

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD**

---

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

For the Fiscal Year Ended  
June 30, 2011



## BOARD MEMBERS AND SUPERINTENDENT

Board members and the Superintendent who served during the 2010-11 fiscal year are listed below:

	<u>District No.</u>
Rodney W. Hollingsworth	1
Karen K. Chancey, Vice Chair from 11-16-10	2
Deborah D. Snyder, Chair to 11-15-10	3
William Stanko	4
Ronny R. Allen, Vice Chair to 11-15-10, Chair from 11-16-10	5

Adrian H. Cline, Superintendent

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

The audit team leader was James E. Raulerson, CPA, and the audit was supervised by Deirdre F. Waigand, CPA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Manager, by e-mail at [gregcenters@aud.state.fl.us](mailto:gregcenters@aud.state.fl.us) or by telephone at (850) 487-9039.

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

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

	<b>PAGE NO.</b>
<b>EXECUTIVE SUMMARY</b> .....	i
<b>INDEPENDENT AUDITOR’S REPORT ON FINANCIAL STATEMENTS</b> .....	1
<b>MANAGEMENT’S DISCUSSION AND ANALYSIS</b> .....	3
<b>BASIC FINANCIAL STATEMENTS</b>	
Statement of Net Assets .....	9
Statement of Activities .....	10
Balance Sheet – Governmental Funds .....	12
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets .....	14
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds .....	16
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities .....	18
Statement of Fiduciary Assets and Liabilities – Fiduciary Funds.....	19
Notes to Financial Statements .....	20
<b>OTHER REQUIRED SUPPLEMENTARY INFORMATION</b>	
Budgetary Comparison Schedule – General and Major Special Revenue Funds.....	42
Schedule of Funding Progress – Other Postemployment Benefits Plan.....	44
Notes to Required Supplementary Information.....	45
<b>SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS</b> .....	46
<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> .....	47
<b>INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133</b> .....	49
<b>SCHEDULE OF FINDINGS AND QUESTIONED COSTS</b> .....	51
<b>SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS</b> .....	56
<b>EXHIBIT A MANAGEMENT’S RESPONSE</b> .....	57

## 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 *Governmental Auditing Standard* issued by the Comptroller General of the United States; however, we noted certain additional matters as summarized below.

#### ADDITIONAL MATTERS

**Finding No. 1:** District records did not evidence that performance assessments of school administrators were based primarily on student performance and used the required assessment criteria, contrary to Section 1012.34(3), Florida Statutes (2010).

**Finding No. 2:** The Board had not adopted formal policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance pursuant to Section 1012.22(1)(c)2., Florida Statutes (2010), and documenting the differentiated pay process of instructional personnel and school-based administrators using the factors prescribed in Section 1012.22(1)(c)4., Florida Statutes (2010).

### Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Title I, Part A Cluster; Special Education Cluster; Twenty-First Century Community Learning Centers; Educational Technology State Grants Cluster; and State Fiscal Stabilization Fund programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that could have a direct and material effect on each of its major Federal programs. However, we did note a noncompliance and control deficiency finding as summarized below.

**Federal Awards Finding No. 1:** The District needed to strengthen its contracting and monitoring controls to ensure that services and charges for the Special Education Cluster are appropriate and adequately documented.

### 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. 2011-157.

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, 2011. We obtained an understanding of the District's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements and Federal awards. We also examined various transactions to determine whether they were executed, both in manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

#### Audit Methodology

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



DAVID W. MARTIN, CPA  
AUDITOR GENERAL

# AUDITOR GENERAL STATE OF FLORIDA

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



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

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

## INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the DeSoto County District School Board, as of and for the fiscal year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the school internal funds, which represent 16 percent of the assets and 100 percent of the liabilities of the aggregate remaining fund information. Additionally, we did not audit the financial statements of the DeSoto County Education Foundation, Inc., the discretely presented component unit. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the school internal funds and the discretely presented component unit, are based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information for the DeSoto County District School Board as of June 30, 2011, and the respective changes in financial position thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS, BUDGETARY COMPARISON SCHEDULE - GENERAL AND MAJOR SPECIAL REVENUE FUNDS, SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS PLAN, and NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is presented for purposes of additional analysis as required by the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,



David W. Martin, CPA  
February 24, 2012

## 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, 2011. The information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events, and conditions, and should be considered in conjunction with the District's financial statements and notes to financial statements found on pages 9 through 40.

### FINANCIAL HIGHLIGHT

Key financial highlights for the 2010-11 fiscal year are as follows:

- In total, net assets increased \$1,475,166.29, which represents a 3.1 percent increase over the 2009-10 fiscal year.
- General revenues totaled \$47,023,582.74 or 93.5 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions totaled \$3,260,996.15 or 6.5 percent of all revenues.
- Expenses totaled \$48,809,412.60. Only \$3,260,996.15 of these expenses is offset by program specific charges, with the remainder being paid from general revenues. Total revenues exceed expenses by \$1,475,166.29.
- The unassigned fund balance of the General Fund, representing the net current financial resources available for general appropriation by the Board, totaled \$9,221,844.03 at June 30, 2011, or 26.4 percent of total General Fund expenditures.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements consist of three components:

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

#### **Government-wide Financial Statements**

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

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

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

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

### **Fund Financial Statements**

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

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

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

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

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

**Fiduciary Funds:** Fiduciary funds are used to report assets held in a trustee or fiduciary capacity for the benefit of external parties, such as student activity funds. Fiduciary funds are not reflected in the government-wide statements because the resources are not available to support the District's own programs. In its fiduciary capacity, the District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes. The District uses agency funds to account for resources held for student activities and groups.

### **Notes to Financial Statements**

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

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of a government’s financial position. The following is a summary of the District’s net assets as of June 30, 2011, compared to net assets as of June 30, 2010:

	<b>Net Assets, End of Year</b>	
	Governmental Activities	
	6-30-11	6-30-10
Current and Other Assets	\$ 23,421,025.46	\$ 21,868,164.60
Capital Assets	<u>38,429,410.02</u>	<u>39,229,458.28</u>
<b>Total Assets</b>	<b><u>\$ 61,850,435.48</u></b>	<b><u>61,097,622.88</u></b>
Long-Term Liabilities	10,427,056.53	10,625,012.61
Other Liabilities	<u>2,410,135.26</u>	<u>2,934,532.87</u>
<b>Total Liabilities</b>	<b><u>12,837,191.79</u></b>	<b><u>13,559,545.48</u></b>
Net Assets:		
Invested in Capital Assets -		
Net of Debt	31,403,363.45	32,303,462.57
Restricted	11,534,763.15	12,228,916.35
Unrestricted	<u>6,075,117.09</u>	<u>3,005,698.48</u>
<b>Total Net Assets</b>	<b><u>\$ 49,013,243.69</u></b>	<b><u>\$ 47,538,077.40</u></b>

The largest portion of the District’s net assets (64.1 percent) reflects its investment in capital assets (e.g., land, buildings and fixed equipment, furniture, fixtures, and equipment), less any related debt still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending.

The restricted portion of the District’s net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets totals \$6,075,117.09, which may be used to meet the government’s ongoing obligations to students, employees, and creditors.

The key elements of the changes in the District’s net assets for the fiscal years ended June 30, 2011, and June 30, 2010, are as follows:

Operating Results for the Fiscal Year Ended			
Governmental Activities			
	6-30-11		6-30-10
<b>Program Revenues:</b>			
Charges for Services	\$ 525,773.25	\$	559,132.62
Operating Grants and Contributions	2,212,573.84		2,048,510.76
Capital Grants and Contributions	522,649.06		304,737.92
<b>General Revenues:</b>			
Property Taxes, Levied for Operational Purposes	9,470,941.46		11,003,781.32
Property Taxes, Levied for Capital Projects	2,291,515.01		2,643,779.32
Grants and Contributions Not Restricted to Specific Programs	33,694,940.21		32,578,824.75
Unrestricted Investment Earnings	266,839.99		441,393.35
Miscellaneous	1,299,346.07		1,203,713.33
<b>Total Revenues</b>	<b>50,284,578.89</b>		<b>50,783,873.37</b>
<b>Functions/Program Expenses:</b>			
Instruction	26,491,127.69		25,600,004.98
Pupil Personnel Services	2,124,306.25		2,095,321.77
Instructional Media Services	553,187.32		570,714.47
Instruction and Curriculum Development Services	1,362,886.32		1,537,109.51
Instructional Staff Training Services	564,809.49		479,329.89
Instruction Related Technology	302,059.02		310,931.02
Board of Education	269,158.11		249,888.45
General Administration	637,733.94		636,105.05
School Administration	2,265,006.31		2,304,061.19
Facilities Acquisition and Construction	706,303.21		427,853.04
Fiscal Services	571,550.99		599,700.83
Food Services	2,407,520.79		2,221,846.85
Central Services	538,117.03		483,976.64
Pupil Transportation Services	1,825,748.68		1,955,505.64
Operation of Plant	2,930,202.15		3,161,237.49
Maintenance of Plant	1,639,378.45		1,456,845.37
Administrative Technology Services	603,732.99		652,807.03
Community Services	1,232.00		1,994.91
Unallocated Interest on Long-Term Debt	113,859.23		119,755.17
Unallocated Depreciation Expense	2,897,077.53		1,420,062.92
Loss on Disposal of Capital Assets	4,415.10		5,289.19
<b>Total Functions/Program Expenses</b>	<b>48,809,412.60</b>		<b>46,290,341.41</b>
<b>Increase in Net Assets</b>	<b>\$ 1,475,166.29</b>	<b>\$</b>	<b>4,493,531.96</b>

The largest revenue source is the State of Florida (51.9 percent). Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data, and is designed to maintain equity in funding across all Florida school districts, taking into consideration the District’s funding ability based on the local property tax base. Grants and contributions not restricted to specific programs increased by \$1,116,115.46, primarily due to an increase in FEFP funding totaling \$817,934.89, which was partially offset by a decrease in required local effort property tax; and an increase in Class Size Reduction funding totaling \$116,995.00. Other State revenues are primarily for the acquisition, construction, and maintenance of educational facilities. Capital grants and contributions increased by \$217,911.14 due, in part, to an increase in Public Education Capital Outlay Special Maintenance allocation.

