

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD**

---

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

For the Fiscal Year Ended  
June 30, 2013



## BOARD MEMBERS AND SUPERINTENDENTS

Board members and the Superintendents who served during the 2012-13 fiscal year are listed below:

	<u>District No.</u>
Rodney W. Hollingsworth, Vice Chair to 11-19-12, Chair from 11-20-12	1
Karen K. Chancey, Chair to 11-19-12	2
Deborah D. Snyder, Vice Chair from 11-20-12	3
William S. Stanko	4
Ronny R. Allen	5

Adrian H. Cline, Superintendent to 11-19-12  
Dr. Karyn E. Gary, Superintendent from 11-20-12

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 Director, by e-mail at [gregcenters@aud.state.fl.us](mailto:gregcenters@aud.state.fl.us) or by telephone at (850) 412-2863.

This report and other reports prepared by the Auditor General can be obtained on our Web site at [www.myflorida.com/audgen](http://www.myflorida.com/audgen); by telephone at (850) 412-2722; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

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

	PAGE NO.
EXECUTIVE SUMMARY.....	i
<b>INDEPENDENT AUDITOR'S REPORT</b>	
Report on the Financial Statements.....	1
Other Reporting Required by <i>Government Auditing Standards</i> .....	3
MANAGEMENT'S DISCUSSION AND ANALYSIS .....	4
<b>BASIC FINANCIAL STATEMENTS</b>	
Statement of Net Position .....	11
Statement of Activities.....	12
Balance Sheet – Governmental Funds .....	14
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position .....	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
<b>OTHER REQUIRED SUPPLEMENTARY INFORMATION</b>	
Budgetary Comparison Schedule – General and Major Special Revenue Funds.....	46
Schedule of Funding Progress – Other Postemployment Benefits Plan.....	48
Notes to Required Supplementary Information.....	49
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	50
<b>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>.....</b>	
	<b>52</b>
<b>INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE .....</b>	
	<b>54</b>
SCHEDULE OF FINDINGS AND QUESTIONED COSTS.....	57
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS.....	62
EXHIBIT A MANAGEMENT'S RESPONSE .....	63

## EXECUTIVE SUMMARY

### Summary of Report on Financial Statements

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

### Summary of Report on Internal Control and Compliance

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

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

#### ADDITIONAL MATTERS

Finding No. 1: Controls over monitoring bus drivers could be enhanced.

Finding No. 2: Controls over facilities construction and maintenance activities could be enhanced.

### Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Title I, Migrant Education, Special Education Cluster, Improving Teacher Quality, and Race-to-the-Top programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that could have a direct and material effect on each of its major Federal programs, except for the Special Education Cluster programs. The noncompliance and control deficiency finding is summarized below.

Federal Awards Finding No. 1: The District did not have adequate procedures to monitor its compliance with the Special Education Cluster programs maintenance of effort requirement, resulting in a maintenance of effort shortfall of \$176,880.

### 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. 2013-158.

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, 2013. We obtained an understanding of the District's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements and Federal awards. We also examined various transactions to determine whether they were executed, both in manner and

substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

#### Audit Methodology

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



DAVID W. MARTIN, CPA  
AUDITOR GENERAL

# AUDITOR GENERAL STATE OF FLORIDA

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



PHONE: 850-412-2722  
FAX: 850-488-6975

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

## INDEPENDENT AUDITOR'S REPORT

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the DeSoto County District School Board, as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the school internal funds, which represent 21 percent of the assets and 99 percent of the liabilities of the aggregate remaining fund information. In addition, we did not audit the financial statements of the discretely presented component unit, as described in note I to the financial statements, which represent 100 percent of the transactions and account balances of the discretely presented component unit columns. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the school internal funds and the discretely presented component unit, are based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### *Opinions*

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information for the DeSoto County District School Board as of June 30, 2013, and the respective changes in financial position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Other Matters*

#### *Required Supplementary Information*

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.

#### *Supplementary Information*

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. The **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** 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. Such 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 as a whole.

**Other Reporting Required by *Government Auditing Standards***

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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Respectfully submitted,



David W. Martin, CPA  
Tallahassee, Florida  
February 26, 2014

## 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, 2013. 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 2012-13 fiscal year are as follows:

- As of June 30, 2013, the assets and deferred outflows of resources exceed the liabilities by \$46,496,838.46. Of this amount, \$3,848,452.63 represents unrestricted net position, which may be used to meet the District's ongoing obligations to citizens and creditors.
- In total, net position decreased \$2,233,934.34, which represents a 4.6 percent decrease from the 2011-12 fiscal year.
- General revenues total \$41,133,712.97, or 92.9 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total \$3,156,860.55, or 7.1 percent of all revenues.
- Expenses total \$46,524,507.86. Only \$3,156,860.55 of these expenses was offset by program specific charges, with the remainder paid from general revenues.
- At the end of the current fiscal year, the fund balance of the General Fund totals \$9,274,214.79, which is \$1,436,445.67 less than the prior fiscal year balance. The General Fund total assigned and unassigned fund balances was \$8,207,956.23, or 24.7 percent of total General Fund revenues.
- Total liabilities increased by \$498,273.47, or 3.9 percent, mainly due to increases in current payables.

### OVERVIEW OF FINANCIAL STATEMENTS

The basic financial statements consist of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to financial statements. This report also includes supplementary information intended to furnish additional details to support the basic 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 position and a statement of activities that are designed to provide consolidated financial information about the governmental activities of the District presented on the accrual basis of accounting. The statement of net position provides information about the District's financial position, its assets, liabilities, and deferred outflows of resources, using an economic resources measurement focus. Assets plus deferred outflows of resources, less liabilities equals net position, which is a measure of the District's financial health. The statement of activities presents information about the change in the District's net position, the results of operations, during the fiscal year. An increase or decrease in net position is an indication of whether the District's financial health is improving or deteriorating.

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

- Governmental activities – This represents most of the District's services, including its educational programs: basic, vocational, adult, and exceptional education. Support functions such as transportation and

administration are also included. Local property taxes and the State's education finance program provide most of the resources that support these activities.

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

### **Fund Financial Statements**

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

**Governmental Funds:** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in assessing a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and 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 and major Special Revenue Funds 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.

**Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the District’s progress in funding its obligation to provide other postemployment benefits to its employees.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net position over time may serve as a useful indicator of a government’s financial health. The following is a summary of the District’s net position as of June 30, 2013, compared to net position as of June 30, 2012:

	<b>Net Position, End of Year</b>	
	Governmental Activities	
	6-30-13	6-30-12
Current and Other Assets	\$ 22,197,271.63	\$ 23,077,509.19
Capital Assets	37,579,878.29	38,437,115.57
<b>Total Assets</b>	<b>59,777,149.92</b>	<b>61,514,624.76</b>
Deferred Outflows of Resources	1,813.97	
Long-Term Liabilities	10,965,305.82	10,866,059.05
Other Liabilities	2,316,819.61	1,917,792.91
<b>Total Liabilities</b>	<b>13,282,125.43</b>	<b>12,783,851.96</b>
Net Position:		
Net Investment in Capital Assets	30,990,709.59	31,584,036.33
Restricted	11,657,676.24	11,998,505.72
Unrestricted	3,848,452.63	5,148,230.75
<b>Total Net Position</b>	<b>\$ 46,496,838.46</b>	<b>\$ 48,730,772.80</b>

The largest portion of the District’s net position (66.7 percent) is investment in capital assets (e.g., land; buildings; furniture, fixtures, and equipment), less any related debt still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, the resources used to repay the debt must be provided from other sources, since the capital assets cannot be used to liquidate these liabilities.

The restricted portion of the District’s net position (25.1 percent) represents resources that are subject to external restrictions on how they may be used. The unrestricted net position (8.2 percent) may be used to meet the District’s ongoing obligations to students, employees, and creditors.

At the end of the current fiscal year, the District is able to report positive balances in all reported categories of net position for the government as a whole, and for its separate governmental activities. Positive balances were similarly reported for the prior fiscal year.

The key elements of the changes in the District’s net position for the fiscal years ended June 30, 2013, and June 30, 2012, are as follows:

	<b>Operating Results for the Fiscal Year Ended</b>	
	Governmental Activities	
	6-30-13	6-30-12
<b>Program Revenues:</b>		
Charges for Services	\$ 511,357.64	\$ 541,615.29
Operating Grants and Contributions	2,458,023.04	2,316,660.43
Capital Grants and Contributions	187,479.87	187,058.24
<b>General Revenues:</b>		
Property Taxes, Levied for Operational Purposes	8,626,848.74	8,848,310.08
Property Taxes, Levied for Capital Projects	2,149,533.95	2,219,487.19
Grants and Contributions Not Restricted to Specific Programs	29,494,734.70	29,715,216.22
Unrestricted Investment Earnings	132,691.40	225,967.08
Miscellaneous	729,904.18	934,038.52
<b>Total Revenues</b>	<b>44,290,573.52</b>	<b>44,988,353.05</b>
<b>Functions/Program Expenses:</b>		
Instruction	23,941,702.33	24,008,412.81
Pupil Personnel Services	2,308,638.53	2,230,743.57
Instructional Media Services	514,116.65	490,183.85
Instruction and Curriculum Development Services	1,450,408.19	1,151,966.92
Instructional Staff Training Services	690,249.62	686,995.97
Instruction Related Technology	387,481.82	386,484.73
School Board	263,262.49	257,846.87
General Administration	709,906.09	539,186.19
School Administration	2,247,842.66	2,186,922.08
Facilities Acquisition and Construction	413,146.54	388,949.13
Fiscal Services	811,723.56	611,100.84
Food Services	2,704,481.31	2,549,508.40
Central Services	529,071.53	509,077.76
Pupil Transportation Services	1,897,273.50	1,869,638.06
Operation of Plant	3,103,117.84	3,025,058.40
Maintenance of Plant	1,591,948.17	1,557,715.77
Administrative Technology Services	704,508.93	577,569.77
Community Services	63,374.87	59,027.85
Unallocated Interest on Long-Term Debt	39,155.75	105,161.98
Unallocated Depreciation Expense	2,036,765.01	2,068,633.59
Loss on Disposal of Capital Assets	116,332.47	10,639.40
<b>Total Functions/Program Expenses</b>	<b>46,524,507.86</b>	<b>45,270,823.94</b>
<b>Change in Net Position</b>	<b>(2,233,934.34)</b>	<b>(282,470.89)</b>
<b>Net Position - Beginning</b>	<b>48,730,772.80</b>	<b>49,013,243.69</b>
<b>Net Postion - Ending</b>	<b>\$ 46,496,838.46</b>	<b>\$ 48,730,772.80</b>

The largest revenue source is the State of Florida (53.6 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.

