

SCHOOL BOARD OF SARASOTA COUNTY, FLORIDA
Management's Discussion and Analysis
June 30, 2015

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 2014-15 fiscal year are as follows:

- The District's financial position improved during the fiscal year ended June 30, 2015. In total, net position increased by \$11,619,313, or 1 percent.
- General revenues totaled \$486,675,849, or 94 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions totaled \$27,463,093, or 6 percent. Total revenues increased by \$23,972,650 from \$490,166,292 in fiscal year 2013-14 to \$514,138,942 in fiscal year 2014-15. The change is primarily attributed to an increase in the required local portion of funding the Florida Education Finance Program (FEFP) through property tax revenues.
- Expenses totaled \$502,519,629, only \$27,463,093 of these expenses were offset by program specific charges, with the remainder paid from general revenues. Total revenues exceeded total expenses by \$11,619,313. Total expenses increased \$14,120,574 or 3 percent, from \$488,399,055 in fiscal year 2013-14. This change is attributed primarily to salary and benefit expenses from additional instructional positions a bonus to all staff, and charter school pass through payments due to enrollment growth.
- The unassigned fund balance of the General Fund, representing the net current financial resources available for general appropriation by the Board, totaled \$33,104,480 at June 30, 2015 or 8.2 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
- Notes to the basic financial statements

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

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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, and liabilities, using an economic resources measurement focus. The difference between the assets, deferred outflows of resources, and liabilities, 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 eleven 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. Ten 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, 2015, compared to net position as of June 30, 2014:

Net Position, End of Year

	Governmental Activities		Increase (Decrease)	Percentage Change
	6/30/2015	6/30/2014		
Current and other assets	\$ 197,023,241	\$ 216,451,567	\$ (19,428,326)	
Capital assets, net	959,356,019	944,228,478	15,127,541	
Total assets	<u>1,156,379,260</u>	<u>1,160,680,045</u>	<u>(4,300,785)</u>	0%
Deferred outflows of resources	336,166	250,498	85,668	
Total deferred outflows	<u>336,166</u>	<u>250,498</u>	<u>85,668</u>	34%
Other liabilities	37,840,564	35,973,338	1,867,226	
Long-term liabilities, current	31,177,872	36,573,938	(5,396,066)	
Long-term liabilities, noncurrent	203,678,626	216,011,215	(12,332,589)	
Total liabilities	<u>272,697,062</u>	<u>288,558,491</u>	<u>(15,861,429)</u>	-5%
Net investments in capital assets	777,726,583	754,873,856	22,852,727	
Restricted	84,391,674	94,797,196	(10,405,522)	
Unrestricted	21,873,108	22,701,000	(827,892)	
Total net position	<u>\$ 883,991,365</u>	<u>\$ 872,372,052</u>	<u>\$ 11,619,313</u>	1%

The largest portion of the District's net position (88 percent) 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.

The restricted portion of the District's net position (10 percent) represents resources that are subject to external restrictions on how they may be used. The unrestricted net position (2 percent) may be used to meet the government's ongoing obligations to students, employees, and creditors.

