

SCHOOL BOARD OF SARASOTA COUNTY, FLORIDA
Management's Discussion and Analysis
June 30, 2018

The management of the School Board of Sarasota County, Florida (the District) has prepared the following discussion and analysis to (a) assist the reader in focusing on significant financial issues; (b) provide an overview and analysis of the District's financial activities; (c) identify changes in the District's financial position; (d) identify material deviations from the approved budget; and (e) highlight significant issues in individual funds.

Because the information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events and conditions, it should be considered in conjunction with the District's financial statements and notes to the basic financial statements.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2017-18 fiscal year are as follows:

- General revenues totaled \$529,453,979, or 90 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions totaled \$57,647,583, or 10 percent. Total revenues increased by \$14,862,584 from \$572,238,978 in fiscal year 2016-17 to \$587,101,562 in fiscal year 2017-18. The change is primarily attributed to an increase in the state funding of the Florida Education Finance Program (FEFP) and through property tax revenues.
- Expenses totaled \$577,915,456, only \$57,647,583 of these expenses were offset by program specific charges, with the remainder paid from general revenues. Total revenues exceeded total expenses by \$9,186,106. Total expenses increased \$50,380,005 or 10 percent, from \$527,535,451 in fiscal year 2016-17. This change is primarily attributed to an average 3.75 percent negotiated salary settlement, increased benefits costs, temporary electric rate increases, security upgrades and Hurricane Irma related expenditures.
- The expenses in the District's proprietary funds increased by \$2,530,966 from \$50,803,403 in fiscal year 2016-17 to \$53,334,369 in fiscal year 2017-18. Charge for services revenues increased by \$2,234,944 from \$54,286,605 in fiscal year 2016-2017 to \$56,521,549 in fiscal year 2017-18. This change is primarily attributed to an increase in self-insured medical claims as a result of an increased number of participants.
- The unassigned fund balance of the General Fund, representing the net current financial resources available for general appropriation by the Board, totaled \$49,391,090 at June 30, 2018 or 11.2 percent of General Fund total budgeted appropriations and transfers out.

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OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements consist of three components:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

In addition, this report presents certain required supplementary information, which includes management's discussion and analysis.

GOVERNMENT- WIDE FINANCIAL STATEMENTS

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

The Government-wide statements present the District's activities in two categories:

- Governmental activities – This represents most of the District's services including its educational programs: basic, vocational, adult and exceptional education. Support functions such as transportation and administration are also included. Local property taxes and the State's education finance program provide most of the resources that support these activities.
- Component units –The District presents ten separate legal entities in this report. Although legally separate organizations, the component units are included in this report because they meet the criteria for inclusion provided by generally accepted accounting principles. Nine of these organizations are charter schools. Financial information for these component units is reported separately from the financial information presented for the primary government. The Financing Corporation for the School Board of Sarasota County (Corporation), although also legally separate, was formed to facilitate financing for the acquisition of facilities and equipment. Due to the substantive economic relationship between the Board and the Corporation, the Corporation is included as an integral part of the primary government. Please refer to Note 1 to the basic financial statements for more information on the District's component units.

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

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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. State law establishes certain funds, 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 three broad categories:

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. This 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. Consequently, 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.

Proprietary Funds. Proprietary funds may be established to account for activities in which a fee is charged for services. The District maintains one type of proprietary fund, the internal service fund to account for the District's self-insurance programs. Since these services predominantly benefit governmental rather than business-type functions, the internal service funds have been included within governmental activities in the Government-wide financial statements.