Property tax revenues decreased by \$291,414.58, or 2.6 percent, as a result of a decrease in taxable assessed values partially offset by a slight increase in the total millage rate.

Instruction expenses represent 51.5 percent of total government expenses in the 2012-13 fiscal year, consistent with the previous fiscal year.

## **FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

### **Governmental Funds**

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. Specifically, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as it represents the portion of fund balance that has not been limited to a particular purpose by an external party, the District, or a group or individual delegated authority by the Board to assign resources for particular purposes.

The total fund balances of governmental funds decreased by \$1,277,176.89 during the fiscal year to \$19,880,452.02 at June 30, 2013. Approximately 40 percent of this amount is unassigned fund balance (\$8,062,111.09), which is available for spending at the District's discretion. The remainder of the fund balance is nonspendable, restricted, or assigned to indicate that it is 1) not in spendable form (\$64,125.09), 2) restricted for particular purposes (\$11,608,370.70), or 3) assigned for particular purposes (\$145,845.14).

### **Major Governmental Funds**

The General Fund is the District's chief operating fund. At the end of the current fiscal year, unassigned fund balance is \$8,062,111.09, while the total fund balance is \$9,274,214.79. As a measure of the General Fund's liquidity, it may be useful to compare the total assigned and unassigned fund balances to General Fund total revenues. The total assigned and unassigned fund balance is 24.7 percent of the total General Fund revenues, while total fund balance represents 27.9 percent of total General Fund revenues.

Total fund balance decreased by \$1,436,445.67 during the fiscal year. Key factors impacting the change in fund balance are as follows:

- Decreases in property values resulted in decreased tax revenues of \$221,461.34.
- Total expenditures increased by \$2,281,657.82, or 6.9 percent, due mainly to a negotiated pay increase for all employees.

The Special Revenue – Other Federal Programs Fund has total revenues and expenditures of \$5,271,817.01 each, and the funding was mainly used for instruction. The Special Revenue – Federal Economic Stimulus Fund has total revenues and expenditures of \$482,218.03 each, and the funding was mainly used for instructional staff training. Because grant revenues attributed to the grants accounted for in these funds are not recognized until expenditures are incurred, these funds generally do not accumulate fund balance. Activity in the Special Revenue – Federal Economic Stimulus Fund decreased substantially due to a reduction of Federal Stimulus program funding.

The Debt Service – Other Debt Service Fund has a total fund balance of \$3,016,723.37. This fund is restricted for the accumulation of resources for, and the payment of, long-term debt principal and interest for the District’s Qualified Zone Academy Bonds (QZABs). Fund balance steadily increases as sinking fund deposits are accumulated for lump-sum QZAB payments in future years.

The Capital Projects – Local Capital Improvement Fund has a total fund balance of \$6,080,939.33. This fund is restricted for the acquisition, construction, and maintenance of capital assets. Of the total fund balance, \$851,256 has been encumbered for specific projects. The fund balances decreased in the current fiscal year due to renovations of various facilities and reduced property tax collections.

### **GENERAL FUND BUDGETARY HIGHLIGHTS**

During the course of the 2012-13 fiscal year, the District amended its General Fund budget several times, which resulted in an increase in total budgeted revenues of \$1,035,602.83, or 3.2 percent. At the same time, final appropriations were more than the original budgeted amounts by \$430,717.12, or 1.1 percent. Budget revisions were primarily due to an increase in FEFP State revenue, an increase in local revenue, and corresponding adjustments to planned expenditures.

Actual revenues were less than budgeted revenues by \$5,638.66, or less than one percent, of the final budget amounts, while actual expenditures were less than budgeted expenditures by \$4,339,817.52, or 10.9 percent, less than final budget amounts. Approximately half of the large positive expenditures variance was due to categorical and grant roll forwards. The remaining amount was primarily due to amounts budgeted for contingencies which proved to be unnecessary.

The actual ending fund balance exceeded the estimated fund balance contained in the final amended budget by \$4,330,842.74.

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

#### **Capital Assets**

The District’s investment in capital assets for its governmental activities as of June 30, 2013, is \$37,579,878.29 (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; audio visual materials and computer software. The total decrease in capital assets for the current fiscal year was approximately 2.2 percent.

Additional information on the District’s capital assets can be found in notes I.F.4, III.C, and III.F to the financial statements.

#### **Long-Term Debt**

At June 30, 2013, the District has total long-term debt outstanding of \$6,590,982.67, comprised of \$1,696,813.67 of bonds payable and \$4,894,169.00 of QZABs. During the fiscal year, outstanding debt decreased by \$264,183.94.

On July 10, 2012, the District refunded the 1996 Racetrack Revenue Bonds. This refunding created a savings to the District by lowering the interest rate to 2.36 percent.

Additional information on the District’s long-term debt can be found in note III.H to the financial statements.

---

**OTHER MATTERS OF SIGNIFICANCE**

District enrollment projections, as of April 2013, indicate a decrease of six students during the 2013-14 fiscal year, which will decrease State revenues.

Employer contributions to the Florida Retirement System increased for regular employees from 5.18 to 6.95 percent of payroll for the 2013-14 fiscal year.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning information provided in the MD&A or other required supplementary information, and financial statements and notes thereto, or requests for additional financial information should be addressed to the Superintendent of Schools, DeSoto County District School Board, 530 LaSolona Avenue, Arcadia, Florida 34266.

**BASIC FINANCIAL STATEMENTS**

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
STATEMENT OF NET POSITION  
June 30, 2013**

	<u>Primary Government Governmental Activities</u>	<u>Component Unit</u>
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 18,812,192.16	\$ 82,033.00
Investments	123,450.93	
Due from Other Agencies	166,780.08	
Grant Receivable		6,630.00
Inventories	64,125.09	
Cash With Fiscal Agent	14,000.00	
Restricted Cash and Cash Equivalents		96,142.00
Restricted Investments	3,016,723.37	
Capital Assets:		
Nondepreciable Capital Assets	1,692,368.36	
Depreciable Capital Assets, Net	35,887,509.93	
<b>TOTAL ASSETS</b>	<u>59,777,149.92</u>	<u>184,805.00</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred charge on refunding	1,813.97	
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>1,813.97</u>	
<b>LIABILITIES</b>		
Payroll Deductions and Withholdings	1,429,874.80	
Accounts Payable	343,088.10	11,630.00
Construction Contracts Payable	66,985.55	
Due to Other Agencies	420.00	
Deposits Payable	433,167.10	
Unearned Revenue		10,069.00
Estimated Insurance Claims Payable	43,284.06	
Long-Term Liabilities:		
Portion Due Within One Year	568,645.35	
Portion Due After One Year	10,396,660.47	
<b>TOTAL LIABILITIES</b>	<u>13,282,125.43</u>	<u>21,699.00</u>
<b>NET POSITION</b>		
Net Investment in Capital Assets	30,990,709.59	
Restricted for:		
State Required Carryover Programs	548,311.39	
Debt Service	3,300,429.29	
Capital Projects	6,417,463.88	
Food Service	888,344.06	
Career and Adult Education	444,863.22	
Scholarships - Expendable		68,492.00
Scholarships - Nonexpendable		2,000.00
Other Purposes	58,264.40	10,581.00
Unrestricted	3,848,452.63	82,033.00
<b>TOTAL NET POSITION</b>	<u>\$ 46,496,838.46</u>	<u>\$ 163,106.00</u>

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

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
STATEMENT OF ACTIVITIES  
For the Fiscal Year Ended June 30, 2013**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government</b>				
<b>Governmental Activities:</b>				
Instruction	\$ 23,941,702.33	\$ 110,578.51	\$	\$
Pupil Personnel Services	2,308,638.53			
Instructional Media Services	514,116.65			
Instruction and Curriculum Development Services	1,450,408.19			
Instructional Staff Training Services	690,249.62			
Instruction Related Technology	387,481.82			
School Board	263,262.49			
General Administration	709,906.09			
School Administration	2,247,842.66			
Facilities Acquisition and Construction	413,146.54			35,255.34
Fiscal Services	811,723.56			
Food Services	2,704,481.31	371,638.07	2,458,023.04	
Central Services	529,071.53			
Pupil Transportation Services	1,897,273.50	29,141.06		
Operation of Plant	3,103,117.84			
Maintenance of Plant	1,591,948.17			
Administrative Technology Services	704,508.93			
Community Services	63,374.87			
Unallocated Interest on Long-Term Debt	39,155.75			152,224.53
Unallocated Depreciation Expense	2,036,765.01			
Loss on Disposal of Capital Assets	116,332.47			
<b>Total Primary Government</b>	<b>\$ 46,524,507.86</b>	<b>\$ 511,357.64</b>	<b>\$ 2,458,023.04</b>	<b>\$ 187,479.87</b>
<b>Component Unit</b>				
Education Foundation	\$ 188,455.00	\$ 0.00	\$ 17,654.00	\$ 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 Position**

- Net Position - Beginning
- Adjustment to Beginning Net Position
- Net Position - Beginning, as Restated