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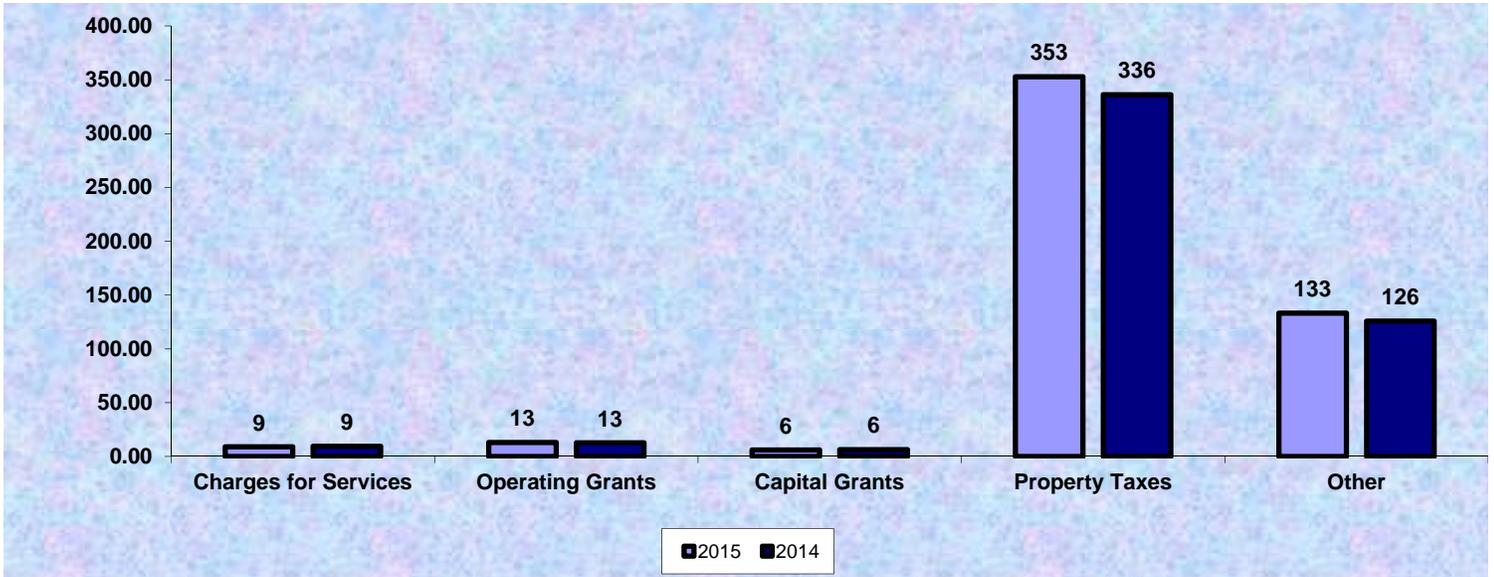
The key elements of the changes in the District's net position for the fiscal years ended June 30, 2015, and June 30, 2014, are shown in the following table and graphs:

Changes in Net Position from Operating Results

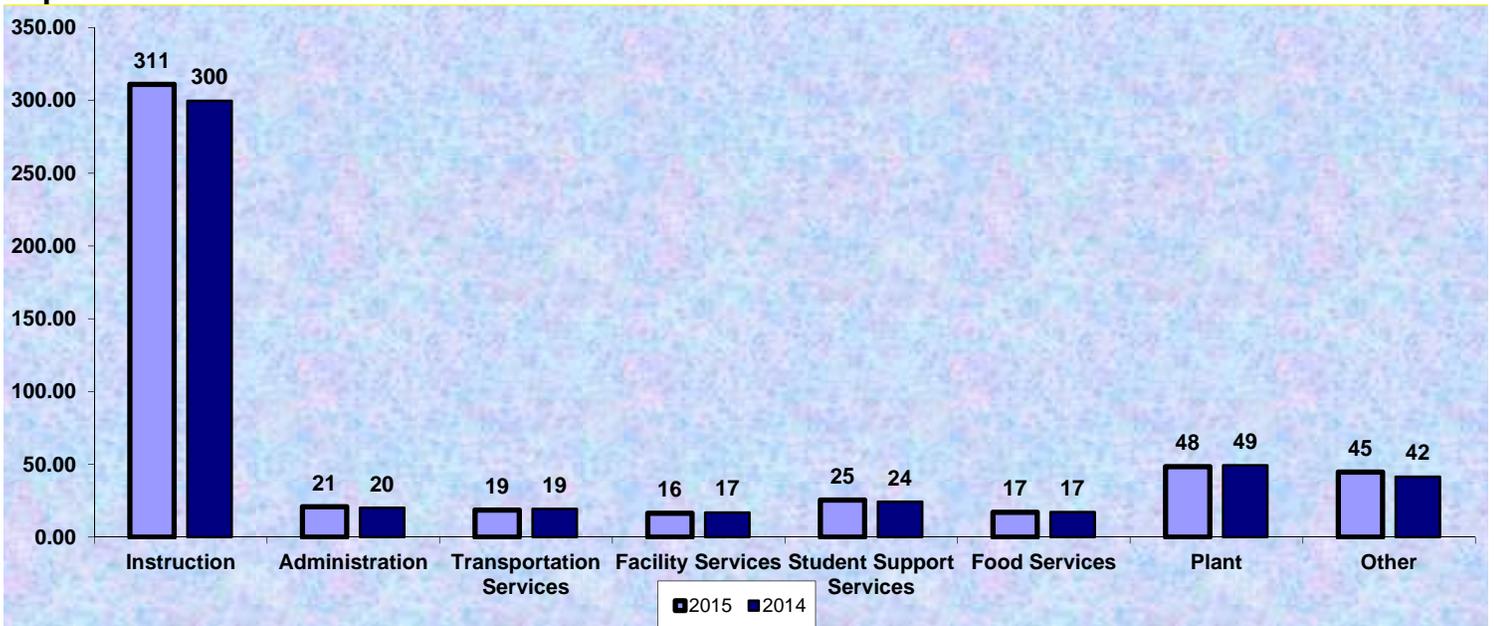
	Governmental Activities			
	6/30/2015	6/30/2014	Increase (Decrease)	Percentage Change
Revenues:				
Program revenues				
Charges for services	\$ 9,066,089	\$ 9,356,782	\$ (290,693)	-3%
Operating grants and contributions	12,622,205	12,602,559	19,646	0%
Capital grants and contributions	5,774,799	6,299,479	(524,680)	-8%
General revenues				
Property taxes - general	284,782,027	272,808,869	11,973,158	4%
Property taxes - capital projects	68,078,087	63,261,086	4,817,001	8%
Local sales taxes	17,293,948	15,791,473	1,502,475	10%
Grants and contributions not restricted to specific programs	108,386,450	105,250,969	3,135,481	3%
Miscellaneous	6,756,842	3,755,476	3,001,366	80%
Unrestricted investment earnings	1,378,495	1,039,599	338,896	33%
Total revenues	<u>514,138,942</u>	<u>490,166,292</u>	<u>23,972,650</u>	5%
Expenses:				
Instruction	310,672,847	299,703,201	10,969,646	4%
Student support services	25,449,503	24,326,894	1,122,609	5%
Instructional media services	6,772,883	3,196,433	3,576,450	112%
Instruction and curriculum development services	3,313,719	3,359,671	(45,952)	-1%
Instructional staff training services	4,782,958	5,031,783	(248,825)	-5%
Instruction related technology	3,659,505	3,475,721	183,784	5%
Board	1,112,074	1,283,234	(171,160)	-13%
General administration	3,187,707	2,751,981	435,726	16%
School administration	17,721,667	17,338,048	383,619	2%
Facility services - non-capitalized	16,449,255	16,972,664	(523,409)	-3%
Fiscal services	2,073,774	1,998,046	75,728	4%
Food services	17,186,569	17,193,318	(6,749)	0%
Central services	6,836,640	6,523,876	312,764	5%
Student transportation services	18,568,818	19,415,299	(846,481)	-4%
Operation of plant	33,916,096	34,507,859	(591,763)	-2%
Maintenance of plant	14,496,094	14,784,318	(288,224)	-2%
Administrative technology services	4,029,473	3,719,238	310,235	8%
Community services	3,646,308	3,555,076	91,232	3%
Interest on long-term debt	8,643,739	9,262,395	(618,656)	-7%
Total expenses	<u>502,519,629</u>	<u>488,399,055</u>	<u>14,120,574</u>	3%
Increase in net position	<u>11,619,313</u>	<u>1,767,237</u>	<u>9,852,076</u>	557%
Beginning net position	<u>872,372,052</u>	<u>870,604,815</u>	<u>1,767,237</u>	
Ending net position	<u>\$ 883,991,365</u>	<u>\$ 872,372,052</u>	<u>\$ 11,619,313</u>	

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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 \$23,972,650, or 5 percent from the fiscal year ended June 30, 2014. The change was primarily attributed to an increase in the required local funding portion of the FEFP through property tax revenues.

Total expenses increased by \$14,120,574, or 3 percent from the fiscal year ended June 30, 2014. The increase was primarily due to an increase in salary and benefit expenses from additional instructional staff and a bonus payment to all staff, and charter school pass through payments due to enrollment growth.

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FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The District completed the year with a total governmental fund balance of \$136,260,349, a decrease of \$21,892,421 or 14% from last year's ending fund balance of \$158,152,770. The decrease in total District fund balance is primarily due to large capital construction expenditures including the rebuild of two high schools and a technical center funded by debt issued in prior years and the renovation of another high school and construction of a south county transportation center.