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

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GOVERNMENT- WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position and provides a perspective of the District as a whole. The following is a summary of the District's net position as of June 30, 2018, compared to net position as of June 30, 2017:

Net Position, End of Year

	Governmental Activities		Increase (Decrease)	Percentage Change
	6/30/2018	6/30/2017		
Current and other assets	\$ 274,315,848	\$ 265,972,580	\$ 8,343,268	
Capital assets, net	981,356,900	978,358,976	2,997,924	
Total assets	1,255,672,748	1,244,331,556	11,341,192	1%
Deferred outflows of resources	136,330,976	91,787,569	44,543,407	
Total deferred outflows	136,330,976	91,787,569	44,543,407	49%
Other liabilities	61,501,771	63,419,344	(1,917,573)	
Long-term liabilities, current	37,704,774	39,784,935	(2,080,161)	
Long-term liabilities, noncurrent	496,608,961	401,278,696	95,330,265	
Total liabilities	595,815,506	504,482,975	91,332,531	18%
Deferred inflows of resources	32,940,521	22,002,327	10,938,194	
Total deferred inflows	32,940,521	22,002,327	10,938,194	50%
Net investment in capital assets	831,134,795	816,565,183	14,569,612	
Restricted	108,235,500	104,981,610	3,253,890	
Unrestricted	(138,417,824)	(111,912,970)	(26,504,854)	
Total net position	\$ 800,952,471	\$ 809,633,823	\$ (8,681,352)	-1%

The largest portion of the District's net position reflects its investment in capital assets (e.g., land, buildings, furniture 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.

As a result of implementing GASB 68, *Accounting and Financial Reporting for Pensions*, GASB 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* and GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, the unrestricted portion of the District's net position as of 6/30/2018 and 6/30/2017 reflects a negative balance. The net pension liability and deferred outflows and inflows related to pensions represents more than 100% of the negative unrestricted net position. Thus, the unrestricted net position excluding pensions as of 6/30/18 and 6/30/17 is \$58,826,462 and \$37,616,741 respectively.

The restricted portion of the District's net position represents resources that are subject to external restrictions on how they may be used.

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The key elements of the changes in the District's net position for the fiscal years ended June 30, 2018, and June 30, 2017, are shown in the following table and graphs:

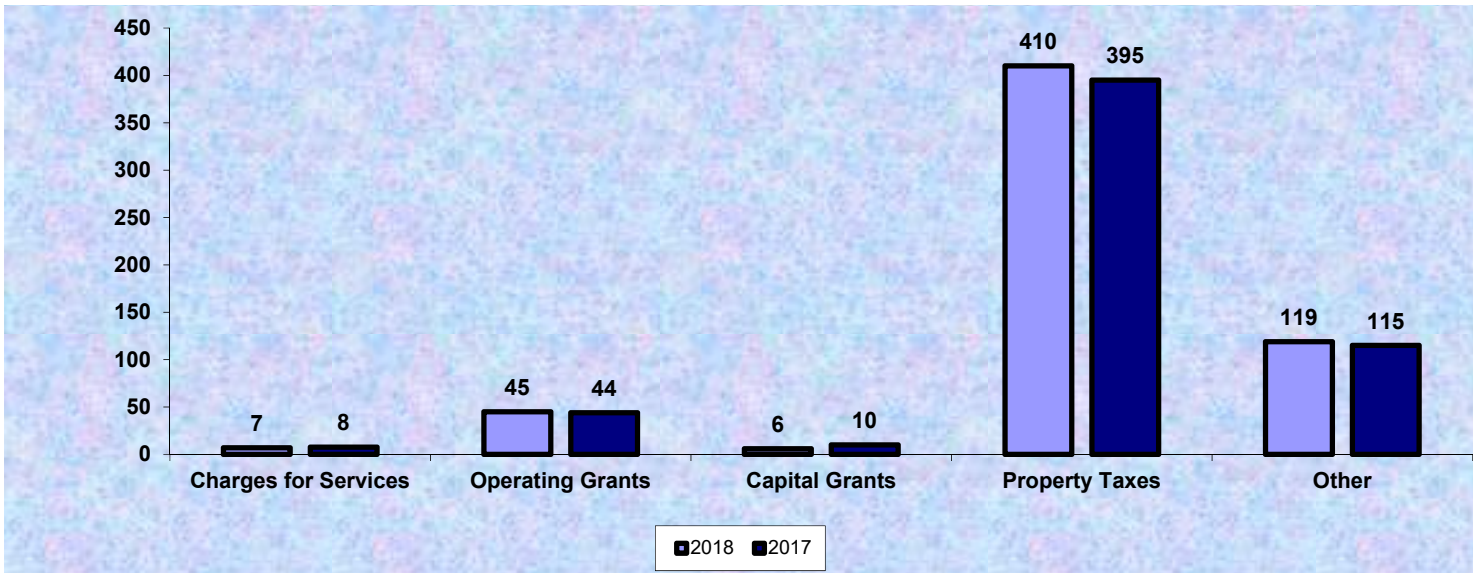
Changes in Net Position from Operating Results

