

SCHOOL BOARD OF SARASOTA COUNTY, FLORIDA
Management's Discussion and Analysis
June 30, 2017

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 2016-17 fiscal year are as follows:

- General revenues totaled \$511,260,834, or 89 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions totaled \$60,978,144, or 11 percent. Total revenues increased by \$26,278,882 from \$545,960,096 in fiscal year 2015-16 to \$572,238,978 in fiscal year 2016-17. 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 \$528,315,129, only \$60,978,144 of these expenses were offset by program specific charges, with the remainder paid from general revenues. Total revenues exceeded total expenses by \$43,923,849. Total expenses increased \$14,138,205 or 3 percent, from \$514,176,924 in fiscal year 2015-16. This change is primarily attributed to an average 4 percent negotiated salary settlement and increase benefits costs.
- The expenses in the District's proprietary funds increased by \$22,043,872 from \$28,759,531 in fiscal year 2015-16 to \$50,803,403 in fiscal year 2016-17. This change is primarily attributed to the District's decision to self-insure the cost of medical benefits beginning January 1, 2016.
- The unassigned fund balance of the General Fund, representing the net current financial resources available for general appropriation by the Board, totaled \$47,480,009 at June 30, 2017 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 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, 2017, compared to net position as of June 30, 2016:

	Governmental Activities			Percentage Change
	6/30/2017	6/30/2016	Increase (Decrease)	
Current and other assets	\$ 272,307,646	\$ 235,392,360	\$ 36,915,286	
Capital assets, net	978,358,976	966,884,418	11,474,558	
Total assets	1,250,666,622	1,202,276,778	48,389,844	4%
Deferred outflows of resources	91,874,627	45,501,294	46,373,333	
Total deferred outflows	91,874,627	45,501,294	46,373,333	102%
Other liabilities	70,621,146	59,443,230	11,177,916	
Long-term liabilities, current	42,160,431	41,266,861	893,570	
Long-term liabilities, noncurrent	398,903,200	358,645,312	40,257,888	
Total liabilities	511,684,777	459,355,403	52,329,374	11%
Deferred inflows of resources	22,002,327	23,492,373	(1,490,046)	
Total deferred inflows	22,002,327	23,492,373	(1,490,046)	-6%
Net investment in capital assets	816,565,183	794,655,165	21,910,018	
Restricted	104,981,610	99,819,203	5,162,407	
Unrestricted	(112,692,648)	(129,544,072)	16,851,424	
Total net position	\$ 808,854,145	\$ 764,930,296	\$ 43,923,849	6%

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*, and GASB 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, the unrestricted portion of the District's net position as of 6/30/2017 and 6/30/2016 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 6/30/17 and 6/30/16 is \$37,616,741 and \$16,566,812 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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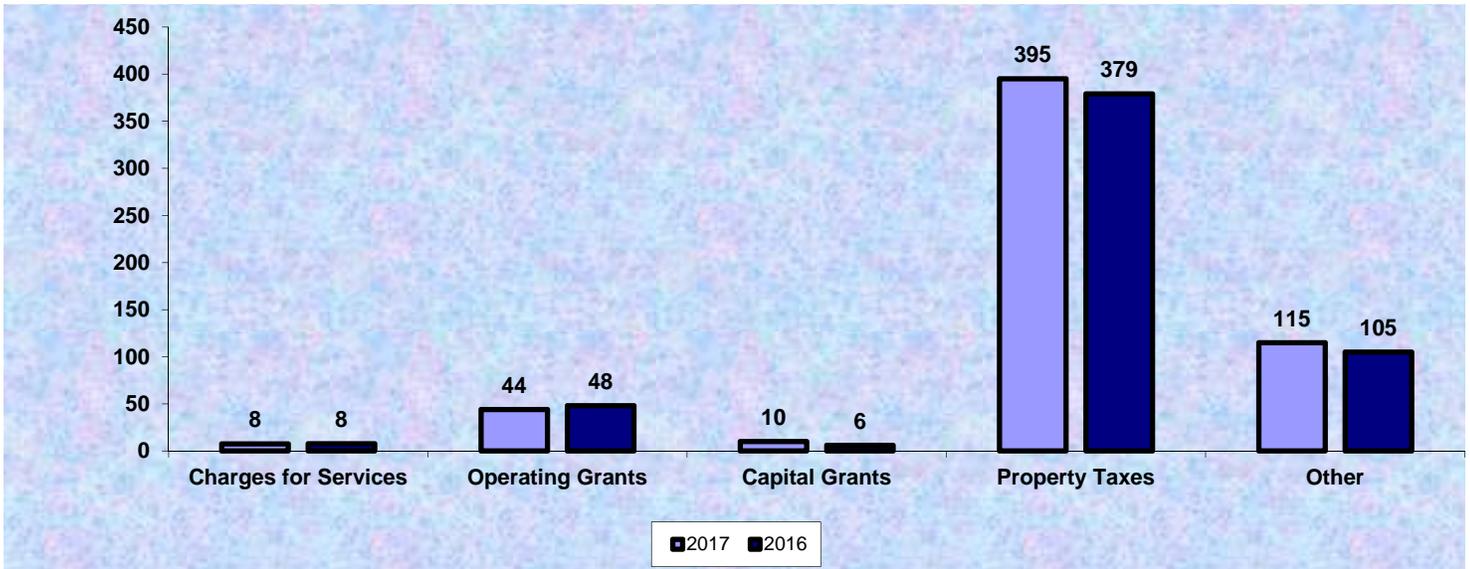
The key elements of the changes in the District's net position for the fiscal years ended June 30, 2017, and June 30, 2016, are shown in the following table and graphs:

Changes in Net Position from Operating Results

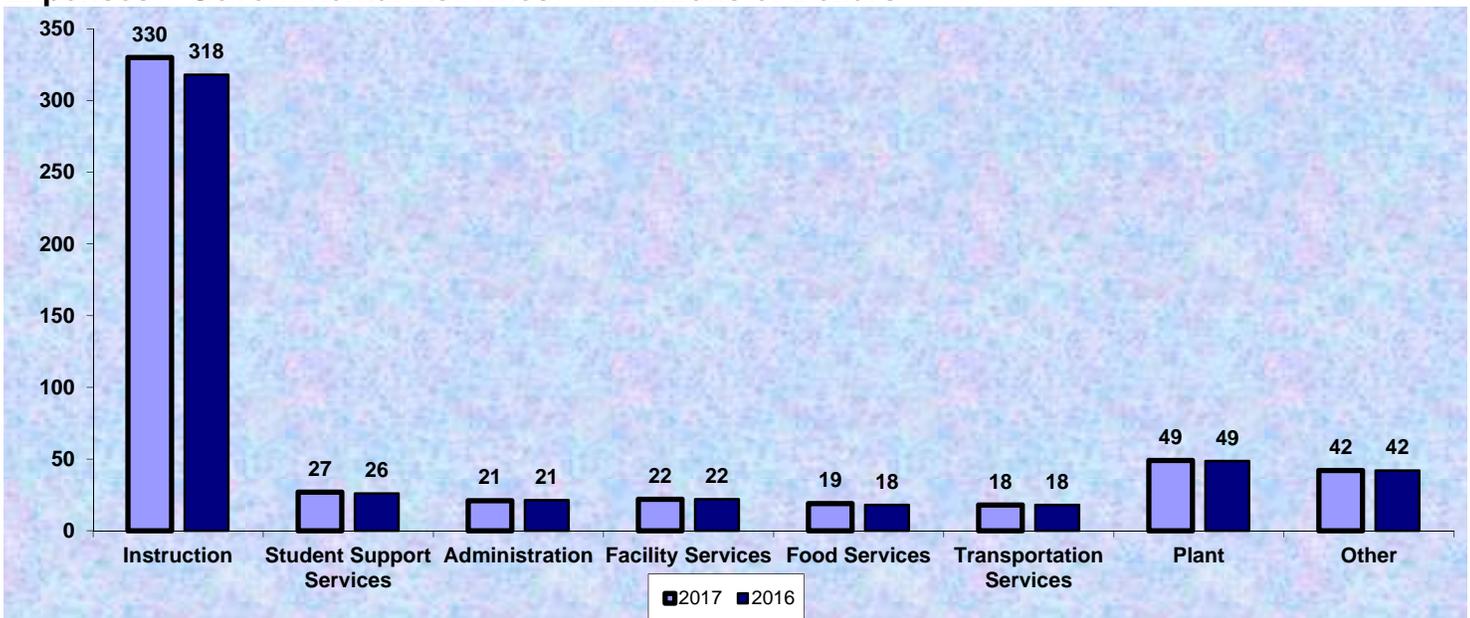
	Governmental Activities			Percentage Change
	6/30/2017	6/30/2016	Increase (Decrease)	
Revenues:				
Program revenues				
Charges for services	\$ 7,537,556	\$ 7,745,715	\$ (208,159)	-3%
Operating grants and contributions	43,711,318	48,213,215	(4,501,897)	-9%
Capital grants and contributions	9,729,270	6,021,626	3,707,644	62%
General revenues				
Property taxes - general	315,616,843	305,488,678	10,128,165	3%
Property taxes - capital projects	79,833,647	73,219,437	6,614,210	9%
Local sales taxes	18,810,036	18,312,133	497,903	3%
Grants and contributions not restricted to specific programs	81,540,851	73,924,680	7,616,171	10%
Miscellaneous	14,551,372	9,876,880	4,674,492	47%
Unrestricted investment earnings	908,085	3,157,732	(2,249,647)	-71%
Total revenues	<u>572,238,978</u>	<u>545,960,096</u>	<u>26,278,882</u>	5%
Expenses:				
Instruction	330,415,955	317,993,211	12,422,744	4%
Student support services	27,207,037	26,177,975	1,029,062	4%
Instructional media services	3,658,449	4,505,216	(846,767)	-19%
Instruction and curriculum development services	3,494,644	3,350,535	144,109	4%
Instructional staff training services	4,485,825	4,105,576	380,249	9%
Instruction related technology	5,747,526	4,924,996	822,530	17%
Board	1,149,381	946,510	202,871	21%
General administration	2,669,748	3,189,440	(519,692)	-16%
School administration	18,231,228	18,031,984	199,244	1%
Facility services - non-capitalized	22,279,030	22,209,758	69,272	0%
Fiscal services	2,174,636	2,013,262	161,374	8%
Food services	19,464,020	18,101,850	1,362,170	8%