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>6/30/2015</u>	<u>6/30/2014</u>	<u>(Decrease)</u>	<u>Change</u>
Revenue	\$ 376,948,057	\$ 363,271,257	\$ 13,676,800	4%
Other financing sources	20,051,012	21,841,338	(1,790,326)	-8%
Beginning fund balance	50,883,264	53,480,753	(2,597,489)	-5%
Total	<u><u>\$ 447,882,333</u></u>	<u><u>\$ 438,593,348</u></u>	<u><u>\$ 9,288,985</u></u>	2%
Expenditures	402,491,341	387,159,805	15,331,536	4%
Other financing uses	550,279	550,279	-	0%
Ending fund balance	44,840,713	50,883,264	(6,042,551)	-12%
Total	<u><u>\$ 447,882,333</u></u>	<u><u>\$ 438,593,348</u></u>	<u><u>\$ 9,288,985</u></u>	2%

The District's General Fund ending fund balance decreased by \$6,042,551 or 12 percent. This decrease is primarily attributed to salary and benefit expenditures from additional instructional positions and a bonus payment to all staff. While the District's increased enrollment generated additional earned revenue, there was a holdback of state funding in the amount of \$1,627,324 for a proration to funds available which reduced the amount of actual state revenue received by the District. It should be noted that \$3,064,958 of ending fund balance has been encumbered for specific projects.

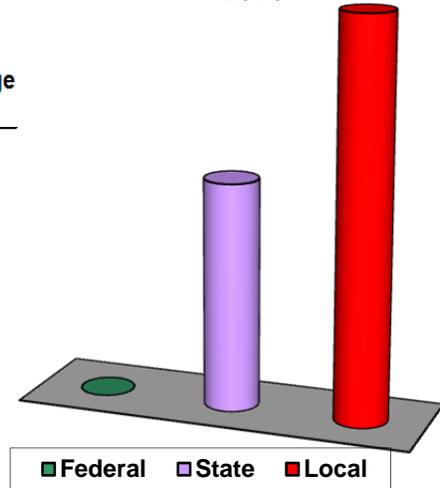
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Revenues – Overall revenues increased by \$13,676,800 or 4 percent as follows:

Revenues By Source - General Fund

	<u>6/30/2015</u>	<u>6/30/2014</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
Federal	\$ 2,583,617	\$ 2,243,920	\$ 339,697	15%
State	78,782,270	76,669,585	2,112,685	3%
Local	295,582,170	284,357,752	11,224,418	4%
Total	\$ 376,948,057	\$ 363,271,257	\$ 13,676,800	4%

**Composition of Revenues
In Millions of Dollars -
2015**



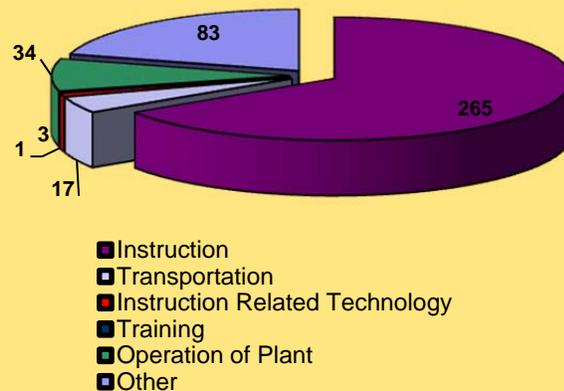
Federal sources increased by \$339,697, or 15 percent, mainly attributed to an increase in Medicaid funding.

State sources increased by \$2,112,685 or 3 percent, mainly attributed to the increase in the required funding of the Florida Education Program Funding.

Local sources increased by \$11,224,418, or 4 percent, mainly as a result of an increase in the required local funding portion of the FEFP through property tax general revenues of \$8,769,232 and an increase in a voted additional property tax revenue of \$1,764,939.

Expenditures - Total General Fund expenditures increased by \$15,331,536 from \$387,159,805 to \$402,491,341 for the fiscal year ended June 30, 2015. The increase of 4 percent is related to salary and benefit expenses from additional instructional positions, a bonus payment to staff and charter school pass through payments due to enrollment growth.