	Governmental Activities			Percentage Change
	6/30/2018	6/30/2017	Increase (Decrease)	
Revenues:				
Program revenues				
Charges for services	\$ 7,264,383	\$ 7,537,556	\$ (273,173)	-4%
Operating grants and contributions	44,662,620	43,711,318	951,302	2%
Capital grants and contributions	5,720,580	9,729,270	(4,008,690)	-41%
General revenues				
Property taxes - general	325,234,264	315,616,843	9,617,421	3%
Property taxes - capital projects	85,447,804	79,833,647	5,614,157	7%
Local sales taxes	19,890,827	18,810,036	1,080,791	6%
Grants and contributions not restricted to specific programs	83,132,274	81,540,851	1,591,423	2%
Miscellaneous	12,819,396	14,551,372	(1,731,976)	-12%
Unrestricted investment earnings	2,929,414	908,085	2,021,329	223%
Total revenues	587,101,562	572,238,978	14,862,584	3%
Expenses:				
Instruction	357,118,570	329,898,711	27,219,859	8%
Student support services	29,984,566	27,147,514	2,837,052	10%
Instructional media services	5,801,602	3,653,084	2,148,518	59%
Instruction and curriculum development services	3,941,337	3,487,191	454,146	13%
Instructional staff training services	4,660,662	4,478,484	182,178	4%
Instruction related technology	4,929,741	5,740,468	(810,727)	-14%
Board	1,558,253	1,148,680	409,573	36%
General administration	2,876,893	2,665,551	211,342	8%
School administration	21,233,082	18,191,723	3,041,359	17%
Facility services - non-capitalized	31,077,242	22,274,456	8,802,786	40%
Fiscal services	2,100,697	2,169,566	(68,869)	-3%
Food services	20,277,167	19,447,812	829,355	4%
Central services	6,900,095	6,300,563	599,532	10%
Student transportation services	19,270,467	18,061,854	1,208,613	7%
Operation of plant	36,896,060	33,510,809	3,385,251	10%
Maintenance of plant	15,814,250	15,881,826	(67,576)	0%
Administrative technology services	2,885,732	3,185,164	(299,432)	-9%
Community services	4,229,371	3,585,836	643,535	18%
Interest on long-term debt	6,359,669	6,706,159	(346,490)	-5%
Total expenses	577,915,456	527,535,451	50,380,005	10%
Increase in net position	9,186,106	44,703,527	(35,517,421)	-79%
Beginning net position	809,633,823	764,930,296	44,703,527	
GASB 74 adjustment (A)	(17,867,458)	-	(17,867,458)	
Beginning net position-restated	791,766,365	764,930,296	26,836,069	
Ending net position	\$ 800,952,471	\$ 809,633,823	\$ (8,681,352)	