Total governmental expenses for the 2010-11 fiscal year increased by \$2,519,071.19 over the prior fiscal year due mainly to an adjustment to the unallocated depreciation in the amount of \$1,068,250.11; an increase to instruction in the amount of \$891,122.71 to meet class size requirements; purchases for DeSoto Connections school in the amount of \$162,210.00; an increase in commodities and the addition of the Fresh Fruit and Vegetable Program in the amount of \$185,673.94; and an increase to maintenance of plant in the amount of \$182,533.08.

## FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

### Major Governmental Funds

The General Fund is the District's chief operating fund. At the end of the current fiscal year, the unassigned fund balance is \$9,221,844.03, while the total fund balance is \$10,278,827.45. The unassigned fund balance increased by \$3,177,074.93 over unreserved fund balance of \$6,044,769.10, while the total fund balance increased by \$2,358,465.63 during the fiscal year. Key factors are as follows:

- The District closely monitored General Fund activities in anticipation of the 2011-12 fiscal year elimination of Federal economic stimulus funding. Salaries and benefits totaling \$2,221,391.95 were reported in the Special Revenue Other - Federal Economic Stimulus Fund.
- A net increase in State revenues in the amount of \$1,225,090.72, primarily due to an increase in FEFP revenue and other State funding sources.
- A decrease in property tax revenues for operating purposes in the amount of \$1,532,839.86 is due to a decrease in assessed valuations and a slight decrease in the required local effort millage.
- Total expenditures increased by \$1,240,144.33, or 3.7 percent, which is primarily due to complying with class size reduction requirements.

The Special Revenue – Other Federal Programs Fund accounts for certain Federal grant program resources, and expenditures and revenues decreased by \$124,512.71 each, or approximately 2.4 percent, due mainly to a decrease in Title I program costs.

The Special Revenue - Federal Economic Stimulus Fund accounts for Federal stimulus program resources, and expenditures and revenues decreased by \$7,457.47 each, due to decreased funding.

The Debt Service – Other Debt Service Fund accounts for the accumulation of resources to the fiscal agent for the Qualified Zone Academy Bonds, and the fund balance increased by \$268,591.18, as a result of scheduled sinking fund deposits and interest income.

The Capital Projects – Local Capital Improvement Fund has a total fund balance of \$6,569,504.29, which is restricted for the acquisition, construction, and maintenance of capital assets. The fund balance decreased by \$653,166.06 due to the completion of the Desoto High School classroom conversion and a decrease in local capital tax dollars.

### GENERAL FUND BUDGETARY HIGHLIGHTS

During the course of the 2010-11 fiscal year, the District amended its General Fund budget several times, which resulted in an increase in total budgeted revenues amounting to \$932,960.40 or 2.6 percent. At the same time, final appropriations were more than the original budgeted amounts by \$246,417.38 or .6 percent. Budget revisions were primarily due to a reduction in unweighted full time equivalent students, an increase in local revenue, and corresponding adjustments to planned expenditures to ensure maintenance of an adequate fund balance.

Actual revenues were in line with the final budgeted amounts, while actual expenditures were \$4,107,625.08, or 10.5 percent less than final budget amounts. The decrease in expenditures was primarily due to continued cost containment measures implemented by the District. The actual ending fund balance exceeded the estimated fund balance contained in the final amended budget by \$4,100,712.27.

## CAPITAL ASSETS AND LONG-TERM DEBT

### Capital Assets

The District's investment in capital assets for its governmental activities as of June 30, 2011, amounted to \$38,429,410.02 (net of accumulated depreciation). This investment in capital assets includes land; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; construction in progress; and audio visual materials and computer software.

Major capital asset events during the current fiscal year included renovations totaling \$1,124,951.61 to complete the DeSoto High School classroom conversion.

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

### Long-Term Debt

At June 30, 2011, the District has total long-term debt outstanding of \$7,028,407.34, comprised of \$4,894,169.00 qualified zone academy bonds payable and \$2,134,238.34 other bonds payable. During the fiscal year, retirement of debt amounted to \$163,240.73

Additional information on the District's long-term debt can be found in Notes 5 through 7 to the financial statements.

## REQUESTS FOR INFORMATION

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

**BASIC FINANCIAL STATEMENTS**

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
STATEMENT OF NET ASSETS  
June 30, 2011**

	<u>Primary Government Governmental Activities</u>	<u>Component Unit</u>
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 20,071,230.32	\$ 74,692.00
Investments	234,067.08	
Due from Other Agencies	570,463.53	
Grants Receivable		10,000.00
Deferred Charges	2,360.77	
Cash with Fiscal Agent	14,000.00	
Inventories	73,121.25	
Restricted Cash and Cash Equivalents		93,402.00
Restricted Investments	2,455,782.51	
Capital Assets:		
Nondepreciable Capital Assets	4,031,643.02	
Depreciable Capital Assets, Net	34,397,767.00	
<b>TOTAL ASSETS</b>	<u>\$ 61,850,435.48</u>	<u>\$ 178,094.00</u>
<b>LIABILITIES</b>		
Payroll Deductions and Withholdings	\$ 1,844,845.80	\$ 11,000.00
Accounts Payable	134,649.59	
Due to Other Agencies	900.00	
Deposits Payable	385,349.13	
Deferred Revenue		7,140.00
Estimated Insurance Claims Payable	44,390.74	
Long-Term Liabilities:		
Portion Due Within One Year	642,707.95	
Portion Due After One Year	9,784,348.58	
<b>Total Liabilities</b>	<u>12,837,191.79</u>	<u>18,140.00</u>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	31,403,363.45	
Restricted for:		
State Required Carryover Programs	805,061.17	
Debt Service	2,872,299.03	
Capital Projects	7,195,349.22	
Food Service	662,053.73	
Scholarships - Expendable		55,432.00
Scholarships - Nonexpendable		2,000.00
Other Purposes		28,830.00
Unrestricted	6,075,117.09	73,692.00
<b>Total Net Assets</b>	<u>49,013,243.69</u>	<u>159,954.00</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 61,850,435.48</u>	<u>\$ 178,094.00</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, 2011**

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	\$ 26,491,127.69	\$ 95,942.71	\$	\$
Pupil Personnel Services	2,124,306.25			
Instructional Media Services	553,187.32			
Instruction and Curriculum Development Services	1,362,886.32			
Instructional Staff Training Services	564,809.49			
Instruction Related Technology	302,059.02			
School Board	269,158.11			
General Administration	637,733.94			
School Administration	2,265,006.31			
Facilities Acquisition and Construction	706,303.21			32,578.08
Fiscal Services	571,550.99			
Food Services	2,407,520.79	397,260.40	2,212,573.84	
Central Services	538,117.03			
Pupil Transportation Services	1,825,748.68	32,570.14		
Operation of Plant	2,930,202.15			
Maintenance of Plant	1,639,378.45			335,467.00
Administrative Technology Services	603,732.99			
Community Services	1,232.00			
Unallocated Interest on Long-Term Debt	113,859.23			154,603.98
Unallocated Depreciation Expense	2,897,077.53			
Loss on Disposal of Capital Assets	4,415.10			
<b>Total Primary Government</b>	<b>\$ 48,809,412.60</b>	<b>\$ 525,773.25</b>	<b>\$ 2,212,573.84</b>	<b>\$ 522,649.06</b>
<b>Component Unit</b>				
The DeSoto Education Foundation, Inc.	\$ 135,186.00	\$ 0.00	\$ 13,679.00	\$ 0.00

General Revenues:

Taxes:

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

**Total General Revenues**

**Change in Net Assets**

Net Assets - Beginning

**Net Assets - Ending**

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

<u>Net (Expense) Revenue and Changes in Net Assets</u>	
<u>Primary Government</u>	<u>Component</u>
<u>Governmental</u>	<u>Unit</u>
<u>Activities</u>	
\$ (26,395,184.98)	\$
(2,124,306.25)	
(553,187.32)	
(1,362,886.32)	
(564,809.49)	
(302,059.02)	
(269,158.11)	
(637,733.94)	
(2,265,006.31)	
(673,725.13)	
(571,550.99)	
202,313.45	
(538,117.03)	
(1,793,178.54)	
(2,930,202.15)	
(1,303,911.45)	
(603,732.99)	
(1,232.00)	
40,744.75	
(2,897,077.53)	
(4,415.10)	
<u>(45,548,416.45)</u>	
	<u>(121,507.00)</u>
9,470,941.46	
2,291,515.01	
33,694,940.21	151,749.00
266,839.99	471.00
<u>1,299,346.07</u>	
<u>47,023,582.74</u>	<u>152,220.00</u>
1,475,166.29	30,713.00
<u>47,538,077.40</u>	<u>129,241.00</u>
<u>\$ 49,013,243.69</u>	<u>\$ 159,954.00</u>

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
BALANCE SHEET - GOVERNMENTAL FUNDS  
June 30, 2011**