**Composition of General Fund Expenditures In
Millions of Dollars - 2015**



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Expenditures By Function - General Fund

	<u>6/30/2015</u>	<u>6/30/2014</u>	Increase (Decrease)	Percentage Change
Instruction	\$ 265,147,079	\$ 254,835,992	\$ 10,311,087	4%
Instructional staff training services	1,033,502	1,156,950	(123,448)	-11%
Student transportation services	16,175,505	16,835,624	(660,119)	-4%
Operation of plant	33,994,410	34,361,468	(367,058)	-1%
Instruction related technology	3,229,764	2,988,524	241,240	8%
Other	82,911,081	76,981,247	5,929,834	8%
Total	<u>\$ 402,491,341</u>	<u>\$ 387,159,805</u>	<u>\$ 15,331,536</u>	4%

Debt Service – Other Debt Service Fund

An overall analysis of the District's Other Debt Service Fund is presented below. The increase in expenditures was due to increased debt service payments as a result of a change in the computer equipment capital lease model from a 5 year to a 4 year lease term. There is a corresponding increase in transfers from the Capital Projects – Local Capital Improvement Tax fund.

	<u>6/30/2015</u>	<u>6/30/2014</u>	Increase (Decrease)	Percentage Change
Revenue	\$ 37,550	\$ 36,391	\$ 1,159	3%
Other financing sources	27,526,417	26,870,976	655,441	2%
Beginning fund balance	1,007,427	971,430	35,997	4%
Total	<u>\$ 28,571,394</u>	<u>\$ 27,878,797</u>	<u>\$ 692,597</u>	2%
Expenditures	\$ 27,526,833	\$ 26,871,370	\$ 655,463	2%
Ending fund balance	1,044,561	1,007,427	37,134	4%
Total	<u>\$ 28,571,394</u>	<u>\$ 27,878,797</u>	<u>\$ 692,597</u>	2%

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>6/30/2015</u>	<u>6/30/2014</u>	Increase (Decrease)	Percentage Change
Revenue	\$ 68,234,007	\$ 63,398,078	\$ 4,835,929	8%
Other financing sources	-	13,888	(13,888)	-100%
Beginning fund balance	39,320,891	51,273,846	(11,952,955)	-23%
Total	<u>\$ 107,554,898</u>	<u>\$ 114,685,812</u>	<u>\$ (7,130,914)</u>	-6%
Expenditures	\$ 29,572,426	\$ 27,465,761	\$ 2,106,665	8%
Other financing uses	47,236,709	47,899,160	(662,451)	-1%
Ending fund balance	30,745,763	39,320,891	(8,575,128)	-22%
Total	<u>\$ 107,554,898</u>	<u>\$ 114,685,812</u>	<u>\$ (7,130,914)</u>	-6%

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During the fiscal year 2014-15, revenue in the Capital Projects – Local Capital Improvement Tax Fund increased by \$4,835,929 or 8 percent. Expenditures increased by \$2,106,665 or 8 percent. The rebuild of Sarasota High School is the primary reason for the increase. Of the total fund balance, \$16,133,972 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 Series 2009 and Series 2010B Certificates of Participation issuance. An overall analysis of this fund is presented below:

	<u>6/30/2015</u>	<u>6/30/2014</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
Revenue	\$ 19,565,201	\$ 20,552,914	\$ (987,713)	-5%
Other financing sources	8,867,710	8,872,894	(5,184)	0%
Beginning fund balance	51,662,991	71,982,142	(20,319,151)	-28%
Total	<u>\$ 80,095,902</u>	<u>\$ 101,407,950</u>	<u>\$ (21,312,048)</u>	-21%
Expenditures	\$ 37,077,841	\$ 47,259,751	\$ (10,181,910)	-22%
Other financing uses	1,997,191	2,485,208	(488,017)	-20%
Ending fund balance	41,020,870	51,662,991	(10,642,121)	-21%
Total	<u>\$ 80,095,902</u>	<u>\$ 101,407,950</u>	<u>\$ (21,312,048)</u>	-21%

Expenditures decreased by \$10,181,910 due primarily to completion of construction on Phase III of the Sarasota Technical College rebuild, the rebuild of Venice High School and a south county Transportation Center. It should be noted that \$24,072,898 of fund balance has been encumbered for specific projects.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the fiscal year, the District revised its budget and brought two amendments to the Board. These amendments were needed to adjust to actual revenues and direct resources where needed. The Board approves the final amendment to the budget after year-end. The original 2014-15 budget was prepared on a conservative basis as the State had experienced multiple years of revenue shortfalls and prorated funding to school districts accordingly. Budgeted expenditures increased \$9,098,430 from the original budget due to increased student enrollment. Actual expenditures were \$2,119,348 below the final amended expenditure budget.