**Net Position - Ending**

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

Net (Expense) Revenue and Changes in Net Position	
Primary Government	Component Unit
Governmental Activities	
\$ (23,831,123.82)	\$
(2,308,638.53)	
(514,116.65)	
(1,450,408.19)	
(690,249.62)	
(387,481.82)	
(263,262.49)	
(709,906.09)	
(2,247,842.66)	
(377,891.20)	
(811,723.56)	
125,179.80	
(529,071.53)	
(1,868,132.44)	
(3,103,117.84)	
(1,591,948.17)	
(704,508.93)	
(63,374.87)	
113,068.78	
(2,036,765.01)	
(116,332.47)	
<u>(43,367,647.31)</u>	
	<u>(170,801.00)</u>
8,626,848.74	
2,149,533.95	
29,494,734.70	125,957.00
132,691.40	347.00
729,904.18	
<u>41,133,712.97</u>	<u>126,304.00</u>
(2,233,934.34)	(44,497.00)
48,730,772.80	193,019.00
	14,584.00
<u>48,730,772.80</u>	<u>207,603.00</u>
<u>\$ 46,496,838.46</u>	<u>\$ 163,106.00</u>

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
BALANCE SHEET - GOVERNMENTAL FUNDS  
June 30, 2013**

	General Fund	Special Revenue - Other Federal Programs Fund	Special Revenue - Federal Economic Stimulus Fund	Debt Service - Other Debt Service Fund
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 11,317,010.06	\$	\$	\$
Investments				
Due from Other Funds	32,668.23	158,036.38	18,140.29	
Due from Other Agencies	119,451.47	29,919.99		
Inventories	14,819.55			
Cash With Fiscal Agent	14,000.00			
Restricted Investments				3,016,723.37
<b>TOTAL ASSETS</b>	<b>\$ 11,497,949.31</b>	<b>\$ 187,956.37</b>	<b>\$ 18,140.29</b>	<b>\$ 3,016,723.37</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Payroll Deductions and Withholdings	\$ 1,429,874.80	\$	\$	\$
Accounts Payable	140,366.15	158,036.38	18,140.29	
Construction Contracts Payable				
Due to Other Funds	176,622.41	29,919.99		
Due to Other Agencies	420.00			
Deposits Payable	433,167.10			
Estimated Insurance Claims Payable	43,284.06			
<b>Total Liabilities</b>	<b>2,223,734.52</b>	<b>187,956.37</b>	<b>18,140.29</b>	
Fund Balances:				
Nonspendable:				
Inventories	14,819.55			
Restricted for:				
State Required Carryover Programs	548,311.39			
Food Service				
Debt Service				3,016,723.37
Capital Projects				
Career and Adult Education	444,863.22			
Other Purposes	58,264.40			
Total Restricted Fund Balance	<b>1,051,439.01</b>			<b>3,016,723.37</b>
Assigned For:				
Purchase Obligations	144,375.00			
Financial Aid Fees	1,470.14			
Total Assigned Fund Balance	<b>145,845.14</b>			
Unassigned Fund Balance	<b>8,062,111.09</b>			
<b>Total Fund Balances</b>	<b>9,274,214.79</b>			<b>3,016,723.37</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 11,497,949.31</b>	<b>\$ 187,956.37</b>	<b>\$ 18,140.29</b>	<b>\$ 3,016,723.37</b>

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
\$ 6,067,639.13 104,016.25	\$ 1,427,542.97 19,434.68	\$ 18,812,192.16 123,450.93 208,844.90 166,780.08 64,125.09 14,000.00 3,016,723.37
<u>\$ 6,171,655.38</u>	<u>\$ 1,513,691.81</u>	<u>\$ 22,406,116.53</u>
\$ 23,730.50 66,985.55	\$ 2,814.78  2,302.50	\$ 1,429,874.80 343,088.10 66,985.55 208,844.90 420.00 433,167.10 43,284.06
<u>90,716.05</u>	<u>5,117.28</u>	<u>2,525,664.51</u>
	<u>49,305.54</u>	<u>64,125.09</u>
	839,038.52 283,705.92 336,524.55	548,311.39 839,038.52 3,300,429.29 6,417,463.88 444,863.22 58,264.40 11,608,370.70
6,080,939.33	1,459,268.99	
<u>6,080,939.33</u>		<u>144,375.00</u> <u>1,470.14</u> <u>145,845.14</u> <u>8,062,111.09</u>
6,080,939.33	1,508,574.53	19,880,452.02
<u>\$ 6,171,655.38</u>	<u>\$ 1,513,691.81</u>	<u>\$ 22,406,116.53</u>

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
June 30, 2013**

**Total Fund Balances - Governmental Funds** \$ 19,880,452.02

Amounts reported for governmental activities in the statement of net position 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. 37,579,878.29

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. 1,813.97

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	\$ 60,000.00	
Qualified Zone Academy Bonds Payable	4,894,169.00	
Bonds Payable	1,696,813.67	
Compensated Absences Payable	1,516,982.15	
Other Postemployment Benefits Payable	2,797,341.00	
	2,797,341.00	(10,965,305.82)

**Net Position - Governmental Activities** \$ 46,496,838.46

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

**THIS PAGE INTENTIONALLY LEFT BLANK.**

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES -  
GOVERNMENTAL FUNDS  
For the Fiscal Year Ended June 30, 2013**

	General Fund	Special Revenue - Other Federal Programs Fund	Special Revenue - Federal Economic Stimulus Fund	Debt Service - Other Debt Service Fund
<b>Revenues</b>				
Intergovernmental:				
Federal Direct	\$ 56,313.63	\$	\$	\$
Federal Through State and Local	164,336.65	5,244,674.04	481,779.96	
State	23,413,393.88			
Local:				
Property Taxes	8,626,848.74			
Charges for Services - Food Service				
Miscellaneous	925,569.48	27,142.97	438.07	19,016.46
Total Local Revenues	<u>9,552,418.22</u>	<u>27,142.97</u>	<u>438.07</u>	<u>19,016.46</u>
<b>Total Revenues</b>	<u>33,186,462.38</u>	<u>5,271,817.01</u>	<u>482,218.03</u>	<u>19,016.46</u>
<b>Expenditures</b>				
Current - Education:				
Instruction	20,286,522.93	3,287,677.45	176,995.56	
Pupil Personnel Services	1,688,737.58	596,963.24		
Instructional Media Services	508,975.77			
Instruction and Curriculum Development Services	895,204.18	527,822.49	4,340.29	
Instructional Staff Training Services	317,701.88	367,952.56	3,767.38	
Instruction Related Technology	263,115.97	5,077.38	115,608.47	
School Board	259,066.24			
General Administration	469,302.81	218,699.63	16,238.16	
School Administration	2,212,842.59	12,416.36		
Facilities Acquisition and Construction	81,896.73	5,819.95		
Fiscal Services	802,666.13			
Food Services	8,834.30			
Central Services	439,073.99	55,903.19	31,965.76	
Pupil Transportation Services	1,801,384.49	68,242.03		
Operation of Plant	3,070,043.48	14,733.07		
Maintenance of Plant	1,516,825.08			
Administrative Technology Services	611,081.97		88,098.90	
Community Services	62,054.03			
Fixed Capital Outlay:				
Facilities Acquisition and Construction				
Other Capital Outlay	220,416.46	110,509.66	45,203.51	
Debt Service:				
Principal	10,000.00			
Interest and Fiscal Charges				
<b>Total Expenditures</b>	<u>35,525,746.61</u>	<u>5,271,817.01</u>	<u>482,218.03</u>	
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>(2,339,284.23)</u>			<u>19,016.46</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In	905,926.85			199,958.99
Payments to Bond Refunding Agent				
Proceeds from Refunding Revenue Bonds				
Insurance Loss Recoveries	247.83			
Transfers Out				
<b>Total Other Financing Sources (Uses)</b>	<u>906,174.68</u>			<u>199,958.99</u>
<b>Net Change in Fund Balances</b>	(1,433,109.55)			218,975.45
Increase in Nonspendable Inventories	(3,336.12)			
Fund Balances, Beginning	<u>10,710,660.46</u>			<u>2,797,747.92</u>
<b>Fund Balances, Ending</b>	<u>\$ 9,274,214.79</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 3,016,723.37</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
\$	\$	\$
	2,420,871.04	56,313.63
	355,045.45	8,311,661.69
		23,768,439.33
2,149,533.95		10,776,382.69
	371,638.07	371,638.07
86,731.36	9,369.94	1,068,268.28
<u>2,236,265.31</u>	<u>381,008.01</u>	<u>12,216,289.04</u>
<u>2,236,265.31</u>	<u>3,156,924.50</u>	<u>44,352,703.69</u>
		23,751,195.94
		2,285,700.82
		508,975.77
		1,427,366.96
		689,421.82
		383,801.82
		259,066.24
		704,240.60
		2,225,258.95
324,877.95		412,594.63
		802,666.13
	2,664,426.00	2,673,260.30
		526,942.94
		1,869,626.52
		3,084,776.55
	65,648.11	1,582,473.19
		699,180.87
		62,054.03
906,114.89		906,114.89
	13,615.68	389,745.31
	187,915.00	197,915.00
	<u>115,151.29</u>	<u>115,151.29</u>
<u>1,230,992.84</u>	<u>3,046,756.08</u>	<u>45,557,530.57</u>
<u>1,005,272.47</u>	<u>110,168.42</u>	<u>(1,204,826.88)</u>
		1,105,885.84
	(1,130,000.00)	(1,130,000.00)
	1,056,972.00	1,056,972.00
10,650.00		10,897.83
<u>(1,038,551.26)</u>	<u>(67,334.58)</u>	<u>(1,105,885.84)</u>
<u>(1,027,901.26)</u>	<u>(140,362.58)</u>	<u>(62,130.17)</u>
(22,628.79)	(30,194.16)	(1,266,957.05)
	(6,883.72)	(10,219.84)
<u>6,103,568.12</u>	<u>1,545,652.41</u>	<u>21,157,628.91</u>
<u>\$ 6,080,939.33</u>	<u>\$ 1,508,574.53</u>	<u>\$ 19,880,452.02</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, 2013**

**Net Change in Fund Balances - Governmental Funds** \$ (1,266,957.05)

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

Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of depreciation expense in excess of capital outlays in the current fiscal year. (740,904.81)

The loss on the disposal of capital assets during the current fiscal year is reported in the statement of activities. In the governmental funds, the cost of these assets was recognized as an expenditure in the year purchased. Thus, the change in net position differs from the change in fund balance by the undepreciated cost of the disposed assets. (116,332.47)

Long-term debt proceeds provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount by which proceeds exceed repayments in the current fiscal year.