	General Fund	Special Revenue - Other Federal Programs Fund	Special Revenue - Federal Economic Stimulus Fund
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 12,385,672.00	\$ 10,484.80	\$ 600.00
Investments			
Due from Other Agencies	34,586.73	165,652.21	53,502.93
Inventories	10,364.04		
Cash with Fiscal Agent	14,000.00		
Restricted Investments			
	<b>TOTAL ASSETS</b>	<b>\$ 176,137.01</b>	<b>\$ 54,102.93</b>
	<b>\$ 12,444,622.77</b>	<b>\$ 176,137.01</b>	<b>\$ 54,102.93</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Salaries and Benefits Payable	\$ 1,625,690.66	\$ 165,652.21	\$ 53,502.93
Payroll Deductions and Withholdings	109,464.79	10,484.80	600.00
Accounts Payable	900.00		
Due to Other Agencies	385,349.13		
Deposits Payable	44,390.74		
Estimated Insurance Claims Payable			
	<b>Total Liabilities</b>	<b>176,137.01</b>	<b>54,102.93</b>
	<b>2,165,795.32</b>	<b>176,137.01</b>	<b>54,102.93</b>
Fund Balances:			
Nonspendable:			
Inventory	10,364.04		
Restricted for:			
State Required Carryover Programs	805,061.17		
Food Service			
Capital Projects			
Debt Service			
Total Restricted Fund Balance	805,061.17		
Assigned to:			
Financial Aid Fees	8,241.29		
Other Purposes	233,316.92		
Total Assigned Fund Balance	241,558.21		
Unassigned Fund Balance	9,221,844.03		
	<b>Total Fund Balances</b>		
	<b>10,278,827.45</b>		
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 12,444,622.77</b>	<b>\$ 176,137.01</b>	<b>\$ 54,102.93</b>

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

Debt Service - Other Debt Service Fund	Capital Projects - Local Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
\$ 49,216.76	\$ 6,375,948.57 207,655.72	\$ 1,249,308.19 26,411.36 316,721.66 62,757.21	\$ 20,071,230.32 234,067.08 570,463.53 73,121.25 14,000.00 2,455,782.51
<u>2,455,782.51</u>			<u>2,455,782.51</u>
<u>\$ 2,504,999.27</u>	<u>\$ 6,583,604.29</u>	<u>\$ 1,655,198.42</u>	<u>\$ 23,418,664.69</u>
\$	\$	\$	\$
	14,100.00		1,844,845.80 134,649.59 900.00 385,349.13 44,390.74
	<u>14,100.00</u>		<u>2,410,135.26</u>
		<u>62,757.21</u>	<u>73,121.25</u>
	6,569,504.29	599,296.52 625,844.93 367,299.76	805,061.17 599,296.52 7,195,349.22 2,872,299.03
<u>2,504,999.27</u>	<u>6,569,504.29</u>	<u>1,592,441.21</u>	<u>11,472,005.94</u>
<u>2,504,999.27</u>			<u>8,241.29</u> <u>233,316.92</u> <u>241,558.21</u> <u>9,221,844.03</u>
<u>2,504,999.27</u>	<u>6,569,504.29</u>	<u>1,655,198.42</u>	<u>21,008,529.43</u>
<u>\$ 2,504,999.27</u>	<u>\$ 6,583,604.29</u>	<u>\$ 1,655,198.42</u>	<u>\$ 23,418,664.69</u>

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2011**

**Total Fund Balances - Governmental Funds** \$ 21,008,529.43

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

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. 38,429,410.02

Debt issuance costs are not expensed in the government-wide statements, but are reported as deferred charges and amortized over the life of the debt. 2,360.77

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 year-end consist of:

Qualified Zone Academy Bonds Payable	\$ 4,894,169.00	
Bonds Payable	2,134,238.34	
Other Postemployment Benefits Payable	1,621,929.00	
Estimated Liability for Long-term Claims	80,000.00	
Compensated Absences Payable	1,696,720.19	<u>(10,427,056.53)</u>

**Total Net Assets - Governmental Activities** \$ 49,013,243.69

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, 2011**

	General Fund	Special Revenue - Other Federal Programs Fund	Special Revenue - ARRA Economic Stimulus Fund
<b>Revenues</b>			
Intergovernmental:			
Federal Direct	\$ 54,322.92	\$	\$
Federal Through State and Local	91,496.75	5,148,519.23	2,848,373.45
State	25,376,383.56		
Local:			
Property Taxes	9,470,941.46		
Charges for Services - Food Service			
Miscellaneous	1,485,239.73		
<b>Total Revenues</b>	<b>36,478,384.42</b>	<b>5,148,519.23</b>	<b>2,848,373.45</b>
<b>Expenditures</b>			
Current - Education:			
Instruction	21,160,779.82	3,444,862.99	1,891,903.21
Pupil Personnel Services	1,271,017.90	546,566.13	311,385.47
Instructional Media Services	552,514.97		
Instruction and Curriculum Development Services	748,510.57	490,843.70	142,619.70
Instructional Staff Training Services	233,203.78	233,895.73	98,257.96
Instruction Related Technology	295,607.18	4,508.51	2,275.96
School Board	267,636.79		
General Administration	308,256.02	196,419.23	133,722.88
School Administration	2,228,452.68	16,889.59	29,766.07
Facilities Acquisition and Construction	79,675.72		
Fiscal Services	575,054.68		
Food Services	18,404.73		
Central Services	480,048.63	47,709.50	11,426.97
Pupil Transportation Services	1,716,495.48	82,593.83	1,354.31
Operation of Plant	2,921,596.78	9,420.64	
Maintenance of Plant	1,477,026.08		
Administrative Technology Services	605,017.11		
Community Services	1,232.00		
Fixed Capital Outlay:			
Facilities Acquisition and Construction	3,400.00	12,500.00	
Other Capital Outlay	4,058.05	62,309.38	225,660.92
Debt Service:			
Principal	10,000.00		
Interest and Fiscal Charges			
<b>Total Expenditures</b>	<b>34,957,988.97</b>	<b>5,148,519.23</b>	<b>2,848,373.45</b>
<b>Excess of Revenues Over Expenditures</b>	<b>1,520,395.45</b>		
<b>Other Financing Sources (Uses)</b>			
Transfers In	842,153.31		
Insurance Loss Recoveries	190.53		
Transfers Out			
<b>Total Other Financing Sources (Uses)</b>	<b>842,343.84</b>		
<b>Net Change in Fund Balances</b>	<b>2,362,739.29</b>		
Decrease in Nonspendable Inventory	(4,273.66)		
Fund Balances, Beginning	7,920,361.82		
<b>Fund Balances, Ending</b>	<b>\$ 10,278,827.45</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

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

Debt Service - Other Debt Service Fund	Capital Projects - Local Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
\$	\$	\$	\$
		2,173,581.84	54,322.92
		737,485.36	10,261,971.27
	2,291,515.01		26,113,868.92
		397,260.40	11,762,456.47
64,932.53	88,099.12	56,237.00	397,260.40
64,932.53	2,379,614.13	3,364,564.60	1,694,508.38
			26,497,546.02
			2,128,969.50
			552,514.97
			1,381,973.97
			565,357.47
			302,391.65
			267,636.79
			638,398.13
			2,275,108.34
	550,646.50	76,579.58	706,901.80
		2,375,231.33	575,054.68
			2,393,636.06
			539,185.10
			1,800,443.62
			2,931,017.42
		164,041.50	1,641,067.58
			605,017.11
			1,232.00
	1,606,119.98	178,860.11	1,800,880.09
		8,535.93	300,564.28
		160,000.00	170,000.00
		115,827.75	115,827.75
	2,156,766.48	3,079,076.20	48,190,724.33
64,932.53	222,847.65	285,488.40	2,093,664.03
203,658.65			1,045,811.96
			190.53
	(876,013.71)	(169,798.25)	(1,045,811.96)
203,658.65	(876,013.71)	(169,798.25)	190.53
268,591.18	(653,166.06)	115,690.15	2,093,854.56
		(11,050.22)	(15,323.88)
2,236,408.09	7,222,670.35	1,550,558.49	18,929,998.75
\$ 2,504,999.27	\$ 6,569,504.29	\$ 1,655,198.42	\$ 21,008,529.43

**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, 2011**

**Net Change in Fund Balances - Governmental Funds** \$ 2,093,854.56

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

Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital outlays in excess of depreciation and depreciation adjustments in the current period. (795,633.16)

The loss on the disposal of capital assets during the current fiscal year is reported in the statement of activities. In the governmental funds, the cost of these assets was recognized as an expenditure in the year purchased. Thus, the change in net assets differs from the change in fund balance by the undepreciated cost of the disposed assets. (4,415.10)

Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayment in the current fiscal year. 160,000.00

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

Net increase in expenses from unamortized premiums	\$	8,009.91	
Net decrease in expenses from refunding costs		(4,769.18)	
Net decrease in expenses from deferred charges		(1,272.21)	1,968.52

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. (15,323.88)

In the statement of activities, the cost of compensated absences is measured by the amounts earned during the year, while in the governmental funds expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences paid in excess of the amount earned in the current period. 508,740.35

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. (484,025.00)

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

**Change in Net Assets - Governmental Activities** **\$ 1,475,166.29**

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, 2011**

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash and Cash Equivalents	<u>\$ 305,522.00</u>
<b>LIABILITIES</b>	
Internal Accounts Payable	<u>\$ 305,522.00</u>

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

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

➤ **Reporting Entity**

The DeSoto County District School Board (Board) has direct responsibility for operation, control, and supervision of District schools and is considered a primary government for financial reporting. The DeSoto County School District (District) is considered part of the Florida system of public education. The governing body of the District is the Board, which is composed of five elected members. The elected Superintendent of Schools is the executive officer of the Board. Geographic boundaries of the District correspond with those of DeSoto County.