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CAPITAL ASSETS AND LONG-TERM DEBT

At June 30, 2015, the District had \$959,356,019 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 \$15,127,541 or 2 percent, from last fiscal year due primarily to the improvements and rebuilds at Booker Middle School, Venice High School, Bay Haven School and Sarasota High School.

	Governmental Activities			Percentage
	<u>6/30/2015</u>	<u>6/30/2014</u>	<u>Change</u>	<u>Change</u>
Capital assets not being depreciated:				
Land	\$ 31,919,253	\$ 31,546,729	\$ 372,524	1%
Land improvements	76,100,656	75,508,871	591,785	1%
Construction in progress	32,926,846	24,356,020	8,570,826	35%
Capital assets being depreciated:				
Improvements other than buildings	63,508,044	61,289,213	2,218,831	4%
Buildings and fixed equipment	979,620,856	961,992,420	17,628,436	2%
Furniture, fixtures and equipment and Audio visual materials	55,526,101	56,653,798	(1,127,697)	-2%
Motor vehicles	34,506,372	33,269,983	1,236,389	4%
Equipment under capital leases	36,014,826	32,203,325	3,811,501	12%
Computer software	12,687,795	8,934,681	3,753,114	42%
Total Capital Assets	1,322,810,749	1,285,755,040	37,055,709	3%
Less accumulated depreciation	<u>(363,454,730)</u>	<u>(341,526,562)</u>	<u>(21,928,168)</u>	6%
Total Capital Assets, net	<u><u>\$ 959,356,019</u></u>	<u><u>\$ 944,228,478</u></u>	<u><u>\$ 15,127,541</u></u>	2%

Detailed information regarding the District's capital asset balances and activity for the fiscal year ended June 30, 2015, is provided in Note 5 to the basic financial statements.

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Long-Term Debt

At June 30, 2015, the District had \$183,084,157 in bonds payable, obligations under capital leases, and certificates of participation versus \$197,617,344 last fiscal year, a decrease of 7 percent. A summary of the long-term debt obligations are listed in the following table:

	<u>6/30/2015</u>	<u>6/30/2014</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
Obligations under capital leases	\$ 23,351,213	\$ 21,488,041	\$ 1,863,172	9%
State school bonds	8,966,174	10,470,188	(1,504,014)	-14%
Qualified academy zone bonds	1,299,696	1,299,696	-	0%
Certificates of participation	<u>149,467,074</u>	<u>164,359,419</u>	<u>(14,892,345)</u>	-9%
Total	<u>\$ 183,084,157</u>	<u>\$ 197,617,344</u>	<u>\$ (14,533,187)</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	2004, 2009, 2010B
Fitch Ratings	AA	2004, 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 2015 for Sarasota County was 5.0 percent, which is a decrease of .7 percent from June 2014. The State's average unemployment rate in June 2015 was 5.6 percent. Florida's unemployment rate has decreased .7 percent while the nation's unemployment rate has decreased .8 percent from the prior year.

The State of Florida funds the District through the FEFP which is based on student enrollment. Through fiscal year 2007-08, the District grew at a steady pace as enrollment increased. Starting in fiscal year 2008-09, and continuing through fiscal year 2011-12, revenue to the District through the State and Local FEFP declined due to the slowing of growth as well as state funding shortfalls. In fiscal year 2013-14, the District realized a 3 percent increase in FEFP base student funding, the first increase since the economic downturn. In fiscal year 2014-15, the District continued to see an increase in student enrollment as well as another increase in base student funding reflecting a steady increase in State revenue collections. However, base funding per student has only been restored to fiscal year 2007-08 levels.

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Management's Discussion and Analysis
June 30, 2015

In fiscal year 2014-15, property values increased 7% from the prior year to \$46.8 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 \$33,104,480. It is anticipated that the unassigned fund balance at June 30, 2016 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.