Payments to Bond Refunding Agent	\$ 1,130,000.00	
Proceeds from Refunding Revenue Bonds	(1,056,972.00)	
Bond Principal Payments	187,915.00	260,943.00

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 decrease in expenses from unamortized premiums	\$ 8,010.00	
Net decrease in expenses from unamortized refunding costs	(4,769.06)	
Net decrease in expenses from deferred charges	(273.40)	2,967.54

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. (10,219.84)

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 used in excess of the amount earned in the current fiscal year. 213,641.29

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. (587,072.00)

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 Position - Governmental Activities** **\$ (2,233,934.34)**

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, 2013**

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash and Cash Equivalents	\$ 390,523.00
<b>LIABILITIES</b>	
Internal Accounts Payable	\$ 390,523.00

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

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of Government-wide Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. Governmental activities are normally supported by taxes, intergovernmental revenues, and other nonexchange transactions. The primary government is reported separately from certain legally separated component units for which the primary government is financial accountable.

The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the DeSoto County School District's (District) governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are thereby clearly identifiable to a particular function. Depreciation expense is not readily associated with a particular function and is reported as unallocated.

**B. 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 District is considered part of the Florida system of public education, operates under the general direction of the Florida Department of Education, and is governed by State law and State Board of Education (SBE) rules. 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 legally separate 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. Based on the application of these criteria, the following component unit is included within the District's reporting entity:

**Discretely Presented Component Unit.** The component unit column in the government-wide financial statements include the financial data of the District's component unit. A separate column is used to emphasize that it is legally separate from the District.

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. The operations of the grant activities for the Foundation grants are performed by District staff and reimbursed by the Foundation, and are

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013**

significant such that it would be misleading to exclude the Foundation from the District's reporting entity; consequently, the Foundation is considered a component unit.

The financial data reported on the accompanying statements was derived from the Foundation's audited financial statements for the fiscal year ended June 30, 2013. The audit reports are filed in the District's administrative offices.

The Community Green Corporation (Charter School), a not-for-profit corporation organized and operated as a charter school, was considered to be a component unit of the District until it closed during the 2011-12 fiscal year. The net position of the Charter School at June 30, 2012, was negative \$14,584, and insofar as the Charter School was no longer in operation at July 1, 2012, beginning net position was increased by \$14,584 in the component unit column on the District's Statement of Activities to remove the net position associated with the closed Charter School.

**C. Basis of Presentation: Government-wide Financial Statements**

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

The effects of interfund activity have been eliminated from the government-wide financial statements.

**D. Basis of Presentation: Fund Financial Statements**

The fund financial statements provide information about the District's funds, including the fiduciary funds. Separate statements for each fund category – governmental and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the 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 Program 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).
- 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 and renovation and remodeling projects.

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013**

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.

During the course of operations the District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental funds) are eliminated. Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in and out. While reported in fund financial statements, transfers between the funds included in governmental activities are eliminated in the preparation of the government-wide financial statements.

**E. Basis of Accounting**

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized in the year for which they are levied. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been satisfied.

The governmental fund financial statements are reported using the current financial resources measurement focus and 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. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 15 days of year-end). Expenditures are generally recognized when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, claims and judgments, other postemployment benefits, and compensated absences, are only recorded when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources. Allocations of cost, such as depreciation, are not recognized in governmental funds.

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013**

The agency fund has no measurement focus but utilizes the accrual basis of accounting for reporting its assets and liabilities.

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.

**F. Assets, Liabilities, Deferred Outflows of Resources, and Net Position/Fund Balance**

**1. Cash and Cash Equivalents**

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.

**2. Investments**

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. These investment pools operate under investment guidelines established by Section 215.47, Florida Statutes.

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

The District's investments in Fund B are accounted for as a fluctuating net asset value pool, with a fair value factor of 1.11845939 at June 30, 2013. 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 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.

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013**

**3. 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 expenditures at the time the individual items are requisitioned for consumption. The purchased foods and supplies inventory balances and the transportation parts inventory balance are offset on the balance sheet by a nonspendable fund balance account which indicates that they do not constitute spendable resources, even though they are a component of current assets.

**4. 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 position but are not reported in the governmental fund financial statements. Capital assets are defined by the District as those costing more than \$1,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at fair value at the date of donation. Interest costs incurred during construction of capital assets are not considered material and are not capitalized as part of the cost of construction.

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

<u>Description</u>	<u>Estimated Lives</u>
Improvements Other Than Buildings	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.

**5. 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 position. Debt premiums, differences between the reacquisition price and net carrying amount of the old debt, as well

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013**

as issuance costs, are deferred and amortized over the life of the debt using the effective interest method. Debt payables are reported net of the applicable debt premiums and differences between the reacquisition price and net carrying amount of the old debt.

In the governmental fund financial statements, bonds and other long-term obligations are not recognized as liabilities until due. Governmental fund types recognize debt premiums and discounts, as well as issuance costs, during the current period. The face amount of debt issued is reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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

**6. Deferred Outflows of Resources**

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

**7. Net Position Flow Assumption**

The District occasionally funds capital outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. To calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. Consequently, it is the District’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

**8. Fund Balance Flow Assumptions**

The District may fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). To calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the District’s policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013**

**9. Fund Balance Policies**

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification may include amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. The Board is the highest level of decision-making authority for the District that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation. The District did not have any committed fund balances at June 30, 2013.

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The District also classifies amounts as assigned for specific purposes based upon actions of the Superintendent and Director of Finance. The Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

**G. Revenues and Expenditures/Expenses**

**1. Program Revenues**

Amounts reported as 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. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than program revenues. 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.

**2. State Revenue Sources**

Significant revenues from State sources for current operations include the Florida Education Finance Program administered by the Florida Department of Education (Department) under the provisions of Section 1011.62, Florida Statutes. In accordance with this law, the District determines and reports the number of full-time equivalent (FTE) students and related data to the Department. The Department performs certain edit checks on the reported number of FTE and related data, and calculates the allocation of funds to the District. The District is permitted to amend its original reporting for a period

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013**

of five months following the date of the original reporting. Such amendments may impact funding allocations for subsequent years. The Department may also adjust subsequent fiscal period allocations based upon an audit of the District's compliance in determining and reporting FTE and related data. Normally, such adjustments are treated as reductions or additions of revenue in the year when the adjustments are made.

The State provides financial assistance to administer certain educational programs. SBE 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.

**3. 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.

The Board adopted the 2012 tax levy on September 11, 2012. 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.

**4. 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

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013**

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.

**5. Compensated Absences**

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. The liability for compensated absences includes salary-related benefits, where applicable.

**II. ACCOUNTING CHANGES**

**GASB Statement No. 63.** As discussed in note I.F.6., to the financial statements, the District adopted new accounting guidance GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective for the 2012-13 fiscal year. This statement incorporated deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and renamed that measure as net position, rather than net assets.

**GASB Statement No. 65** The District elected to early implement GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. Accordingly, refunding debt issuance costs were reported as an asset (deferred charges) on the June 30, 2012, Statement of Net Assets but are classified as deferred outflow of resources on the June 30, 2013, Statement of Net Position.

**III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS**

**A. Cash Deposits with Financial Institutions**

*Custodial Credit Risk-Deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk. All bank balances of the District are fully insured or collateralized as required by Chapter 280, Florida Statutes.

Cash balances from all funds are combined and invested to extent available. Earnings are allocated monthly to each fund balance on average daily balances.

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013**

**B. Investments**

As of June 30, 2013, the District has the following investments and maturities:

<u>Investments</u>	<u>Maturities</u>	<u>Fair Value</u>
SBA:		
Florida PRIME (1)	40 Day Average	\$ 485,012.21
Fund B	3.98 Year Average	104,016.25
Debt Service Accounts	6 Months	19,434.68
Obligations of United States Government Instrumentalities:		
FNMA Discount Note (2)	September 30, 2013	888,911.00
FHLB Note (3)	October 25, 2013	2,127,812.37
<b>Total Investments</b>		<b><u><u>\$ 3,625,186.51</u></u></b>

Notes:

- (1) The investment is reported as a cash equivalent for financial statement reporting purposes.
- (2) This investment is held under a trust agreement in connection with the Series 2006 QZABs (see note III.H.2).
- (3) This investment is held under a trust agreement in connection with the Series 2001 QZABs (see note III.H.2).

➤ Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District’s investment policy requires investment maturities longer than three years must be disclosed in writing to the Board.

Florida PRIME had a weighted average days to maturity (WAM) of 40 days at June 30, 2013. A portfolio’s WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the portfolio to interest rate changes. Due to the nature of the securities in Fund B, the interest rate risk information required by GASB Statement No. 40 (i.e., specific identification, duration, weighted average maturity, segmented time distribution, or simulation model) is not available. An estimate of the weighted average life (WAL) is available. In the calculation of the WAL, the time at which an expected principal amount is to be received, measured in years, is weighted by the principal amount received at that time divided by the sum of all expected principal payments. The principal amounts used in the WAL calculation are not discounted to present value as they would be in a weighted average duration calculation. The WAL, based on expected future cash flows, of Fund B at June 30, 2013, is estimated at 3.98 years. However, because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the WAL. Participation in Fund B is involuntary.