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

Based on the application of these criteria, The DeSoto County Education Foundation, Inc. (Foundation), is included within the District's reporting entity as a discretely presented component unit. The component unit columns in the government-wide financial statements include the financial data of the Foundation. The Foundation is a separate not-for-profit corporation organized and operated as a direct-support organization to receive, hold, invest, and administer property and to make expenditures to and for the benefit of the District. Because of the nature and significance of its relationship with the District, the Foundation is considered a component unit.

The financial data reported on the accompanying statements was derived from the Foundation's audited financial statements for the fiscal year ended June 30, 2011. The audit reports are filed in the District's administrative offices.

➤ **Basis of Presentation**

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

Government-wide financial statements are prepared using the economic resources measurement focus. The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are thereby clearly identifiable to a particular function. Depreciation expense is reported as unallocated.

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

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2011**

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

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

The District reports the following major governmental funds:

- General Fund – to account for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.
- Special Revenue – Other Federal Programs Fund – to account for certain Federal grant program resources.
- Special Revenue – Federal Economic Stimulus Fund – to account for certain Federal grant program resources related to the American Recovery and Reinvestment Act (ARRA) and other Federal stimulus programs.
- Debt Service – Other Debt Service Fund – to account for the accumulation of resources for, and the payment of, long-term debt principal and interest.
- Capital Projects – Local Capital Improvement Fund – to account for the financial resources generated by the local capital improvement tax levy to be used for educational capital outlay needs, including new construction and renovation and remodeling projects.

Additionally, the District reports the following fiduciary fund type:

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

➤ **Basis of Accounting**

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

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

Governmental fund financial statements are prepared using the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers revenues to be available if they are collected within 15 days of the end of the current fiscal year. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made. Under the modified accrual basis of accounting, expenditures are generally recognized when the related fund

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2011**

liability is incurred, except for principal and interest on long-term debt, claims and judgments, other postemployment benefits, and compensated absences, which are recognized when due. Allocations of cost, such as depreciation, are not recognized in governmental funds.

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

The Foundation, shown as a discretely presented component unit, uses the enterprise fund accounting and financial reporting standards established by GASB. The Foundation uses the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred.

➤ **Deposits and Investments**

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

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

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

The District's investments in Florida PRIME, which SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, as of June 30, 2011, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. These investments are reported at fair value, which is amortized cost.

The District's investments in Fund B are accounted for as a fluctuating net asset value pool, with a fair value factor of 0.78965331 at June 30, 2011. Fund B is not subject to participant withdrawal requests. Distributions from Fund B, as determined by SBA, are effected by transferring eligible cash or securities to Florida PRIME, consistent with the pro rata allocation of pool shareholders of record at the creation date of Fund B. One hundred percent of such distributions from Fund B are available as liquid balance within Florida PRIME.

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

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2011**

➤ **Inventories**

Inventories consist of expendable supplies held for consumption in the course of District operations. Inventories are stated at cost on the first-in, first-out basis, except that the United States Department of Agriculture donated foods are stated at their fair value as determined at the time of donation to the District's food service program by the Florida Department of Agriculture and Consumer Services, Bureau of Food Distribution. The costs of inventories are recorded as expenditures when purchased, except that United States Department of Agriculture donated foods are recorded as expenditures at the time the individual items are requisitioned for consumption. The purchased foods and supplies inventory 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.

➤ **Capital Assets**

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

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

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

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

➤ **Long-Term Liabilities**

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

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2011**

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

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

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

➤ **State Revenue Sources**

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

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

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

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

➤ **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 2010 tax levy on September 14, 2010. 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.

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2011**

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

Property tax revenues are recognized in the government-wide financial statements when the Board adopts the tax levy. Property tax revenues are recognized in the governmental fund financial statements when taxes are received by the District, except that revenue is accrued for taxes collected by the Desoto County Tax Collector at fiscal year-end but not yet remitted to the District.

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

➤ **Federal Revenue Sources**

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

**2. BUDGETARY COMPLIANCE AND ACCOUNTABILITY**

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

- Budgets are prepared, public hearings are held, and original budgets are adopted annually for all governmental fund types in accordance with procedures and time intervals prescribed by law and State Board of Education rules.
- Appropriations are controlled at the object level (e.g., salaries, purchased services, and capital outlay) within each activity (e.g., instruction, pupil personnel services, and school administration) and may be amended by resolution at any School Board meeting prior to the due date for the annual financial report.
- Budgetary information is integrated into the accounting system and, to facilitate budget control, budget balances are encumbered when purchase orders are issued. Appropriations lapse at fiscal year-end and encumbrances outstanding are honored from the subsequent year's appropriations.

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2011**

**3. INVESTMENTS**

As of June 30, 2011, the District has the following investments and maturities:

Investments	Maturities	Fair Value
State Board of Administration (SBA):		
Florida PRIME (1)	31 Day Average	\$ 245,582.92
Fund B Surplus Funds Trust Fund (Fund B)	7.16 Year Average	207,655.72
Debt Service Accounts	6 Months	26,411.36
Guaranteed Investment Contract (2)	September 28, 2011	573,790.03
Obligations of United States Government Agencies and Instrumentalities (3)	April 25, 2012	1,881,992.48
Total Investments		<u>\$ 2,935,432.51</u>

Notes:

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

Interest Rate Risk

- 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 commensurate with the District’s cash flow needs. The intent to invest in securities with maturities longer than three years must be disclosed in writing to the Board. The District’s participation in Fund B is involuntary.
- Florida PRIME had a weighted average days to maturity (WAM) of 31 days at June 30, 2011. 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 the time divided by the sum of all expected principal payments. The principal amounts used in the WAL calculation are not discounted to present value as they would be in a weighted average duration calculation. The WAL, based on expected future cash flows, of Fund Ba at June 30, 2011, is estimated at 7.16 years. However, because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the WAL.

Credit Risk

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

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2011**

- The District's investments in SBA Debt Service accounts are to provide for debt service payments on bond debt issued by the State Board of Education for the benefit of the District. The District relies on policies developed by SBA for managing interest rate risk and credit risk for this account.
- The District's investment in Florida PRIME composition is rated AAAM by Standard & Poor's. Fund B is unrated.
- The District's investments in Obligations of United States Government Agencies and Instrumentalities, and the guaranteed investment contract, are authorized under agreements with the Qualified Zone Academy Bonds paying agents. The agreements authorize the investment of available fund amounts in certain eligible securities, including, without limitation, the Federal National Mortgage Association and Federal Home Loan Mortgage Corporation. These investments, totaling \$2,455,782.51, were rated AAA by Moody's Investors Service.

**Custodial Credit Risk**

- Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the District will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Section 218.415(18), Florida Statutes, requires the District to earmark all investments and 1) if registered with the issuer or its agents, the investment must be immediately placed for safekeeping in a location that protects the governing body's interest in the security; 2) if in book entry form, the investment must be held for the credit of the governing body by a depository chartered by the Federal Government, the State, or any other state or territory of the United States which has a branch or principal place of business in this State, or by a national association organized and existing under the laws of the United States which is authorized to accept and execute trusts and which is doing business in this State, and must be kept by the depository in an account separate and apart from the assets of the financial institution; or 3) if physically issued to the holder but not registered with the issuer or its agents, must be immediately placed for safekeeping in a secured vault. The District's investment policy addresses custodial credit risk in that all securities would be held with a third party custodian as evidenced by safekeeping receipts, and all securities purchased by, and all collateral obtained by, the District should be properly designated as an asset of the District.
- Restricted investments of \$2,455,782.51 in Obligations of United States Government Agencies and Instrumentalities, and the guaranteed investment contract, are held in custodial accounts by the Qualified Zone Academy Bonds paying agents.

**Concentration of Credit Risk**

- Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The risk and diversification characteristics of the investments in the Board's managed investment portfolio shall be structured so as to provide sufficient liquidity to meet obligations of the Board in a timely manner, meet the investment objectives, and meet the standards of care. Portfolio diversification requires prior approval of the Superintendent and Board.
- The United States Government agencies and instrumentalities and guaranteed investment contract investments are for Federal National Mortgage Association and Federal Home Loan Mortgage Corporation securities. These investments are 84 percent of the District's total investments and 100 percent of the investments in the Debt Service – Other Debt Service Fund. These investments are made pursuant to agreements with the Qualified Zone Academy Bonds paying agents (see Note 6).

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2011**

**4. CHANGES IN CAPITAL ASSETS**

Changes in capital assets are presented in the table below.