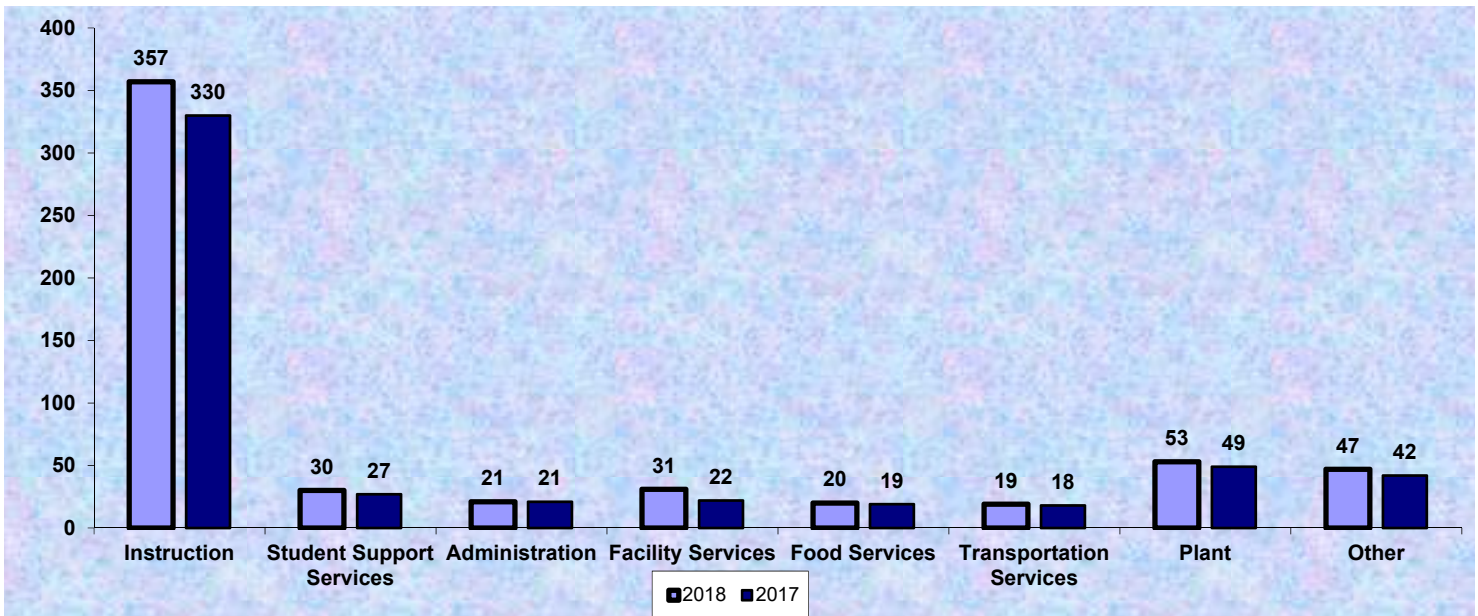
(A) Represents the adjustment to beginning net position due to the implementation of GASB 75.

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Revenues by Source – Governmental Activities – in Millions of Dollars



Expenses – Governmental Activities – in Millions of Dollars



Overall total revenues increased by \$14,862,584, or 3 percent from the fiscal year ended June 30, 2017. The change was primarily attributed to an increase in state funding of the Florida Education Finance Program (FEFP) and property tax revenues.

Total expenses increased by \$50,380,005, or 10 percent from the fiscal year ended June 30, 2017. The change is primarily attributed to an average 3.75 percent negotiated salary settlement, increased benefits costs, temporary electric rate increases, security upgrades, and expenses related to Hurricane Irma.

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FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The District completed the year with a total governmental fund balance of \$167,816,792, an increase of \$5,137,689 or 3 percent from last year's ending fund balance of \$162,679,103. The increase in District fund balance is primarily attributed to revenue received from discretionary property taxes as a result of increased assessed valuation and increased impact fee and sales tax collections.

Major Governmental Funds

General Fund

The General Fund is the primary operating fund for the District. Presented below is an overall analysis of the General Fund as compared to the prior year:

	<u>6/30/2018</u>	<u>6/30/2017</u>	<u>Increase</u>	<u>Change</u>
Revenue	\$ 422,578,881	\$ 410,888,225	\$ 11,690,656	3%
Other financing sources	19,080,599	20,265,857	(1,185,258)	-6%
Beginning fund balance	73,434,844	58,877,796	14,557,048	25%
Total	<u><u>\$ 515,094,324</u></u>	<u><u>\$ 490,031,878</u></u>	<u><u>\$ 25,062,446</u></u>	5%
Expenditures	439,514,442	416,019,124	23,495,318	6%
Other financing uses	577,910	577,910	-	0%
Ending fund balance	75,001,972	73,434,844	1,567,128	2%
Total	<u><u>\$ 515,094,324</u></u>	<u><u>\$ 490,031,878</u></u>	<u><u>\$ 25,062,446</u></u>	5%

The District's General Fund ending fund balance increased by \$1,567,128 or 2 percent. This increase is primarily attributed to revenue received from discretionary property taxes as a result of increased assessed valuation. It should be noted that \$2,229,929 of ending fund balance has been encumbered for specific projects.