Central services	6,312,373	6,128,154	184,219	3%
Student transportation services	18,087,278	18,157,778	(70,500)	0%
Operation of plant	33,551,753	33,634,202	(82,449)	0%
Maintenance of plant	15,900,097	14,933,393	966,704	6%
Administrative technology services	3,189,103	3,679,800	(490,697)	-13%
Community services	3,590,887	3,304,544	286,343	9%
Interest on long-term debt	6,706,159	8,788,740	(2,082,581)	-24%
Total expenses	<u>528,315,129</u>	<u>514,176,924</u>	<u>14,138,205</u>	3%
Increase in net position	<u>43,923,849</u>	<u>31,783,172</u>	<u>12,140,677</u>	38%
Beginning net position	<u>764,930,296</u>	<u>733,147,124</u>	<u>31,783,172</u>	
Ending net position	<u>\$ 808,854,145</u>	<u>\$ 764,930,296</u>	<u>\$ 43,923,849</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 \$26,278,882, or 5 percent from the fiscal year ended June 30, 2016. 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 \$14,138,205, or 3 percent from the fiscal year ended June 30, 2016. The change is primarily attributed to an average 4 percent negotiated salary settlement and increase benefits costs.

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FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The District completed the year with a total governmental fund balance of \$162,679,103, an increase of \$20,740,677 or 15 percent from last year's ending fund balance of \$141,938,436. The increase in District fund balance is primarily attributed to revenue received from discretionary property taxes as a result of increased assessed valuation and reduced average salaries as the result of numerous retirement over the past few years.