	Beginning Balance	Adjustments (1)	Additions	Deletions	Ending Balance
<b>GOVERNMENTAL ACTIVITIES</b>					
Capital Assets Not Being Depreciated:					
Land	\$ 331,142.20	\$	\$	\$	\$ 331,142.20
Construction in Progress	2,333,624.12	(8,169.07)	1,494,499.26	119,453.49	3,700,500.82
Total Capital Assets Not Being Depreciated	<u>2,664,766.32</u>	<u>(8,169.07)</u>	<u>1,494,499.26</u>	<u>119,453.49</u>	<u>4,031,643.02</u>
Capital Assets Being Depreciated:					
Improvements Other Than Buildings	1,583,377.51	4,787.50	16,397.04		1,604,562.05
Buildings and Fixed Equipment	53,521,380.72	3,381.57	220,593.71		53,745,356.00
Furniture, Fixtures, and Equipment	4,823,349.94	53,079.00	204,047.85	164,953.23	4,915,523.56
Motor Vehicles	3,023,847.28		27,000.00	101,218.00	2,949,629.28
Audio Visual Materials and Computer Software	1,334,666.98	(53,079.00)	258,360.00	17,450.00	1,522,497.98
Total Capital Assets Being Depreciated	<u>64,286,622.43</u>	<u>8,169.07</u>	<u>726,398.60</u>	<u>283,621.23</u>	<u>64,737,568.87</u>
Less Accumulated Depreciation for:					
Improvements Other Than Buildings	947,218.71	(107,915.72)	87,506.39		926,809.38
Buildings and Fixed Equipment	20,165,391.11	517,372.04	1,137,744.34		21,820,507.49
Furniture, Fixtures, and Equipment	3,528,836.44	263,191.60	349,998.82	160,538.13	3,981,488.73
Motor Vehicles	1,977,864.33	293,875.86	172,167.34	101,218.00	2,342,689.53
Audio Visual Materials and Computer Software	1,102,619.88	101,726.33	81,410.53	17,450.00	1,268,306.74
Total Accumulated Depreciation	<u>27,721,930.47</u>	<u>1,068,250.11</u>	<u>1,828,827.42</u>	<u>279,206.13</u>	<u>30,339,801.87</u>
Total Capital Assets Being Depreciated, Net	<u>36,564,691.96</u>	<u>(1,060,081.04)</u>	<u>(1,102,428.82)</u>	<u>4,415.10</u>	<u>34,397,767.00</u>
Governmental Activities Capital Assets, Net	<u>\$ 39,229,458.28</u>	<u>\$ (1,068,250.11)</u>	<u>\$ 392,070.44</u>	<u>\$ 123,868.59</u>	<u>\$ 38,429,410.02</u>

Note: (1) Capital assets and accumulated depreciation includes adjustments totaling \$8,169.07 and \$1,068,250.11 to correct errors in the capital assets and depreciation schedules, respectively, for certain assets.

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

**5. ESTIMATED LIABILITY FOR LONG-TERM CLAIMS**

Chapter 91-327, Special Acts of Florida, directed the DeSoto County District School Board, commencing December 1, 1991, to make annual payments of \$10,000 to an individual for the rest of the life of the individual as of a result of an accident that occurred during a physical education class at DeSoto High School. The Board estimated the total liability at June 30, 2011, to be \$80,000, which is recorded as a long-term liability in the government-wide statement of net assets. Payment is made on December 1 of each year.

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2011**

**6. QUALIFIED ZONE ACADEMY BONDS PAYABLE**

The District entered into a financing arrangement on April 17, 2001, which arrangement was characterized as a lease-purchase agreement, with First Union National Bank whereby the District secured financing of certain equipment and improvements in the total amount of \$1,119,618. Also, on April 17, 2001, the District borrowed \$1,264,000 from First Union National Bank for certain capital projects and repairs of the District. Both the lease-purchase agreement and the note, which totaled \$2,383,618, were structured to qualify as qualified zone academy bonds (QZABs), pursuant to Section 1397E of the Internal Revenue Code, as amended. There is no interest cost to the District for borrowing moneys under this program. Mandatory annual deposits beginning on April 16, 2002, and ending on April 16, 2015, are to be made to a District sinking fund account with a paying agent. Such deposits are to be held and accumulated by the paying agent and applied solely to the payment of the rental payments under the lease-purchase agreement and the payments due under the note on the final rental payment date. On April 16, 2015, the paying agent will pay the sum of \$2,383,618 to the lessor. As of June 30, 2011, the paying agent held deposits invested in obligations of United States Government Agencies and Instrumentalities in the sinking fund totaling \$1,881,992.48.

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, 2011, the paying agent held \$573,790.03 in deposits invested in a guaranteed investment contract.

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

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2011**

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
2012	\$ 256,689
2013	256,689
2014	256,689
2015	256,689
2016	132,287
2017-2021	661,435
2022	132,287
<b>Total</b>	<b>\$ 1,952,765</b>

**7. BONDS PAYABLE**

Bonds payable at June 30, 2011, are as follows:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 2005B, Refunding	\$ 825,000	5.0	2018
Series 2009A, Refunding	80,000	4.0 - 5.0	2019
District Revenue Bonds:			
Series 1996 Refunding	1,190,000	5.125 - 5.250	2025
Subtotal	2,095,000		
Add: Unamortized Premium on Debt	71,153		
Less: Difference between the Reacquisition Price	(31,914)		
<b>Total Bonds Payable</b>	<b>\$ 2,134,238</b>		

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, 2011**

➤ **District Revenue Bonds**

These bonds are authorized by Chapter 78-497, Laws of Florida, which provides that the bonds be secured from the pari-mutuel tax proceeds distributed annually to DeSoto County from the State's Pari Mutuel Tax Collection Trust Fund pursuant to Chapter 550, Florida Statutes (effective July 1, 2000, tax proceeds are distributed pursuant to Section 212.20(6)(d)7.a., Florida Statutes (2001)). The annual distribution is remitted by the Florida Department of Financial Services to the District. As required by the bond resolution, the District has established the sinking fund and reserve account, and has accumulated and maintained adequate resources in the sinking fund and reserve account.

The District has pledged a combined total of \$1,707,925.04 of sales tax revenues in connection with the Series 1996 Refunding District Revenue Bonds, described above. During the 2010-11 fiscal year, the District recognized sales tax revenues totaling \$132,166.66 and expended \$120,683.13 (91 percent) of these revenues for debt service directly collateralized by these revenues. The pledged sales tax revenues are committed until final maturity of the debt on June 1, 2025. Approximately 92 percent of this revenue stream has been pledged in connection with debt service on the revenue bonds.

Annual requirements to amortize all bonded debt outstanding as of June 30, 2011, are as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
<b>State School Bonds:</b>			
2012	\$ 155,000.00	\$ 110,000.00	\$ 45,000.00
2013	154,650.00	115,000.00	39,650.00
2014	154,000.00	120,000.00	34,000.00
2015	158,000.00	130,000.00	28,000.00
2016	156,500.00	135,000.00	21,500.00
2017-2019	<u>317,750.00</u>	<u>295,000.00</u>	<u>22,750.00</u>
<b>Total State School Bonds</b>	<u>1,095,900.00</u>	<u>905,000.00</u>	<u>190,900.00</u>
<b>District Revenue Bonds:</b>			
2012	122,056.26	60,000.00	62,056.26
2013	123,981.26	65,000.00	58,981.26
2014	120,650.00	65,000.00	55,650.00
2015	122,318.76	70,000.00	52,318.76
2016	123,731.26	75,000.00	48,731.26
2017-2021	607,437.50	425,000.00	182,437.50
2022-2025	<u>487,750.00</u>	<u>430,000.00</u>	<u>57,750.00</u>
<b>Total District Revenue Bonds</b>	<u>1,707,925.04</u>	<u>1,190,000.00</u>	<u>517,925.04</u>
<b>Total</b>	<u><u>\$ 2,803,825.04</u></u>	<u><u>\$ 2,095,000.00</u></u>	<u><u>\$ 708,825.04</u></u>

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2011**

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

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

Description	Beginning Balance	Additions	Deductions	Ending Balance	Due In One Year
<b>GOVERNMENTAL ACTIVITIES</b>					
Estimated Liability for Long-Term Claims	\$ 90,000.00	\$	\$ 10,000.00	\$ 80,000.00	\$ 10,000.00
Qualified Zone Academy Bonds Payable	4,894,169.00			4,894,169.00	
Bonds Payable	2,297,479.07		163,240.73	2,134,238.34	170,000.00
Compensated Absences Payable	2,205,460.54	48,148.91	556,889.26	1,696,720.19	462,707.95
Other Postemployment Benefits Payable	1,137,904.00	808,562.00	324,537.00	1,621,929.00	
<b>Total Governmental Activities</b>	<u>\$ 10,625,012.61</u>	<u>\$ 856,710.91</u>	<u>\$ 1,054,666.99</u>	<u>\$ 10,427,056.53</u>	<u>\$ 642,707.95</u>

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

**9. INTERFUND TRANSFERS**

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

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	\$ 842,153.31	\$
Debt Service - Other Debt Service	203,658.65	
Capital Projects - Local Capital Improvement		876,013.71
Nonmajor Governmental		169,798.25
<b>Total</b>	<u>\$ 1,045,811.96</u>	<u>\$ 1,045,811.96</u>

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

**10. FUND BALANCE REPORTING**

The District implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Types Definitions*, for the fiscal year ended June 30, 2011. The objective of the statement is to improve the usefulness and understanding of fund balance information for users of the financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources.

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2011**

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

➤ **Nonspendable**

The net current financial resources that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. Generally, not in spendable form means that an item is not expected to be converted to cash. Examples of items that are not in spendable form include inventory, prepaid amounts, long-term amounts of loans and notes receivable, and property acquired for resale. The District classifies its amounts reported as inventories as nonspendable.

➤ **Restricted**

The portion of fund balance on which constraints have been placed by creditors, grantors, contributors, laws or regulations of other governments, constitutional provisions, or enabling legislation. Restricted fund balance places the most binding level of constraint on the use of fund balance. The District classifies most of its fund balances other than General Fund as restricted, as well as unspent State categorical and earmarked educational funding of \$805,061.17, reported in the General Fund, that are legally or otherwise restricted.

➤ **Committed**

The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the highest level of decision-making authority (i.e., the Board). These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same action it employed to previously commit the amounts. The District did not have any committed fund balances at June 30, 2011.

➤ **Assigned**

The portion of fund balance that is intended to be used for specific purposes, but is neither restricted nor committed. Assigned amounts includes those that have been set aside for a specific purpose by an authorized government body or official, but the constraint imposed does not satisfy the criteria to be classified as restricted or committed. This category includes any remaining positive amounts, for governmental funds other than the General Fund, not classified as nonspendable, restricted, or committed. The District also classifies \$241,558.21 as assigned that are constrained to be used for specific purposes based on actions of the Director of Finance, as authorized by the Board, and not included in other categories.

➤ **Unassigned**

The portion of fund balance that is 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.