➤ 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 the 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

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013**

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

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 investment in obligations of United States Government instrumentalities 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 Mortgage Corporation and Federal National Mortgage Association and Federal Home Loan Banks. These investments, totaling \$3,016,723.37, were unrated.

➤ **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 \$3,016,723.37 in obligations of United States Government instrumentalities 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 FNMA discount note comprises 25 percent of the District's total investments and 29 percent of investments reported in the Debt Service – Other Debt Service Fund. The FHLB note comprises 59 percent of the District's total investments and 71 percent of the investments in the Debt Service – Other Debt Service Fund. These investments are made pursuant to agreements with QZAB paying agents (see note III.H.2).

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013**

**C. Changes in Capital Assets**

Changes in capital assets are presented in the table below:

	Beginning Balance	Additions	Deletions	Ending Balance
<b>GOVERNMENTAL ACTIVITIES</b>				
Capital Assets Not Being Depreciated:				
Land	\$ 331,142.20	\$	\$	\$ 331,142.20
Construction in Progress	1,323,991.22	249,625.61	212,390.67	1,361,226.16
<b>Total Capital Assets Not Being Depreciated</b>	<b>1,655,133.42</b>	<b>249,625.61</b>	<b>212,390.67</b>	<b>1,692,368.36</b>
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	1,692,319.91	108,093.12	750.00	1,799,663.03
Buildings and Fixed Equipment	57,165,411.17	109,290.63		57,274,701.80
Furniture, Fixtures, and Equipment	5,050,412.37	194,233.65	657,066.48	4,587,579.54
Motor Vehicles	3,082,091.47	652,194.86	183,343.00	3,550,943.33
Audio Visual Materials and Computer Software	1,591,735.28	194,813.00	89,822.81	1,696,725.47
<b>Total Capital Assets Being Depreciated</b>	<b>68,581,970.20</b>	<b>1,258,625.26</b>	<b>930,982.29</b>	<b>68,909,613.17</b>
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	1,013,943.32	82,976.24	167.86	1,096,751.70
Buildings and Fixed Equipment	23,185,189.19	1,366,586.96		24,551,776.15
Furniture, Fixtures, and Equipment	4,031,021.66	294,041.06	656,970.69	3,668,092.03
Motor Vehicles	2,355,469.21	158,045.00	67,688.46	2,445,825.75
Audio Visual Materials and Computer Software	1,214,364.67	135,115.75	89,822.81	1,259,657.61
<b>Total Accumulated Depreciation</b>	<b>31,799,988.05</b>	<b>2,036,765.01</b>	<b>814,649.82</b>	<b>33,022,103.24</b>
<b>Total Capital Assets Being Depreciated, Net</b>	<b>36,781,982.15</b>	<b>(778,139.75)</b>	<b>116,332.47</b>	<b>35,887,509.93</b>
<b>Governmental Activities Capital Assets, Net</b>	<b>\$ 38,437,115.57</b>	<b>\$ (528,514.14)</b>	<b>\$ 328,723.14</b>	<b>\$ 37,579,878.29</b>

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.

**D. 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), with a Deferred Retirement Option Program (DROP), and a defined-contribution plan, referred to as the FRS Investment Plan (Investment Plan).

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013**

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, Elected County Officers, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Employees in the Investment Plan vest at one year of service.

The State of Florida establishes contribution rates for participating employers and employees. Contribution rates during the 2012-13 fiscal year were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (A)
FRS, Regular	3.00	5.18
FRS, Elected County Officers	3.00	10.23
FRS, Senior Management Service	3.00	6.30
DROP - Applicable to		
Members from All of the Above Classes	0.00	5.44
FRS, 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.

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013**

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, 2011, June 30, 2012, and June 30, 2013, totaled \$2,370,148.88, \$1,614,704.15, and \$1,701,813.45, respectively, which were equal to the required contributions for each fiscal year.

There were 107 District participants in the Investment Plan during the 2012-13 fiscal year. The District's contributions, including employee contributions, to the Investment Plan totaled \$233,819.87, which was equal to the required contribution for the 2012-13 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.

**E. Other Postemployment Benefit Obligations**

**Plan Description.** The Other Postemployment Benefits Plan (OPEB Plan) is a single-employer defined benefit plan administered by the District. Pursuant to the provisions of Section 112.0801, Florida Statutes, employees who retire from the District, 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 blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the OPEB Plan on average than those of active employees. Additionally, certain retirees receive insurance coverage at a lower (explicitly subsidized) premium rate than active employees. The District pays, upon retirement, for retirees who accrue 20 years of service with the District, the first year of premiums for medical and prescription drug coverage. Retirees are not required to enroll in the Federal Medicare program in order to remain covered under the program; however, since membership in Medicare Part A is automatic, the 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 OPEB 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 OPEB Plan is financed on a pay-as-you-go basis. For the 2012-13 fiscal year, 153 retirees received other postemployment benefits. The District provided required contributions of \$325,413 toward the annual OPEB cost, net of retiree contributions totaling \$210,031, which represents 1 percent of covered payroll.

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013**

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

Description	Amount
Normal Cost (service cost for one year)	\$ 441,161
Amortization of Unfunded Actuarial Accrued Liability	505,705
Annual Required Contribution	946,866
Interest on Net OPEB Obligation	88,411
Adjustment to Annual Required Contribution	(122,792)
Annual OPEB Cost (Expense)	912,485
Contribution Toward the OPEB Cost	(325,413)
Change in Net OPEB Obligation	587,072
Net OPEB Obligation, Beginning of Year	2,210,269
Net OPEB Obligation, End of Year	\$ 2,797,341

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the OPEB Plan, and the net OPEB obligation as of June 30, 2013, and the two preceding fiscal years, were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010-11	\$ 808,562	40.1%	\$ 1,621,929
2011-12	878,214	33.0%	2,210,269
2012-13	912,485	35.7%	2,797,341

**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.

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013**

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

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

The District's OPEB actuarial valuation as of January 1, 2012, used the entry age normal cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2013, and the frozen entry age normal cost actuarial method to estimate the District's 2012-13 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets, which is the District's long-term expectation of investment returns under its investment policy. The actuarial assumptions also included projected salary increases of 4.5 to 9.75 percent, payroll growth rate of 4 percent per year, and an annual healthcare cost trend rate 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 projected salary rates include a general price inflation of 3 percent. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis over a 20 year period on a closed basis. The remaining amortization period at June 30, 2013, was 17 years.

**F. 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.

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013**

The following is a schedule of encumbrances at June 30, 2013:

<b>Major Funds</b>					
General	Special Revenue - Other Federal Programs	Special Revenue - Federal Economic Stimulus	Capital Projects - Local Capital Improvement	Nonmajor Governmental Funds	Total Governmental Funds
\$ 144,375	\$ 86,344	\$ 249	\$ 851,256	\$ 44,240	\$ 1,126,464

**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	\$ 808,077.55	\$ 741,092.00	\$ 66,985.55
Architect	14,586.25	14,411.25	175.00
Direct Purchases	456,847.19	442,939.63	13,907.56
Total	\$ 1,279,510.99	\$ 1,198,442.88	\$ 81,068.11

**G. 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 government 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 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

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013**

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
2011-12	\$ 44,390.74	\$ 221,538.23	\$ (227,939.11)	\$ 37,989.86
2012-13	37,989.86	264,998.55	(259,704.35)	43,284.06

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.

**H. Long-Term Liabilities**

**1. 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, 2013, to be \$60,000, which is recorded as a long-term liability in the government-wide statement of net position. Payment is made on December 1 of each year.

**2. Qualified Zone Academy Bonds Payable**

The District entered into a financing agreement 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

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013**

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, 2013, the paying agent held deposits invested in obligations of United States Government instrumentalities in the sinking fund totaling \$2,127,812.37.

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, 2013, the paying agent held \$888,911 in deposits invested in obligations of United States Government instrumentalities.

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, 2013**

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
2014	\$ 256,689
2015	256,689
2016	132,287
2017	132,287
2018	132,287
2019-2022	529,148
Total	\$ 1,439,387

**3. Bonds Payable**

Bonds payable at June 30, 2013, are as follows:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 2005B, Refunding	\$ 625,000	5.0	2018
Series 2009A, Refunding	55,000	5.0	2019
District Revenue Bonds:			
Series 2012, Refunding	984,057	2.36	2025
Subtotal	1,664,057		
Add: Unamortized Premium on Debt	56,603		
Less: Difference between the Reacquisition Price and Carrying Amount	(23,846)		
Total Bonds Payable	\$ 1,696,814		

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

➤ State School Bonds

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

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013**

➤ 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 pledged a total of \$1,135,724 of pari-mutuel tax revenues in connection with the Series 2013, Refunding District Revenue Bonds, described above. During the 2012-13 fiscal year, the District recognized pari-mutuel tax revenues totaling \$132,166.66 and expended \$132,166.66 of these revenues for debt service directly collateralized by these revenues. The pledged pari-mutuel tax revenues are committed until final maturity of the debt, or June 1, 2025. All 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, 2013, are as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
<b>State School Bonds:</b>			
2014	\$ 154,000	\$ 120,000	\$ 34,000
2015	158,000	130,000	28,000
2016	156,500	135,000	21,500
2017	159,750	145,000	14,750
2018	147,500	140,000	7,500
2019	10,500	10,000	500
<b>Total State School Bonds</b>	<b>786,250</b>	<b>680,000</b>	<b>106,250</b>
<b>District Revenue Bonds:</b>			
2014	94,643	71,841	22,802
2015	94,644	73,547	21,097
2016	94,644	75,293	19,351
2017	94,644	77,080	17,564
2018	94,644	78,910	15,734
2019-2023	473,218	423,554	49,664
2024-2025	189,287	183,832	5,455
<b>Total District Revenue Bonds</b>	<b>1,135,724</b>	<b>984,057</b>	<b>151,667</b>
<b>Total</b>	<b>\$ 1,921,974</b>	<b>\$ 1,664,057</b>	<b>\$ 257,917</b>

**4. Defeased Debt**

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013**

On July 10, 2012, the Board issued \$1,056,972 in Capital Improvement Refunding Revenue Bonds, Series 2012, with an interest rate of 2.36 percent, to advance-refund the District’s Revenue Bonds, Series 1996, Refunding. The Bond is being issued to advance-refund the \$1,130,000 principal amount of the District’s Revenue Bonds, Series 1996, Refunding, that mature on or after July 10, 2012. The net proceeds of \$1,016,971 (after payment of \$40,001 in underwriting fees, insurance, and other issuance costs) plus an additional \$124,825 of Series 1996, Refunding sinking fund moneys and accrued interest were placed in an irrevocable trust to provide for a portion of future debt service payments on the Series 1996, Refunding bonds. As a result, \$984,057 of the 1996, Refunding Series bonds are considered to be in-substance defeased, and the liability for these bonds has been removed from the government-wide financial statements.