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>6/30/2017</u>	<u>6/30/2016</u>	<u>(Decrease)</u>	<u>Change</u>
Revenue	\$ 410,888,225	\$ 397,890,030	\$ 12,998,195	3%
Other financing sources	20,265,857	19,787,173	478,684	2%
Beginning fund balance	58,877,796	44,840,713	14,037,083	31%
Total	<u><u>\$ 490,031,878</u></u>	<u><u>\$ 462,517,916</u></u>	<u><u>\$ 27,513,962</u></u>	6%
Expenditures	416,019,124	403,062,210	12,956,914	3%
Other financing uses	577,910	577,910	-	0%
Ending fund balance	73,434,844	58,877,796	14,557,048	25%
Total	<u><u>\$ 490,031,878</u></u>	<u><u>\$ 462,517,916</u></u>	<u><u>\$ 27,513,962</u></u>	6%

The District's General Fund ending fund balance increased by \$14,557,048 or 25 percent. This increase is primarily attributed to revenue received from discretionary property taxes as a result of increased assessed valuation. While the District's increased enrollment generated additional earned revenue, there was a holdback of state funding in the amount of \$116,091 for a proration to funds available which reduced the amount of actual state revenue received by the District. It should be noted that \$2,251,118 of ending fund balance has been encumbered for specific projects.

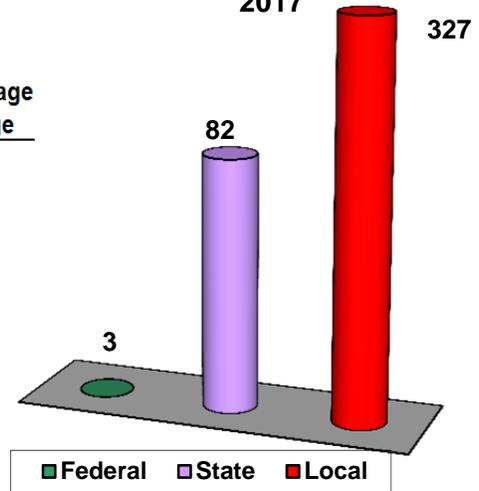
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Revenues – Overall revenues increased by \$12,998,195 or 3 percent as follows:

Revenues By Source - General Fund

	<u>6/30/2017</u>	<u>6/30/2016</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
Federal	\$ 2,538,453	\$ 2,612,345	\$ (73,892)	-3%
State	81,695,364	78,196,386	3,498,978	4%
Local	326,654,408	317,081,299	9,573,109	3%
Total	\$ 410,888,225	\$ 397,890,030	\$ 12,998,195	3%

**Composition of Revenues
In Millions of Dollars -
2017**



Federal sources decreased by \$73,892, or 3 percent, mainly attributed to a decrease in Medicaid program revenue.

State sources increased by \$3,498,978 or 4 percent, mainly attributed to the increase in the required funding of the Florida Education Program Funding.

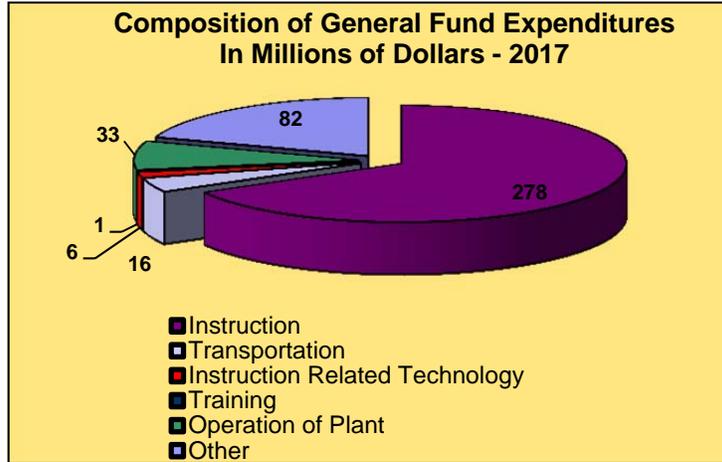
Local sources increased by \$9,573,109, or 3 percent, mainly as a result of an increase in the required local funding portion of the FEFP through property tax general revenues of \$5,708,059 and an increase in a voted additional property tax revenue of \$4,420,106.

Expenditures - Total General Fund expenditures increased by \$12,956,914 from \$403,062,210 to \$416,019,124 for the fiscal year ended June 30, 2017, an increase of 3 percent.