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2011**

**11. SCHEDULE OF STATE REVENUE SOURCES**

The following is a schedule of the District’s State revenue sources for the 2010-11 fiscal year:

<u>Source</u>	<u>Amount</u>
Florida Education Finance Program	\$ 18,808,703.00
Categorical Educational Program - Class Size Reduction	5,136,683.00
Workforce Development Program	842,553.00
Gross Receipts Tax (Public Education Capital Outlay)	335,467.00
Adults with Disabilities	234,038.36
Motor Vehicle License Tax (Capital Outlay and Debt Service)	187,182.06
Racing Commission Funds	132,166.66
Mobile Home License Tax	48,218.54
Food Service Supplement	38,992.00
Discretionary Lottery Funds	18,247.00
Miscellaneous	<u>331,618.30</u>
 Total	 <u><u>\$ 26,113,868.92</u></u>

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

**12. PROPERTY TAXES**

The following is a summary of millages and taxes levied on the 2010 tax roll for the 2010-11 fiscal year:

<u>GENERAL FUND</u>	<u>Millages</u>	<u>Taxes Levied</u>
Nonvoted School Tax:		
Required Local Effort	5.203	\$ 8,315,197
Basic Discretionary Local Effort	0.748	1,195,419
Critical Operating Needs	0.250	399,538
 <u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	<u>1.500</u>	<u>2,397,231</u>
 Total	 <u><u>7.701</u></u>	 <u><u>\$ 12,307,385</u></u>

**13. FLORIDA RETIREMENT SYSTEM**

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

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2011**

(DROP), and a defined contribution plan, referred to as the Public Employee Optional Retirement Program (PEORP).

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

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

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

**FRS Retirement Contribution Rates**

The Florida Legislature establishes, and may amend, contribution rates for each membership class of FRS. During the 2010-11 fiscal year, contribution rates were as follows:

Class	<u>Percent of Gross Salary</u>	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	10.77
Florida Retirement System, Elected County Officers	0.00	18.64
Florida Retirement System, Senior Management Service	0.00	14.57
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	12.25
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.11 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.03 percent for administrative costs of PEORP.

(B) Contribution rates are dependent upon retirement class in which reemployed.

The District’s liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the District. The District’s contributions to the Plan for

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2011**

the fiscal years ended June 30, 2009, June 30, 2010, and June 30, 2011, totaled \$2,279,007.30, \$2,144,708.80, and \$2,370,148.88 respectively, which were equal to the required contributions for each fiscal year. There were 80 PEORP participants during the 2010-11 fiscal year. Required contributions made to PEORP totaled \$265,762.88.

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

Effective July 1, 2011, all members of FRS, except for DROP participants and reemployed retirees who are not eligible for renewed membership, are required to contribute 3 percent of their compensation to FRS.

**14. OTHER POSTEMPLOYMENT BENEFITS PAYABLE**

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

**Funding Policy.** Plan contribution requirements of the District and Plan members are established and may be amended through action from the Board. The District has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go-basis. For the 2010-11 fiscal year, 153 retirees received other postemployment benefits. The District provided required contributions of \$324,537 toward the annual OPEB cost, net of retiree contributions totaling \$212,738, which represents 1 percent of covered payroll.

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

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2011**

exceed 30 years. The following table shows the District’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District’s net OPEB obligation:

Description	Amount
Normal Cost (service cost for one year)	\$ 394,213
Amortization of Unfunded Actuarial Accrued Liability	425,728
Annual Required Contribution	819,941
Interest on Net OPEB Obligation	45,516
Adjustment to Annual Required Contribution	(56,895)
Annual OPEB Cost (Expense)	808,562
Contribution Toward the OPEB Cost	(324,537)
Increase in Net OPEB Obligation	484,025
Net OPEB Obligation, Beginning of Year	1,137,904
Net OPEB Obligation, End of Year	\$ 1,621,929

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation as of June 30, 2011, and the preceding years, were as follows:

Fiscal Year	Beginning Balance	Annual OPEB Cost	Amount Contributed	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2008-09	\$	\$ 954,505	\$ 310,914	36.4%	\$ 643,591
2009-10	643,591	777,326	283,013	40.1%	1,137,904
2010-11	1,137,904	808,562	324,537	32.6%	1,621,929

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

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and termination, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2011**

The required schedule of funding progress immediately following the notes to financial statements presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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

The District’s OPEB actuarial valuation as of January 1, 2010, used the entry age normal cost actuarial method to establish the unfunded actuarial liability as of June 30, 2010, which were presented in a report dated August 27, 2011. The purpose of this actuarial roll-forward is to make various adjustments to the results of that Actuarial Valuation to be applicable to the fiscal year ending June 30, 2011. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets, which includes a 3 percent general price inflation rate. The actuarial assumptions also included a payroll growth rate of 4 percent per year, and an annual healthcare cost trend of 9 percent initially for the calendar year 2010, reduced by 0.5 percent per year, to an ultimate rate of 5 percent after 8 years. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll over a 20-year period on a closed basis. The remaining amortization period at June 30, 2011, is 18 years.

**15. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS**

**Encumbrances.** Appropriations in governmental funds are encumbered upon issuance of purchase orders for goods and services. Even though appropriations lapse at the end of the fiscal year, unfilled purchase orders of the current year are carried forward and the next year's appropriations are likewise encumbered.

The following is a schedule of encumbrances at June 30, 2011:

Major Funds				
		Capital		
General	Special Revenue - Other	Projects - Local Capital Improvement	Nonmajor Governmental Funds	Total Governmental Funds
\$ 310,130	\$ 357,650	\$ 325,856	\$ 44,847	\$ 1,038,483

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2011**

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

Project	Contract Amount	Completed to Date	Balance Committed
DeSoto High School Classroom Conversion:			
Contractor	\$ 2,526,980.45	\$ 2,010,879.17	\$ 516,101.28
Architect	112,000.00	108,503.90	3,496.10
Direct Purchases	488,468.00	488,468.00	
Skyward Software	190,912.00	147,972.00	42,940.00
Total	<u>\$ 3,318,360.45</u>	<u>\$ 2,755,823.07</u>	<u>\$ 562,537.38</u>

**16. RISK MANAGEMENT PROGRAMS**

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

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

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

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2011**

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

	Beginning-of- Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-End
2009-10	\$ 31,010.40	\$ 266,098.46	\$ (256,379.02)	\$ 40,729.84
2010-11	40,729.84	270,005.37	(266,344.47)	44,390.74

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.

**THIS PAGE INTENTIONALLY LEFT BLANK.**

**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, 2011**

	General Fund			Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget	Actual	
<b>Revenues</b>				
Intergovernmental:				
Federal Direct	\$ 40,000.00	\$ 54,322.92	\$ 54,322.92	\$
Federal Through State and Local	70,442.00	91,496.75	91,496.75	
State	25,726,780.08	25,376,383.56	25,376,383.56	
Local:				
Property Taxes	9,073,453.00	9,470,941.46	9,470,941.46	
Miscellaneous	637,388.09	1,487,878.88	1,485,239.73	(2,639.15)
<b>Total Revenues</b>	<u>35,548,063.17</u>	<u>36,481,023.57</u>	<u>36,478,384.42</u>	<u>(2,639.15)</u>
<b>Expenditures</b>				
Current - Education:				
Instruction	23,264,389.84	22,873,602.59	21,160,779.82	1,712,822.77
Pupil Personnel Services	1,156,975.71	1,302,351.60	1,271,017.90	31,333.70
Instructional Media Services	558,655.02	579,375.64	552,514.97	26,860.67
Instruction and Curriculum Development Services	889,798.52	990,316.78	748,510.57	241,806.21
Instructional Staff Training Services	436,622.83	431,081.83	233,203.78	197,878.05
Instruction Related Technology	300,646.00	311,924.71	295,607.18	16,317.53
School Board	371,276.00	341,830.20	267,636.79	74,193.41
General Administration	658,275.03	491,282.23	308,256.02	183,026.21
School Administration	2,216,844.95	2,321,981.08	2,228,452.68	93,528.40
Facilities Acquisition and Construction	78,713.00	80,055.00	79,675.72	379.28
Fiscal Services	576,369.00	593,883.40	575,054.68	18,828.72
Food Services		18,406.10	18,404.73	1.37
Central Services	443,148.00	532,231.33	480,048.63	52,182.70
Pupil Transportation Services	1,727,923.00	1,871,457.94	1,716,495.48	154,962.46
Operation of Plant	3,761,176.93	3,793,720.55	2,921,596.78	872,123.77
Maintenance of Plant	1,789,122.55	1,882,454.03	1,477,026.08	405,427.95
Administrative Technology Services	578,025.99	630,968.99	605,017.11	25,951.88
Community Services	1,234.30	1,232.00	1,232.00	
Fixed Capital Outlay:				
Facilities Acquisition and Construction		3,400.00	3,400.00	
Other Capital Outlay		4,058.05	4,058.05	
Debt Service:				
Principal	10,000.00	10,000.00	10,000.00	
<b>Total Expenditures</b>	<u>38,819,196.67</u>	<u>39,065,614.05</u>	<u>34,957,988.97</u>	<u>4,107,625.08</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>(3,271,133.50)</u>	<u>(2,584,590.48)</u>	<u>1,520,395.45</u>	<u>4,104,985.93</u>
<b>Other Financing Sources</b>				
Transfers In	700,000.00	842,153.31	842,153.31	
Insurance Loss Recoveries		190.53	190.53	
<b>Total Other Financing Sources</b>	<u>700,000.00</u>	<u>842,343.84</u>	<u>842,343.84</u>	
<b>Net Change in Fund Balances</b>	<u>(2,571,133.50)</u>	<u>(1,742,246.64)</u>	<u>2,362,739.29</u>	<u>4,104,985.93</u>
Decrease in Inventory Reserve			(4,273.66)	(4,273.66)
Fund Balances, Beginning	7,920,361.82	7,920,361.82	7,920,361.82	
<b>Fund Balances, Ending</b>	<u>\$ 5,349,228.32</u>	<u>\$ 6,178,115.18</u>	<u>\$ 10,278,827.45</u>	<u>\$ 4,100,712.27</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)
\$ 4,330,702.18	\$ 6,732,878.24	\$ 5,148,519.23	\$ (1,584,359.01)	\$ 3,462,220.24	\$ 4,474,218.03	\$ 2,848,373.45	\$ (1,625,844.58)
<u>4,330,702.18</u>	<u>6,732,878.24</u>	<u>5,148,519.23</u>	<u>(1,584,359.01)</u>	<u>3,462,220.24</u>	<u>4,474,218.03</u>	<u>2,848,373.45</u>	<u>(1,625,844.58)</u>
2,746,826.14	4,352,814.41	3,444,862.99	907,951.42	2,531,990.04	3,250,167.49	1,891,903.21	1,358,264.28
589,012.08	707,510.41	546,566.13	160,944.28	334,356.08	345,747.51	311,385.47	34,362.04
936.58					7,650.00		7,650.00
584,088.75	550,894.32	490,843.70	60,050.62	133,120.24	142,746.51	142,619.70	126.81
207,767.67	590,324.45	233,895.73	356,428.72	302,023.10	234,030.10	98,257.96	135,772.14
1,877.50	9,877.51	4,508.51	5,369.00	2,691.00	9,741.00	2,275.96	7,465.04
28,117.18	237,766.10	196,419.23	41,346.87	90,684.78	176,341.98	133,722.88	42,619.10
9,684.96	16,889.59	16,889.59		55,572.00	31,358.54	29,766.07	1,592.47
12,500.00							
81,363.54	62,293.83	47,709.50	14,584.33	11,783.00	23,978.44	11,426.97	12,551.47
51,277.78	110,675.68	82,593.83	28,081.85		26,095.54	1,354.31	24,741.23
17,250.00	19,022.56	9,420.64	9,601.92				
					700.00		700.00
	12,500.00	12,500.00					
	62,309.38	62,309.38			225,660.92	225,660.92	
<u>4,330,702.18</u>	<u>6,732,878.24</u>	<u>5,148,519.23</u>	<u>1,584,359.01</u>	<u>3,462,220.24</u>	<u>4,474,218.03</u>	<u>2,848,373.45</u>	<u>1,625,844.58</u>
<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>