The Series 1996, Refunding bonds were refunded to reduce its total debt service payments over the next 12 years by approximately \$230,676 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$175,153.

**5. Changes in Long-Term Liabilities**

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

Description	Beginning Balance	Additions	Deductions	Ending Balance	Due In One Year
<b>GOVERNMENTAL ACTIVITIES</b>					
Estimated Liability for Long-Term Claims	\$ 70,000.00	\$	\$ 10,000.00	\$ 60,000.00	\$ 10,000.00
Qualified Zone Academy Bonds Payable	4,894,169.00			4,894,169.00	
Bonds Payable	1,960,997.61	1,056,972.00	1,321,155.94	1,696,813.67	191,841.00
Compensated Absences Payable	1,730,623.44	204,261.25	417,902.54	1,516,982.15	366,804.35
Other Postemployment Benefits Payable	2,210,269.00	912,485.00	325,413.00	2,797,341.00	
<b>Total Governmental Activities</b>	<b>\$ 10,866,059.05</b>	<b>\$ 2,173,718.25</b>	<b>\$ 2,074,471.48</b>	<b>\$ 10,965,305.82</b>	<b>\$ 568,645.35</b>

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

**I. Fund Balance Reporting**

In addition to committed and assigned fund balance categories discussed in the Fund Balance Policies note disclosure, fund balances may be classified as follows:

- **Nonspendable Fund Balance.** Nonspendable fund balance is 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 Fund Balance.** Restricted fund balance is 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.

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013**

- **Unassigned Fund Balance.** The unassigned fund balance is 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.

**J. Interfund Receivables and Payables**

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

Funds	Interfund	
	Receivables	Payables
Major:		
General	\$ 32,668.23	\$ 176,622.41
Special Revenue:		
Other Federal Programs	158,036.38	29,919.99
Federal Economic Stimulus	18,140.29	
Nonmajor Governmental		2,302.50
	<u>                    </u>	<u>                    </u>
Total	<u>\$ 208,844.90</u>	<u>\$ 208,844.90</u>

Interfund amounts represent temporary loans of one fund incurring expenditures and then getting reimbursed by other funds and are expected to be repaid with 13 months.

**K. Revenues and Expenditures/Expenses**

**1. Schedule of State Revenue Sources**

The following is a schedule of the District’s State revenue sources for the 2012-13 fiscal year:

Source	Amount
Florida Education Finance Program	\$ 17,170,994.34
Categorical Educational Program - Class Size Reduction	5,218,599.00
Workforce Development Program	776,411.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	184,703.79
Adults With Disabilities	169,999.94
Racing Commission Funds	132,166.66
Mobile Home License Tax	47,381.70
Food Service Supplement	37,152.00
Miscellaneous	31,030.90
	<u>                    </u>
Total	<u>\$ 23,768,439.33</u>

Accounting policies relating to certain State revenue sources are described in note II.G.2.

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013**

**2. Property Taxes**

The following is a summary of millages and taxes levied on the 2012 tax roll for the 2012-13 fiscal year:

	Millages	Taxes Levied
<u>GENERAL FUND</u>		
Nonvoted School Tax:		
Required Local Effort	5.272	\$ 7,785,679
Basic Discretionary Local Effort	0.748	1,104,644
<u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	1.500	2,215,194
Total	7.520	\$ 11,105,517

**L. Interfund Transfers**

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	\$ 905,926.85	\$
Debt Service - Other Debt Service	199,958.99	
Capital Projects - Local Capital Improvement		1,038,551.26
Nonmajor Governmental		67,334.58
Total	\$ 1,105,885.84	\$ 1,105,885.84

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.

**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, 2013**

	General Fund			Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget	Actual	
<b>Revenues</b>				
Intergovernmental:				
Federal Direct	\$ 50,000.00	\$ 56,313.63	\$ 56,313.63	\$
Federal Through State and Local	153,469.63	164,336.65	164,336.65	
State	23,199,635.45	23,413,393.88	23,413,393.88	
Local:				
Property Taxes	8,334,213.00	8,626,848.74	8,626,848.74	
Miscellaneous	419,180.13	931,208.14	925,569.48	(5,638.66)
Total Local Revenues	<u>8,753,393.13</u>	<u>9,558,056.88</u>	<u>9,552,418.22</u>	<u>(5,638.66)</u>
<b>Total Revenues</b>	<u>32,156,498.21</u>	<u>33,192,101.04</u>	<u>33,186,462.38</u>	<u>(5,638.66)</u>
<b>Expenditures</b>				
Current - Education:				
Instruction	22,726,007.41	22,106,665.80	20,286,522.93	1,820,142.87
Pupil Personnel Services	1,625,083.07	1,796,678.27	1,688,737.58	107,940.69
Instructional Media Services	487,266.08	515,197.58	508,975.77	6,221.81
Instruction and Curriculum Development Services	1,041,041.66	1,174,859.00	895,204.18	279,654.82
Instructional Staff Training Services	722,446.30	552,018.50	317,701.88	234,316.62
Instruction Related Technology	288,999.37	267,497.47	263,115.97	4,381.50
School Board	339,080.51	276,106.21	259,066.24	17,039.97
General Administration	677,646.85	546,176.43	469,302.81	76,873.62
School Administration	2,286,888.31	2,342,344.58	2,212,842.59	129,501.99
Facilities Acquisition and Construction	73,603.39	90,405.50	81,896.73	8,508.77
Fiscal Services	676,310.33	910,672.17	802,666.13	108,006.04
Food Services		9,908.11	8,834.30	1,073.81
Central Services	472,703.64	510,462.59	439,073.99	71,388.60
Pupil Transportation Services	1,818,836.21	1,944,307.09	1,801,384.49	142,922.60
Operation of Plant	3,660,834.31	3,941,140.28	3,070,043.48	871,096.80
Maintenance of Plant	1,809,355.03	1,921,320.44	1,516,825.08	404,495.36
Administrative Technology Services	605,381.21	639,355.68	611,081.97	28,273.71
Community Services	113,363.33	90,031.97	62,054.03	27,977.94
Fixed Capital Outlay:				
Other Capital Outlay		220,416.46	220,416.46	
Debt Service:				
Principal	10,000.00	10,000.00	10,000.00	
<b>Total Expenditures</b>	<u>39,434,847.01</u>	<u>39,865,564.13</u>	<u>35,525,746.61</u>	<u>4,339,817.52</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>(7,278,348.80)</u>	<u>(6,673,463.09)</u>	<u>(2,339,284.23)</u>	<u>4,334,178.86</u>
<b>Other Financing Sources</b>				
Transfers In		905,926.85	905,926.85	
Insurance Loss Recoveries		247.83	247.83	
<b>Total Other Financing Sources</b>		<u>906,174.68</u>	<u>906,174.68</u>	
<b>Net Change in Fund Balances</b>	<u>(7,278,348.80)</u>	<u>(5,767,288.41)</u>	<u>(1,433,109.55)</u>	<u>4,334,178.86</u>
Decrease in Nonspendable Inventories			(3,336.12)	(3,336.12)
Fund Balances, Beginning	10,710,660.46	10,710,660.46	10,710,660.46	
<b>Fund Balances, Ending</b>	<u>\$ 3,432,311.66</u>	<u>\$ 4,943,372.05</u>	<u>\$ 9,274,214.79</u>	<u>\$ 4,330,842.74</u>

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)
\$ 5,246,814.82	\$ 6,566,863.94	\$ 5,244,674.04	\$ (1,322,189.90)	\$ 361,334.01	\$ 634,399.51	\$ 481,779.96	\$ (152,619.55)
	64,688.99	27,142.97	(37,546.02)		438.07	438.07	
	64,688.99	27,142.97	(37,546.02)		438.07	438.07	
5,246,814.82	6,631,552.93	5,271,817.01	(1,359,735.92)	361,334.01	634,837.58	482,218.03	(152,619.55)
2,815,172.38	3,819,818.92	3,287,677.45	532,141.47	210,900.34	256,716.34	176,995.56	79,720.78
702,477.05	776,082.95	596,963.24	179,119.71				
753,374.12	614,866.68	527,822.49	87,044.19		4,340.29	4,340.29	
599,197.18	658,836.75	367,952.56	290,884.19	27,600.00	27,815.72	3,767.38	24,048.34
3,760.86	14,343.52	5,077.38	9,266.14	49,306.25	129,622.23	115,608.47	14,013.76
165,312.17							
	312,171.06	218,699.63	93,471.43	11,892.81	22,964.06	16,238.16	6,725.90
	32,702.17	12,416.36	20,285.81	5,595.00	1,254.71		1,254.71
	5,819.95	5,819.95					
147,580.98	103,300.71	55,903.19	47,397.52	15,079.21	42,502.00	31,965.76	10,536.24
50,186.31	164,710.07	68,242.03	96,468.04		1,727.12		1,727.12
9,753.77	18,390.49	14,733.07	3,657.42				
				40,960.40	102,691.60	88,098.90	14,592.70
	110,509.66	110,509.66			45,203.51	45,203.51	
5,246,814.82	6,631,552.93	5,271,817.01	1,359,735.92	361,334.01	634,837.58	482,218.03	152,619.55
\$ 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  (A)	Actuarial Accrued Liability (AAL) - (1)  (B)	Unfunded AAL (UAAL)  (B-A)	Funded Ratio  (A/B)	Covered Payroll  (C)	UAAL as a Percentage of Covered Payroll [(B-A)/C]
October 1, 2006	\$ 0	\$ 11,754,336	\$ 11,754,336	0.0%	\$ 22,247,869	52.8%
January 1, 2010	0	8,028,085	8,028,085	0.0%	21,795,474	36.8%
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, 2013**