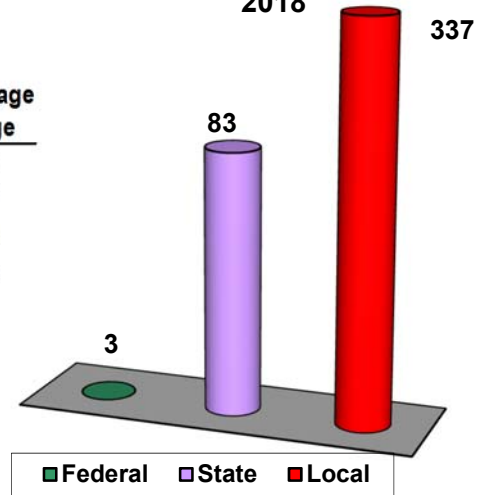
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Revenues – Overall revenues increased by \$11,690,656 or 3 percent as follows:

Revenues By Source - General Fund

	<u>6/30/2018</u>	<u>6/30/2017</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
Federal	\$ 2,682,294	\$ 2,538,453	\$ 143,841	6%
State	83,335,594	81,695,364	1,640,230	2%
Local	336,560,993	326,654,408	9,906,585	3%
Total	\$ 422,578,881	\$ 410,888,225	\$ 11,690,656	3%

**Composition of Revenues
In Millions of Dollars -
2018**



Federal sources increased by \$143,841, or 6 percent, mainly attributed to an increase in Medicaid program revenue.

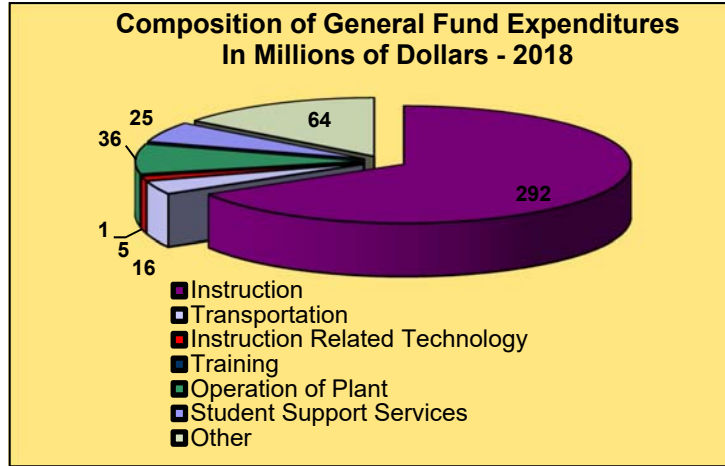
State sources increased by \$1,640,230 or 2 percent, mainly attributed to the increase in the required funding of the Florida Education Program Funding.

Local sources increased by \$9,906,585, or 3 percent, mainly as a result of an increase of the FEFP through property tax general revenues of \$5,845,568 and an increase in a voted additional property tax revenue of \$3,771,853.

Expenditures - Total General Fund expenditures increased by \$23,495,318 from \$416,019,124 to \$439,514,442 for the fiscal year ended June 30, 2018, an increase of 6 percent.

	<u>6/30/2018</u>	<u>6/30/2017</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
Instruction	\$ 292,003,604	\$ 277,874,488	\$ 14,129,116	5%
Student support services	25,185,279	23,782,595	1,402,684	6%
Instructional staff training services	1,354,313	1,005,239	349,074	35%
Student transportation services	16,082,897	15,556,478	526,419	3%
Operation of plant	36,252,427	33,555,362	2,697,065	8%
Instruction related technology	4,821,687	5,727,479	(905,792)	-16%
Other	63,814,235	58,517,483	5,296,752	9%
Total	\$ 439,514,442	\$ 416,019,124	\$ 23,495,318	6%

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Debt Service – Other Debt Service Fund

An overall analysis of the District's Other Debt Service Fund is presented below.