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

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

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2011**

**1. BUDGETARY BASIS OF ACCOUNTING**

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

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

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

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Fiscal Year Ended June 30, 2011**

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)
<b>United States Department of Agriculture:</b>			
Indirect:			
Child Nutrition Cluster:			
Florida Department of Education:			
School Breakfast Program	10.553	321	\$ 351,776.90
National School Lunch Program	10.555	300, 350	1,569,662.62
Summer Food Service Program for Children	10.559	323	31,254.66
Florida Department of Agriculture and Consumer Services:			
National School Lunch Program	10.555 (2)	None	199,687.07
<b>Total Child Nutrition Cluster</b>			<b>2,152,381.25</b>
Florida Department of Education:			
Fresh Fruit and Vegetable Program	10.582		46,070.72
<b>Total United States Department of Agriculture</b>			<b>2,198,451.97</b>
<b>United States Department of Education:</b>			
Indirect:			
Special Education Cluster:			
Florida Department of Education:			
Special Education - Grants to States	84.027	262, 263	1,226,188.77
Special Education - Preschool Grants	84.173	267	38,001.49
ARRA - Special Education - Grants to States, Recovery Act	84.391	263	596,588.66
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	267	17,352.45
Putnam County District School Board:			
Special Education - Grants to States	84.027	None	92,229.10
<b>Total Special Education Cluster</b>			<b>1,970,360.47</b>
Title I, Part A Cluster:			
Florida Department of Education:			
Title I Grants to Local Educational Agencies	84.010	212, 222, 223, 226, 228	2,111,819.30
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	212, 223, 226	614,584.50
<b>Total Title I, Part A Cluster</b>			<b>2,726,403.80</b>
Education for Homeless Children and Youth Cluster:			
Florida Department of Education:			
Education for Homeless Children and Youth	84.196	127	29,002.84
ARRA - Education for Homeless Children and Youth, Recovery Act	84.387	127	1,666.24
<b>Total Education for Homeless Children and Youth Cluster</b>			<b>30,669.08</b>
Educational Technology State Grants Cluster:			
Florida Department of Education:			
Education Technology State Grants	84.318	121, 122	130,994.23
ARRA - Education Technology State Grants, Recovery Act	84.386	121	19,593.55
<b>Total Educational Technology State Grants Cluster</b>			<b>150,587.78</b>
State Fiscal Stabilization Fund Cluster:			
Florida Department of Education:			
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	591	1,552,473.00
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	592	30,996.00
<b>Total State Fiscal Stabilization Fund Cluster</b>			<b>1,583,469.00</b>
Florida Department of Education:			
Adult Education - Basic Grants to States	84.002	191, 193	142,910.00
Migrant Education - State Grant Program	84.011	217	428,990.57
Career and Technical Education - Basic Grants to States	84.048	161	115,620.85
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	2,052.02
Twenty-First Century Community Learning Centers	84.287	244	386,360.20
Rural Education	84.358	110	127,828.68
English Language Acquisition Grants	84.365	102	94,175.27
Improving Teacher Quality State Grants	84.367	224	284,829.61
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	RL111	15,119.05
Highlands County District School Board:			
Safe and Drug-Free Schools and Communities - National Programs	84.184	None	2,741.69
Washington County District School Board:			
Reading First State Grants	84.357	None	5,730.70
<b>Total United States Department of Education</b>			<b>8,067,848.77</b>
<b>United States Department of Homeland Security:</b>			
Indirect:			
Florida Department of Education:			
Homeland Security Grant Program	97.067	532	29,745.40
<b>United States Department of Defense:</b>			
Direct:			
Army Junior Reserve Officers Training Corps	None	N/A	54,322.92
<b>Total Expenditures of Federal Awards</b>			<b>\$ 10,350,369.06</b>

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

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



DAVID W. MARTIN, CPA  
AUDITOR GENERAL

# AUDITOR GENERAL STATE OF FLORIDA

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



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

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

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

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the DeSoto County District School Board as of and for the fiscal year ended June 30, 2011, which collectively comprise the District's basic financial statements, and have issued our report thereon under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the basic financial statements was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the school internal funds and the discretely presented component unit, as described in our report on the DeSoto County District School Board's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

### Internal Control Over Financial Reporting

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

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

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

### **Compliance and Other Matters**

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

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

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

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

Respectfully submitted,



David W. Martin, CPA  
February 24, 2012



DAVID W. MARTIN, CPA  
AUDITOR GENERAL

# AUDITOR GENERAL STATE OF FLORIDA

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



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

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

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

### Compliance

We have audited the DeSoto County District School Board's compliance with the types of compliance requirements described in the United States Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the District's major Federal programs for the fiscal year ended June 30, 2011. The District's major Federal programs are identified in the **SUMMARY OF AUDITOR'S RESULTS** section of the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of District management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the fiscal year ended June 30, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding No. 1.

### Internal Control Over Compliance

District management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program to determine auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding No. 1. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

Respectfully submitted,



David W. Martin, CPA  
February 24, 2012

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be a material weakness(es)?	None reported
Noncompliance material to financial statements noted?	No

**Federal Awards**

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be a material weakness(es)?	Yes
Type of report the auditor issued on compliance for major programs:	Unqualified for all major programs
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	Yes
Identification of major programs:	Title I, Part A Cluster (CFDA Nos. 84.010 and 84.389 - ARRA); Special Education Cluster (CFDA Nos. 84.027, 84.173, 84.391 - ARRA, and 84.392 - ARRA); Twenty-First Century Community Learning Centers (CFDA No. 84.287); Educational Technology State Grants Cluster (CFDA Nos. 84.318 and 84.386 - ARRA); and State Fiscal Stabilization Fund Cluster (CFDA Nos. 84.394 - ARRA and 84.397 - ARRA)
Dollar threshold used to distinguish between Type A and Type B programs:	\$310,511
Auditee qualified as low-risk auditee?	Yes

**DESOTO COUNTY  
DISTRICT SCHOOL BOARD  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**ADDITIONAL MATTERS**

**Finding No. 1: Performance Assessments**

Section 1012.34(3), Florida Statutes (2010),<sup>1</sup> required the District to establish annual performance assessment procedures for instructional personnel and school administrators. When evaluating the performance of these employees, the procedures were to primarily include consideration of student performance, using results from student achievement tests, such as the Florida Comprehensive Assessment Test (FCAT), pursuant to Section 1008.22(3), Florida Statutes (2010), at the school where the employee worked. Additional employee performance assessment criteria prescribed by Section 1012.34(3)(a), Florida Statutes (2010), included evaluation measures such as the employee's ability to maintain appropriate discipline, knowledge of subject matter, ability to plan and deliver instruction and use of technology in the classroom, and other professional competencies established by rules of the State Board of Education and Board policies. Section 1012.34(3)(d), Florida Statutes (2010), required that, if an employee was not performing satisfactorily, the performance evaluator had to notify the employee in writing and describe the unsatisfactory performance.