**I. BUDGETARY BASIS OF ACCOUNTING**

The Board follows procedures established by State statutes and State Board of Education (SBE) 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 SBE 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.
- Budgets are prepared using the same modified accrual basis as is used to account for governmental funds.
- Budgetary information is integrated into the accounting system and, to facilitate budget control, budget balances are encumbered when purchase orders are issued. Appropriations lapse at fiscal year-end and encumbrances outstanding are honored from the subsequent year's appropriations.

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

The January 1, 2012, unfunded 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 liabilities and costs 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 will let their coverage lapse under the core District plan and that many of those lapsing will 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.
- 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, 2013**

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)
<b>United States Department of Agriculture:</b>			
Indirect:			
Florida Department of Agriculture and Consumer Services:			
Child Nutrition Cluster:			
School Breakfast Program	10.553	321	\$ 398,915.04
National School Lunch Program	10.555 (2)(A)	300	1,939,972.39
Summer Food Service Program for Children	10.559	323	<u>21,050.19</u>
<b>Total Child Nutrition Cluster</b>			<u>2,359,937.62</u>
Fresh Fruit and Vegetable Program	10.582	330	<u>58,295.05</u>
<b>Total United States Department of Agriculture</b>			<u>2,418,232.67</u>
<b>United States Department of Energy:</b>			
Indirect:			
University of Central Florida:			
ARRA - State Energy Program	81.041 (2)(B)	None	<u>150.00</u>
<b>United States Department of Education:</b>			
Indirect:			
Special Education Cluster:			
Florida Department of Education:			
Special Education - Grants to States	84.027 (3)	263	1,132,937.83
Special Education - Preschool Grants	84.173	267	34,875.44
Putnam County District School Board:			
Special Education - Grants to States	84.027 (3)	None	42,880.69
University of South Florida:			
Special Education - Grants to States	84.027 (3)	None	<u>89,906.45</u>
<b>Total Special Education Cluster</b>			1,300,600.41
Florida Department of Education:			
Adult Education - Basic Grants to States	84.002	191, 193	175,160.43
Title I Grants to Local Educational Agencies	84.010	212, 223, 226	2,286,646.31
Migrant Education - State Grant Program	84.011	217	489,353.45
Career and Technical Education - Basic Grants to States	84.048	161	161,585.68
Education for Homeless Children and Youth	84.196	127	46,115.07
Twenty-First Century Community Learning Centers	84.287	244	307,762.51
Education Technology State Grants	84.318	122	95,084.00
Rural Education	84.358	110	105,637.77
English Language Acquisition Grants	84.365	102	89,617.66
Improving Teacher Quality State Grants	84.367	224	306,473.46
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395 (4)	RL111, RD211	481,779.96
Highlands County District School Board:			
Safe and Drug-Free Schools and Communities - National Programs	84.184	None	1,000.00
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395 (4)	None	1,673.87
Putnam County District School Board:			
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395 (4)	None	192.24
Avid Center:			
Investing in Innovation (I3) Fund	84.411	None	<u>11,754.94</u>
<b>Total United States Department of Education</b>			<u>5,860,437.76</u>

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)  
For the Fiscal Year Ended June 30, 2013**

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)
<b>United States Department of Health and Human Services:</b>			
Indirect:			
Manatee County Substance Abuse Coalition: Block Grants for Prevention and Treatment of Substance Abuse	93.959	None	2,136.33
Central Florida Behavioral Health Network, Inc.: Block Grants for Prevention and Treatment of Substance Abuse	93.959	None	<u>55,207.00</u>
<b>Total United States Department of Health and Human Services</b>			<u><u>57,343.33</u></u>
<b>United States Department of Homeland Security:</b>			
Indirect:			
Florida Department of Education: State Domestic Preparedness Equipment Support Program	97.004	532	<u>19,824.99</u>
<b>United States Department of Defense:</b>			
Direct:			
Army Junior Reserve Officers Training Corps	None	N/A	<u>56,313.63</u>
<b>Total Expenditures of Federal Awards</b>			<u><u>\$ 8,412,302.38</u></u>

- Notes: (1) Basis of Presentation. The Schedule of Expenditures of Federal Awards represents amounts expended from Federal programs during the fiscal year as determined based on the modified accrual basis of accounting. The amounts reported on the Schedule have been reconciled to and are in material agreement with amounts recorded in the District's accounting records from which the basic financial statements have been reported.
- (2) Noncash Assistance:
- (A) National School Lunch Program - Includes \$177,176.00 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 - Includes \$150.00 representing the Federally-paid portion of solar panels and related site preparation and installation costs.
- (3) Special Education. Total CFDA No. 84.027 expenditures: \$1,265,724.97.
- (4) ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act. Total CFDA No. 84.395 expenditures: \$483,646.07.



DAVID W. MARTIN, CPA  
AUDITOR GENERAL

# AUDITOR GENERAL STATE OF FLORIDA

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



PHONE: 850-412-2722  
FAX: 850-488-6975

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

## INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

### Report on the Financial Statements

We have audited, 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, the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the DeSoto County District School Board as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements, and have issued our report thereon dated February 26, 2014, included under the heading **INDEPENDENT AUDITOR’S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the school internal funds and the discretely presented component unit, as described in our report on the DeSoto County District School Board’s financial statements. This report does not include the results of the other auditors’ testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the District’s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a

timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

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

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

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

### **Purpose of this Report**

The purpose of the **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 solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,



David W. Martin, CPA  
Tallahassee, Florida  
February 26, 2014



DAVID W. MARTIN, CPA  
AUDITOR GENERAL

# AUDITOR GENERAL STATE OF FLORIDA

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



PHONE: 850-412-2722  
FAX: 850-488-6975

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

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

### Report on Compliance for Each Major Federal Program

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, 2013. The District's major Federal programs are identified in the **SUMMARY OF AUDITOR'S RESULTS** section of the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**.

#### *Management's Responsibility*

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its Federal programs.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on compliance for each of the District's major Federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major Federal program. However, our audit does not provide a legal determination of the District's compliance.

***Basis for Qualified Opinion on the Special Education Cluster***

As described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report, the District did not comply with requirements regarding CFDA Nos. 84.027 and 84.173 Special Education Cluster programs as described in Federal Awards Finding No. 1 for Matching, Level of Effort, Earmarking – Maintenance of Effort. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to those programs.

***Qualified Opinion on the Special Education Cluster***

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Special Education Cluster programs for the fiscal year ended June 30, 2013.

***Unmodified Opinion on Each of the Other Major Federal Programs***

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major Federal programs identified in the **SUMMARY OF AUDITOR'S RESULTS** section of the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** for the fiscal year ended June 30, 2013.

**Report on Internal Control Over Compliance**

District management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

*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 control 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. We consider the deficiency in internal control over compliance described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding No. 1 to be a material weakness.

**Management's Response**

Management's response to the finding identified in our audit is included in Exhibit A. Management's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

**Purpose of this Report**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,



David W. Martin, CPA  
Tallahassee, Florida  
February 26, 2014

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	No

**Federal Awards**

Internal control over major programs:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified for all major programs, except for the Special Education Cluster (CFDA Nos. 84.027 and 84.173), which was qualified.
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:	
CFDA Numbers:	Name of Federal Program or Cluster:
84.010	Title I Grants to Local Educational Agencies
84.011	Migrant Education – State Grant Program
84.027 and 84.173	Special Education Cluster
84.367	Improving Teacher Quality State Grants
84.395	ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act
Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	No

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**ADDITIONAL MATTERS**

**Finding No. 1: Bus Drivers**

State Board of Education (SBE) Rule 6A-3.0141(6), Florida Administrative Code (FAC), requires the District to review the Florida Department of Highway Safety and Motor Vehicles (FDHSMV) driver's history record for school bus drivers using automated weekly updates. Also, SBE Rule 6A-3.0141(8), FAC, and Board policy provide that school bus drivers with expired, suspended, or revoked commercial vehicle driving licenses will not be allowed to drive a school bus. In addition, Section (A) of the District's Bus Driver Safety Plan requires all bus drivers to self-report all accidents, violations, damage, and suspension or revocation of license within 24 hours of the incident. Further, Section 322.21(8), Florida Statutes, requires individuals to pay a fee to have their commercial driver license reinstated after disqualification of their license.

The District employed 30 bus drivers during the 2012-13 fiscal year. District personnel weekly reviewed bus driver history records from the FDHSMV database to confirm that drivers were appropriately licensed. However, our test of ten bus drivers disclosed one bus driver that had a suspended commercial vehicle driving license for lack of appropriate insurance coverage while the bus driver drove routine bus routes from January 7, 2013, through February 5, 2013. District personnel indicated that the FDHSMV notified the bus driver of the suspension, but the bus driver did not self-report the suspension to the District, contrary to the Bus Driver Safety Plan, and the District inadvertently did not identify the suspension using the automated weekly updates. The bus driver paid the reinstatement fee to the FDHSMV and the FDHSMV restored the license of the bus driver on February 6, 2013.