	<u>6/30/2018</u>	<u>6/30/2017</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
Revenue	\$ 39,390	\$ 38,899	\$ 491	1%
Other financing sources	25,009,184	23,856,707	1,152,477	5%
Beginning fund balance	1,119,262	1,093,084	26,178	2%
Total	\$ 26,167,836	\$ 24,988,690	\$ 1,179,146	5%
Expenditures	\$ 25,011,482	\$ 23,869,428	\$ 1,142,054	5%
Ending fund balance	1,156,354	1,119,262	37,092	3%
Total	\$ 26,167,836	\$ 24,988,690	\$ 1,179,146	5%

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Capital Projects – Local Capital Improvement Tax Fund

An overall analysis of the District's Capital Projects – Local Capital Improvement Tax Fund is presented below:

	<u>6/30/2018</u>	<u>6/30/2017</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
Revenue	\$ 86,393,881	\$ 80,206,151	\$ 6,187,730	8%
Beginning fund balance	36,208,260	33,297,826	2,910,434	9%
Total	<u>\$ 122,602,141</u>	<u>\$ 113,503,977</u>	<u>\$ 9,098,164</u>	8%
Expenditures	\$ 37,147,908	\$ 34,303,692	\$ 2,844,216	8%
Other financing uses	44,350,589	42,992,025	1,358,564	3%
Ending fund balance	41,103,644	36,208,260	4,895,384	14%
Total	<u>\$ 122,602,141</u>	<u>\$ 113,503,977</u>	<u>\$ 9,098,164</u>	8%

During the fiscal year 2017-18, revenue in the Capital Projects – Local Capital Improvement Tax Fund increased by \$6,187,730 or 8 percent. Expenditures increased by \$2,844,216 or 8 percent, primarily due to renovations at Brentwood, district security upgrades and a new statutory requirement that increased payments to charter schools. Of the total fund balance, \$24,896,031 has been encumbered for specific projects.

Capital Projects - Other Capital Projects Fund

The District's Other Capital Projects Fund is used primarily to report revenues and expenditures from sales tax collections and expenditures from the District's Certificates of Participation. An overall analysis of this fund is presented below:

	<u>6/30/2018</u>	<u>6/30/2017</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
Revenue	\$ 29,662,601	\$ 30,244,238	\$ (581,637)	-2%
Other financing sources	11,623,156	10,535,376	1,087,780	10%
Beginning fund balance	28,388,747	26,353,468	2,035,279	8%
Total	<u>\$ 69,674,504</u>	<u>\$ 67,133,082</u>	<u>\$ 2,541,422</u>	4%
Expenditures	\$ 40,608,356	\$ 36,504,477	\$ 4,103,879	11%
Other financing uses	1,179,422	2,239,858	(1,060,436)	-47%
Ending fund balance	27,886,726	28,388,747	(502,021)	-2%
Total	<u>\$ 69,674,504</u>	<u>\$ 67,133,082</u>	<u>\$ 2,541,422</u>	4%

Other financing uses decreased by \$1,060,436 due to state pass-through funding to charter schools being reduced. It should be noted that \$10,477,188 of fund balance has been encumbered for specific projects.

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GENERAL FUND BUDGETARY HIGHLIGHTS

During the fiscal year, the District revised its budget and brought three amendments to the Board. These amendments were needed to adjust revenues and direct resources where needed. The Board approves the final amendment to the budget after year-end. The original 2017-18 budget was prepared on a conservative basis as the State of Florida had experienced multiple years of revenue shortfalls and corresponding prorations of state funding were imposed on school districts. Budgeted expenditures increased \$1,168,604 from the original budget due to salaries and benefit increases. Actual expenditures were \$1,854,612 below the final amended expenditure budget.

CAPITAL ASSETS AND LONG-TERM DEBT

At June 30, 2018, the District had \$981,356,900 invested in a broad range of capital assets, including land, improvements, buildings, and equipment; net of accumulated depreciation. This amount represents a net increase (including additions, deductions and depreciation) of \$2,997,924 or less than 1 percent, from last fiscal year due primarily to the completion of construction at STC North Port.

