difference	Amounts
	2010-11	2011-12		
State and Local Expenditures for Special Education Services	<u>\$3,324,620</u>	<u>\$2,809,198</u>	<u>\$ (515,422)</u>	\$ (515,422)
Full-Time Enrollment (FTE) in Special Education	<u>968</u>	<u>832</u>	<u>(136)</u>	
Average Expenditures per Capita (FTE)	<u>\$ 3,435</u>	<u>\$ 3,376</u>	<u>(59)</u>	
Allowance for Decrease in FTE (136 FTE Decrease times \$3,435 Average Expended for 2010-11 Fiscal Year)				<u>467,160</u>
Deficiency in Expenditures of State and Local Resources				<u>\$ (48,262)</u>

As noted above, District records allowed a decrease of \$467,160 from the maintenance of effort requirements for the decrease in FTE because of the closure of two juvenile justice facilities. However, after consideration of this reduction, there remained a deficiency in maintenance of effort from State and local funds of \$48,262, which represents questioned costs subject to disallowance by the grantor (FDOE). Without procedures to monitor applicable maintenance of effort requirements, the risk increases that State and local funds will not be properly allocated and expended for special education services.

Recommendation: The District should establish controls over State and local resources allocated and expended for District Special Education programs to ensure compliance with Federal maintenance of effort requirements. In addition, the District should document to the grantor (FDOE) its compliance with the maintenance of effort requirement or restore \$48,262 to the Special Education programs.

PRIOR AUDIT FOLLOW-UP

The District had taken corrective actions for findings included in our report No. 2012-119.

MANAGEMENT'S RESPONSE

Management's response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

*DESOTO COUNTY
DISTRICT SCHOOL BOARD
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - FEDERAL AWARDS
For the Fiscal Year Ended June 30, 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
2012-119 (1)	Special Education - Grants to States (CFDA No. 84.027) - Procurement	Charges for the Special Education Cluster were not adequately documented, resulting in questioned costs of \$40,000.	Corrected.	

EXHIBIT A
MANAGEMENT'S RESPONSE



The School District of DeSoto County

530 LaSolona Avenue, Arcadia, Florida 34266
Tel: 863.494.4222 Fax: 1.863.494.9675 Tdd 494.4222 x 184

January 31, 2013

DR. KARYN GARY
Superintendent

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

BOARD MEMBERS

Rodney Hollingsworth
District 1

Karen Chancey
District 2

Deborah Snyder
District 3

William Stanko
District 4

Ronny R. Allen
District 5

Dear Mr. Martin:

Pursuant to Section 11.45(4) (d), Florida Statutes, we are required to submit a written statement of explanation concerning all findings. Below is our response to the preliminary and tentative audit findings and recommendations as prepared by your office for DeSoto County District School Board for the fiscal year ended June 30, 2012.

FINANCIAL STATEMENT FINDING

Finding No. 1: Financial Reporting

Recommendation: The District should improve its financial reporting procedures to ensure that financial statement accounts, transactions, and note disclosures are properly reported.

- ✓ Response: The District is enhancing procedures to ensure the accuracy of the financial statements, transactions, and note disclosures.

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Finding No. 1: Procurement

Recommendation: The District should continue its efforts to ensure that Federal expenditures comply with Federal regulations and grant terms.

- ✓ Response: The District will continue its efforts to ensure Federal expenditure compliance.

Equal Opportunity Employer
Affirmative Action Employer

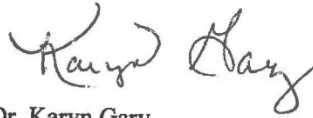
EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

Finding No. 2: Matching, Level of Effort, Earmarking – Maintenance of Effort

Recommendation: The District should establish controls over State and local resources allocated and expended for District Special Education programs to ensure compliance with Federal maintenance of effort requirements. In addition, the District should document to the grantor (FDOE) its compliance with the maintenance of effort requirement or restore \$48,262 to the Special Education programs.

- ✓ **Response:** The District will establish controls and is developing procedures to ensure compliance with maintenance of effort requirements. The District will contact grantor (FDOE) along with forwarding a copy of the audit recommendation for discussions on compliance with maintenance of effort requirement. The District will comply with FDOE grantor recommendations.

Sincerely,



Dr. Karyn Gary,
Superintendent