The District established performance assessment procedures for instructional personnel and school administrators generally based on criteria prescribed by Section 1012.34(3)(a), Florida Statutes (2010). Instructional personnel typically maintained records in consultation with their school principal, and school administrators maintained records with the Superintendent, to establish specific goals addressing the improvement of student performance based on FCAT scores and other standardized tests, and they met periodically with their school principal or Superintendent throughout the school year to assess the progress in meeting the projected goals. During the performance assessment process, evaluations of instructional personnel were based primarily on student performance. School administrator performance assessments included consideration of various competencies such as quality, communication, innovation, and initiative; however, District records did not evidence that these assessments were based primarily on student performance. For example, the school administrator performance assessment contained categories for personal goals, leadership standards, and student learning gains; however, the student learning gains only represented 30 percent of the assessment. In addition, District records did not demonstrate that the District considered each of the additional required assessment criteria for school administrators, such as the administrator's ability to maintain appropriate discipline. District personnel indicated that they delayed revisions to performance assessments until implementation of the Federal Race-to-the-Top grant requirements, which are subject to approval by the Florida Department of Education for the 2011-12 fiscal year. However, without measuring performance by the required criteria,

<sup>1</sup> Sections 1012.34 and 1008.22, Florida Statutes, were amended by Chapter 2011-1, Laws of Florida, effective July 1, 2011. For the 2011-12 fiscal year, pursuant to Section 1012.34(3)(a), Florida Statutes (2011), at least 50 percent of performance evaluations of instructional personnel and school administrators must be based upon data and indicators of student learning growth assessed annually by statewide or district assessments spanning three years of data. However, if three years of data is not available, the District must use the available data and the percentage of the evaluation based upon student learning growth may be reduced to not less than 40 percent for administrators and in-classroom instructional personnel, and to not less than 20 percent for instructional personnel who are not classroom teachers.

performance assessments of school administrators may not effectively communicate the employee's accomplishments or shortcomings. A similar finding was noted in our report No. 2011-157.

---

**Recommendation:** The District should maintain evidence that performance assessments of school administrators are based primarily on student performance.

---



---

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

---

Section 1001.42(5)(a), Florida Statutes, requires the Board to designate positions to be filled, prescribe qualifications for those positions, and provide for the appointment, compensation, promotion, suspension, and dismissal of employees, subject to the requirements of Chapter 1012, Florida Statutes. Section 1012.22(1)(c)2., Florida Statutes (2010),<sup>2</sup> provided that, for instructional personnel, the Board must base a portion of each employee's compensation on performance. In addition, Section 1012.22(1)(c)4., Florida Statutes (2010), required the Board to adopt a salary schedule with differentiated pay for instructional personnel and school-based administrators. The salary schedule is subject to negotiation as provided in Chapter 447, Florida Statutes, and was required to provide differentiated pay based on District-determined factors, including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties.

While compensation of instructional personnel is typically subject to collective bargaining, the Board had not adopted formal policies and procedures to ensure that a portion of each instructional employee's compensation is based on performance pursuant to Section 1012.22(1)(c)2., Florida Statutes (2010). Such policies and procedures could establish and clearly communicate the performance measures affecting instructional employee compensation. In addition, the Board had not adopted formal policies and procedures establishing the documented process to identify the instructional personnel and school-based administrators entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4., Florida Statutes. Such policies and procedures could specify the prescribed factors to be used as the basis for determining differentiated pay, the documented process for applying the prescribed factors, and the individuals responsible for making such determinations.

The 2010-11 fiscal year salary schedules and applicable union contract for instructional personnel and school-based administrators provided pay levels based on various factors such as job classification, years of experience, level of education, and other factors. However, the District's procedures for documenting compliance with Section 1012.22(1)(c), Florida Statutes (2010), could be improved, as follows:

- **Instructional Personnel.** The instructional personnel salary schedule and union contract did not evidence that a portion of the compensation of each instructional employee was based on performance, contrary to Section 1012.22(1)(c)2., Florida Statutes (2010).
- **School-based Administrators.** The school-based administrators' salary schedule evidenced consideration for additional responsibilities, school demographics, and level of job performance difficulties by providing differing administrative pay grades for elementary, middle, and high schools based on the type school. However, the salary schedule did not evidence consideration of differentiated pay based on critical shortage areas for school-based administrators, contrary to Section 1012.22(1)(c)4., Florida Statutes (2010). District personnel indicated that there were no critical shortages of school-based administrators since all positions were filled by certified personnel; however, this would not exempt the District from this

---

<sup>2</sup> Section 1012.22, Florida Statutes, was amended by Chapter 2011-1, Laws of Florida, effective July 1, 2011. For the 2011-12 fiscal year, pursuant to Section 1012.22(1)(c)4.b., Florida Statutes, the District must base a portion of each employee's compensation upon performance demonstrated under Section 1012.34, Florida Statutes, and provide differentiated pay for instructional personnel and school administrators based upon district-determined factors, including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties.

requirement. Further, District records did not evidence that any criteria had been established for determining critical shortage areas of school-based administrators. To document this process, records could evidence the number of applicants, personnel turnover rates, and other factors relating to hiring and retaining administrators.

The District participates in the Heartland Educational Consortium, which contracted with a consultant to assist with development of instructional personnel salary schedules that base compensation on student performance. In addition, District personnel indicated that salary schedule revisions to comply with the statutory performance pay requirements and differentiated pay requirements were delayed to ensure consistency with Federal Race-to-the-Top grant requirements. However, without Board-adopted policies and procedures for ensuring that a portion of each instructional employee’s compensation is based on performance, and sufficiently identifying the basis for differentiated pay, the District may be limited in its ability to demonstrate that each instructional employee’s performance correlates to their compensation and the various differentiated pay factors are consistently considered and applied. A similar finding was noted in our report No. 2011-157.

---

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

---

**FEDERAL AWARDS FINDING 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 – Grants to States (CFDA No. 84.027)  
**Finding Type:** Noncompliance and Significant Deficiency  
**Questioned Costs:** \$40,000

**Procurement.** United States Office of Management and Budget Circular A-87, Attachment A, Section C.1., provides, in part, that to be allowable under Federal awards, costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards and be adequately documented. During the 2010-11 fiscal year, the District had Special Education program expenditures totaling approximately \$1.2 million and requisitioned services from the County Health Department to provide Pre-K nursing services for \$40,000 on a reimbursement basis. However, the District did not enter into a written contract with the Health Department to document the expectations of the District and District records did not evidence that District personnel with direct knowledge of the services confirmed and documented receipt of the services.

Upon request, the District obtained the nurse’s time records, approved by the Health Department supervisor, for Pre-K services provided for the 2010-11 fiscal year. However, without contracts to define the job responsibilities of contractors that uniquely benefit special education students, and documented evidence that contracted services are received consistent with District expectations and prior to payment, there is an increased risk that services may not be consistent with District intent and Federal regulations, and for errors or fraud to occur. Further, without confirmation of District personnel that the nursing services were received, the \$40,000 payment represents questioned costs subject to disallowance by the grantor (Florida Department of Education).

---

**Recommendation:** The District should enhance procedures to ensure that it enters into written contracts for services that contain adequate descriptions of the District’s expectations, and District personnel with direct knowledge of the contracted services confirm and document that the services were provided to program eligible students prior to payment. In addition, the District should document to the grantor (Florida Department of Education) the allowability of the \$40,000 of questioned costs for nursing services or restore this amount to the Special Education program.

---

District Contact Person: Laurie Albritton, Director of Finance

---

**PRIOR AUDIT FOLLOW-UP**

---

Except as discussed in the preceding paragraphs, the District had taken corrective actions for findings included in our report No. 2011-157.

---

**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, 2011*

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
2011-157		There were no prior Federal audit findings.		

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



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

February 24, 2012

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

Dear Mr. Martin:

Pursuant to Section 11.45(4)(d), Florida Statutes, our response to the preliminary and tentative audit findings and recommendations as prepared by your office for DeSoto County School District for the fiscal year ended June 30, 2011 are as follows:

**Finding No. 1: Performance Assessments**

Recommendation: The District should document that performance assessments of school administrators are based primarily on student performance.

- Response: The District has been participating in the Heartland Educational Consortium (HEC) which is contracted with Educational Management Consultant Services, Inc. to develop an Administrator Evaluation System. The district has attended workshops sponsored by the Florida Department of Education and is considering adopting the state approved model for principal evaluations. Upon approval of an Administrator Evaluation System by the School Board and the Florida Department of Education all administrative personnel will be evaluated using a measurement of student performance in compliance with the provisions of Section 1012.34, Florida Statutes.

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

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

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

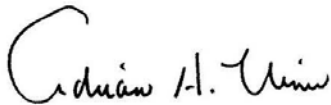
- Response: The District delayed salary schedule revisions to comply with the statutory performance pay requirements in order to ensure consistency with Federal Race-to-the-Top Federal grant requirements and Senate Bill 736. The district plans on attending a Florida Department of Education workshop on compensation redesign and have set timelines for compliance.

**Federal Awards Finding No. 1:**

Recommendation: The District should enhance procedures to ensure that it enters into written contracts for services that contain adequate descriptions of the district's expectations, and District personnel with direct knowledge of the contracted services confirm and document that the services were provided to program eligible students prior to payment. In addition, the District should document to the grantor (Florida Department of Education) the allowability of the \$40,000 of questioned costs for nursing services or restore this amount to the Special Education program.

- Response: The District will review procedures to ensure written contracts meet service expectations. The District has contacted Florida Department of Education for a solution regarding allowable services provided and paid through the Special Education Program.

Sincerely,



Adrian H. Cline  
Superintendent

AHC: mrb

Post Office Drawer 2000 Arcadia, Florida 34266  
Telephone: (863) 494-4222 ext. 110 Facsimile: 1.866.370.2471  
Email: [adrian.cline@desoto.k12.fl.us](mailto:adrian.cline@desoto.k12.fl.us)