	Governmental Activities			Percentage Change
	<u>6/30/2018</u>	<u>6/30/2017</u>	<u>Change</u>	
Capital assets not being depreciated:				
Land	\$ 36,942,046	\$ 36,942,046	\$ -	0%
Land improvements	78,828,986	77,416,807	1,412,179	2%
Construction in progress	33,131,957	32,742,239	389,718	1%
Capital assets being depreciated:				
Improvements other than buildings	77,637,585	70,964,566	6,673,019	9%
Buildings and fixed equipment	1,049,636,884	1,029,878,189	19,758,695	2%
Furniture, fixtures and equipment and Audio visual materials	59,821,818	57,866,223	1,955,595	3%
Motor vehicles	35,770,064	34,414,032	1,356,032	4%
Equipment under capital leases	40,830,411	45,992,767	(5,162,356)	-11%
Computer software	12,427,195	13,092,877	(665,682)	-5%
Total Capital Assets	1,425,026,946	1,399,309,746	25,717,200	2%
Less accumulated depreciation	(443,670,046)	(420,950,770)	(22,719,276)	5%
Total Capital Assets, net	<u>\$ 981,356,900</u>	<u>\$ 978,358,976</u>	<u>\$ 2,997,924</u>	0%

Detailed information regarding the District's capital asset balances and activity for the fiscal year ended June 30, 2018, is provided in Note 5 to the basic financial statements.

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Long-Term Debt

At June 30, 2018, the District had \$156,415,572 in bonds payable, obligations under capital leases, and certificates of participation versus \$168,882,275 last fiscal year, a decrease of 7 percent. A summary of the long-term debt obligations are listed in the following table:

	<u>6/30/2018</u>	<u>6/30/2017</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
Obligations under capital leases	\$ 26,166,405	\$ 25,623,097	\$ 543,308	2%
State school bonds	4,590,851	6,166,436	(1,575,585)	-26%
Qualified zone academy bonds	1,299,696	1,299,696	-	0%
Certificates of participation	124,358,620	135,793,046	(11,434,426)	-8%
Total	<u>\$ 156,415,572</u>	<u>\$ 168,882,275</u>	<u>\$ (12,466,703)</u>	-7%

The District's decrease in debt is primarily due to payments made on Certificates of Participation.

The District has been given the following ratings for their outstanding Certificates of Participation:

<u>Certificates of Participation</u>		
<u>Rating Agency</u>	<u>Rating</u>	<u>Issue Series</u>
Standard & Poor's	AA-	2009, 2010B
Moody's	Aa3	2009, 2010B
Fitch Ratings	AA	2009, 2010B

For more details concerning long-term debt, refer to Notes 7 to 11 in the basic financial statements.

ECONOMIC FACTORS

The unemployment rate in June 2018 for Sarasota County was 3.7 percent, which is a decrease of 0.2 percent from June 2017. The State's average unemployment rate in June 2018 was 3.9 percent. Florida's unemployment rate has decreased 0.4 percent while the nation's unemployment rate has decreased 0.3 percent from the prior year.

The State of Florida funds the District through the FEFP which is based on student enrollment. During the economic downturn, revenue to the District through the State and Local FEFP declined due to the slowing of growth as well as state funding shortfalls. Beginning in fiscal year 2012-13, the District realized its first small increase in FEFP funding since the economic downturn. The District has continued to see an incremental increase in funding, but revenue growth has not kept pace with the change in the Consumer Price Index. Growth in student enrollment has also contributed to the steady increase in State revenue generated by the FEFP.

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In fiscal year 2017-18, taxable property values increased 7 percent from the prior year to \$58.9 billion. It is anticipated that property values will continue to increase next year as real property sales have increased with average home prices continuing to rise over the prior year.

During the current fiscal year, unassigned fund balance of the General Fund totaled \$49,391,090. It is anticipated that the unassigned fund balance at June 30, 2019 will be in excess of the Board required minimum of 7.5 percent of total appropriations and transfers out.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to demonstrate compliance and accountability for its resources. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Mitsi Corcoran, Chief Financial Officer, 1960 Landings Boulevard, Sarasota, Florida 34231.