To promote school bus safety and to reduce the risk of accidents caused by school bus drivers, it is important that the District ensure that drivers meet the requirements to operate school buses.

**Recommendation: The District should enhance its procedures to ensure that school bus drivers are appropriately licensed to drive school buses.**

**Finding No. 2: Facilities Management**

The facilities division is responsible for managing construction and renovation projects and ensuring facilities are safe and suitable for their intended use. Included in the facilities division is the maintenance department, which has personnel that perform heating, ventilating, air conditioning (HVAC), electrical, plumbing, and other maintenance-related jobs. During the 2012-13 fiscal year, the maintenance department had 19 full-time employees, and the department's operating cost was \$1.6 million. Also, during the fiscal year, the District had expenditures totaling \$906,115 for capital projects fund construction and renovation projects and, as shown on the District's Five-Year Facilities Work Plan as approved by the Board on September 10, 2013, the District planned to spend \$8.3 million on construction and renovation projects and \$3.9 million on maintenance over the next five fiscal years. At June 30, 2013, the historical cost of the District's educational and ancillary facilities, including land purchases, was

\$60.8 million and, as shown in the Florida Department of Education's Florida Inventory of School Houses data, District facilities had an average age of 37 years.

Given the significant commitment of public funds to construct and maintain educational facilities, it is important that the District establish written policies and procedures for evaluating the effectiveness and efficiency of facility operations at least annually using performance data and established benchmarks, and establish documented processes for evaluating facilities construction methods and maintenance techniques to determine the most cost-effective and efficient method or technique. In addition, performance evaluations could include established goals for facilities and maintenance operations, and measurable objectives or benchmarks that are clearly defined, to document the extent to which goals and accountability for facilities division employees are achieved. While our review indicated that District procedures were generally adequate, we noted enhancements could be made, as follows:

- **Alternative Construction Methods or Maintenance Techniques.** The District primarily awards construction contracts to design professionals and construction contractors using traditional design-bid-build methods. In addition, maintenance-related jobs, such as HVAC replacement and repair, are routinely performed by maintenance personnel based on safety and suitability priorities, although some of these jobs are outsourced to local vendors. District personnel indicated that they had not established written policies and procedures for evaluating the various construction methods or maintenance-related job techniques and, while they consider alternative methods and techniques, they have not documented evaluations of the various approaches to determine, for each major construction project or significant maintenance-related job, which would be most cost-effective and beneficial. Board-approved policies and procedures, and documented evaluations, may provide additional assurance that the District uses the most cost-effective and beneficial construction method or maintenance technique.
- **Accountability.** The District's facilities division has established short-term and long-term goals and District procedures included consideration of whether construction and maintenance projects met applicable building codes, safety standards, and projected completion dates; however, these goals did not sufficiently address accountability for the facilities division departments. For example, one of the goals for the facilities division included to ensure a comprehensive approach to projecting and planning needs of the educational program of the county. Examples of facilities division goals included maintaining all facilities to ensure that students, faculty, and support personnel have a safe and comfortable environment at the lowest cost to taxpayers. However, these goals did not sufficiently identify cost-effectiveness or efficiency outcomes.

To adequately establish outcome measures, the facilities division could set goals such as completing renovation or remodeling projects, or maintenance-related jobs, that meet or exceed building code industry standards at the lowest possible cost. Progress in attaining the goals could be measured by developing accountability systems to monitor work orders for return assignments or corrective action because a project or job did not initially meet building code requirements, and to compare project or job costs to industry standards for similar work.

Additional goals could include setting benchmark time frames for routine projects or jobs, and progress toward meeting the goals could be measured by comparing project or job completion times to industry standards for similar work. Establishing goals that focus on accountability and measurable objectives and benchmarks could assist the District in determining whether its facilities division is operating as cost-effectively and efficiently as possible.

---

**Recommendation:** The District should consider developing written policies and procedures requiring periodic evaluations of alternative facilities construction methods and significant maintenance-related job techniques, and document these evaluations. In addition, the District should consider developing additional goals and objectives for the facilities division to identify cost-effectiveness or efficiency outcomes for division personnel.

---

**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: Special Education Cluster (CFDA Nos. 84.027 and 84.173)**  
**Finding Type: Material Noncompliance and Material Weakness**  
**Questioned Costs: \$176,880**

**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.

District procedures to monitor compliance with the maintenance of effort requirement during the 2012-13 fiscal year included comparisons of State and local 2011-12 and 2012-13 fiscal year expenditures. However, as the District did not meet the maintenance of effort requirement for the 2011-12 fiscal year, the level of effort required for the 2012-13 fiscal year, pursuant to guidance by the United States Department of Education, was the level of effort that was required for the 2010-11 fiscal year (i.e., last fiscal year in which the District complied with the maintenance of effort requirement). Further, District records indicated that State and local expenditures, in total and average per capita, decreased from the 2010-11 fiscal year to the 2012-13 fiscal year resulting in a maintenance of effort shortfall, as shown below:

Source	Fiscal Years		Difference	Amounts
	2010-11	2012-13		
State and Local Expenditures for Special Education Services	\$ 3,324,620	\$ 2,632,490	\$ (692,130)	\$ (692,130)
Full-Time Equivalent (FTE) Enrollment in Special Education	968	818	(150)	
Average Expended Per Capita (FTE)	\$ 3,435	\$ 3,218	\$ (217)	
Allowance for Decrease in FTE (150 FTE Decrease X \$3,435 Average Expended per Capita for 2010-11 Fiscal Year)				515,250
Deficiency in Expenditures of State and Local Resources				\$ (176,880)

After consideration of the 150 FTE decrease, the deficiency in maintenance of effort from State and local funds totaled \$176,880, which represents questioned costs subject to disallowance by the grantor. Without appropriate 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.

Professional auditing standards require that when an auditee does not comply, in all material respects, with a compliance requirement that could have a direct and material effect on one of its major Federal programs, appropriate disclosures (qualifications) should be made in the auditor’s report. As the District did not comply with the requirement regarding Matching, Level of Effort, Earmarking – Maintenance of Effort that is applicable to its Special Education Cluster programs, our report on the District’s compliance with that requirement includes a qualification to that effect. A similar finding was noted in our report No. 2013-158.

---

**Recommendation:** The District should enhance controls over State and local resources allocated and expended for Special Education Cluster programs to ensure compliance with the Federal maintenance of effort requirement. In addition, the District should document to the grantor (Florida Department of Education) how the District complied with this requirement or restore \$176,880 to the Special Education Cluster programs.

---

District Contact Person and Title: Marcia Saulo, Finance Director

---

**PRIOR AUDIT FOLLOW-UP**

---

Except as discussed in the Federal Awards Finding No.1, and the **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS**, the District had taken corrective actions for findings included in our report No. 2013-158.

---

**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, 2013*

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
2013-158 (1)	Education Jobs Fund (CFDA No. 84.410) - Procurement	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.	Corrected.	District removed questioned costs from grant prior to end of grant year.
2013-158 (2)	Special Education Cluster (CFDA Nos. 84.027, 84.173, and 84.391) - Matching, Level of Effort, Earmarking - Maintenance of Effort	The District did not have procedures to monitor its compliance with maintenance of effort requirements, resulting in \$48,262 of questioned costs.	Not Corrected.	A similar finding was noted in the 2012-13 fiscal year. The grantor has not yet made a determination regarding questioned costs.

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

February 7, 2014

**DR. KARYN GARY**  
Superintendent

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

**BOARD MEMBERS**

Dear Mr. Martin:

**Rodney Hollingsworth**  
District 1

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 the Desoto County District School Board for the fiscal year ended June 30, 2013.

**Karen Chancey**  
District 2

**OPERATIONAL FINDINGS**

**Finding No. 1: Bus Drivers**

**Deborah Snyder**  
District 3

Recommendation: The District should enhance its procedures to ensure that school bus drivers are appropriately licensed to drive school buses.

✓ Response: The District has enhanced its procedures to ensure that school bus drivers are appropriately licensed to drive school buses.

**William Stanko**  
District 4

**Finding No. 2: Facilities Management**

**Ronny R. Allen**  
District 5

Recommendation: The District should consider developing written policies and procedures requiring the periodic evaluation of alternative facilities construction methods and significant maintenance-related job techniques, and document these evaluations. In addition, the District should consider developing additional goals and objectives for the facilities division to identify cost-effectiveness or efficiency outcomes for division personnel.

✓ Response: The District will develop written policies and procedures requiring the periodic evaluation of alternative facilities construction methods and significant maintenance-related job techniques, and document these evaluations. In addition, the District will consider developing additional goals and objectives for the facilities division to identify cost-effectiveness or efficiency outcomes for division personnel.

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

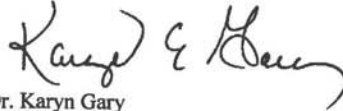
**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

**Finding No. 1: Matching, Level of Effort, Earmarking – Maintenance of Effort**

Recommendation: The District should enhance controls over State and local resources allocated and expended for Special Education Cluster programs to ensure compliance with the Federal maintenance of effort requirement. In addition, the District should document to the grantor (Florida Department of Education) how the District complied with this requirement or restore \$176,880 to the Special Education Cluster programs.

✓ Response: The District will enhance controls over State and local resources allocated and expended for Special Education Cluster programs to ensure compliance with the Federal maintenance of effort requirement. In addition, the District will contact the grantor (FDOE) along with forwarding a copy of the audit recommendations for discussion on compliance with the maintenance of effort requirement. The District will comply with FDOE grantor recommendations.

Sincerely,



Dr. Karyn Gary  
Superintendent