Expenditures By Function - General Fund

	<u>6/30/2017</u>	<u>6/30/2016</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
Instruction	\$ 277,874,488	\$ 268,261,917	\$ 9,612,571	4%
Instructional staff training services	1,005,239	751,884	253,355	34%
Student transportation services	15,556,478	15,498,218	58,260	0%
Operation of plant	33,555,362	33,509,505	45,857	0%
Instruction related technology	5,727,479	4,464,344	1,263,135	28%
Other	82,300,078	80,576,342	1,723,736	2%
Total	\$ 416,019,124	\$ 403,062,210	\$ 12,956,914	3%

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Debt Service – Other Debt Service Fund

An overall analysis of the District's Other Debt Service Fund is presented below. The decrease in other financing sources and uses is a result of the District issuing Series 2016 Refunding Certificates of Participation refunding the callable portion of the Series 2009 and Series 2010B Certificates of Participation.

	<u>6/30/2017</u>	<u>6/30/2016</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
Revenue	\$ 38,899	\$ 38,058	\$ 841	2%
Other financing sources	23,856,707	90,789,603	(66,932,896)	-74%
Beginning fund balance	1,093,084	1,044,561	48,523	5%
Total	<u><u>\$ 24,988,690</u></u>	<u><u>\$ 91,872,222</u></u>	<u><u>\$ (66,883,532)</u></u>	<u><u>-73%</u></u>
Expenditures	\$ 23,869,428	\$ 22,611,094	\$ 1,258,334	6%
Other financing uses	-	68,168,044	(68,168,044)	
Ending fund balance	1,119,262	1,093,084	26,178	2%
Total	<u><u>\$ 24,988,690</u></u>	<u><u>\$ 91,872,222</u></u>	<u><u>\$ (66,883,532)</u></u>	<u><u>-73%</u></u>

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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>6/30/2017</u>	<u>6/30/2016</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
Revenue	\$ 80,206,151	\$ 73,524,690	\$ 6,681,461	9%
Beginning fund balance	33,297,826	30,745,763	2,552,063	8%
Total	<u>\$ 113,503,977</u>	<u>\$ 104,270,453</u>	<u>\$ 9,233,524</u>	9%
Expenditures	\$ 34,303,692	\$ 28,676,787	\$ 5,626,905	20%
Other financing uses	42,992,025	42,295,840	696,185	2%
Ending fund balance	36,208,260	33,297,826	2,910,434	9%
Total	<u>\$ 113,503,977</u>	<u>\$ 104,270,453</u>	<u>\$ 9,233,524</u>	9%

During the fiscal year 2016-17, revenue in the Capital Projects – Local Capital Improvement Tax Fund increased by \$6,681,461 or 9 percent. Expenditures increased by \$5,626,905 or 20 percent, primarily due to construction of Suncoast Technical College – North Port and renovation of Pineview. Of the total fund balance, \$16,868,335 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>6/30/2017</u>	<u>6/30/2016</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
Revenue	\$ 30,244,238	\$ 21,424,371	\$ 8,819,867	41%
Other financing sources	10,535,376	9,804,169	731,207	7%
Beginning fund balance	26,353,468	41,020,870	(14,667,402)	-36%
Total	<u>\$ 67,133,082</u>	<u>\$ 72,249,410</u>	<u>\$ (5,116,328)</u>	-7%
Expenditures	\$ 36,504,477	\$ 37,680,708	\$ (1,176,231)	-3%
Other financing uses	2,239,858	8,215,234	(5,975,376)	-73%
Ending fund balance	28,388,747	26,353,468	2,035,279	8%
Total	<u>\$ 67,133,082</u>	<u>\$ 72,249,410</u>	<u>\$ (5,116,328)</u>	-7%

Other financing uses decreased by \$5,975,376 due primarily to a transfer to the Self Insurance Fund made in 2016. It should be noted that \$23,820,341 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 to actual revenues and direct resources where needed. The Board approves the final amendment to the budget after year-end. The original 2016-17 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 decreased \$1,937,167 from the original budget due to reduced average instructional salaries as the result of a considerable number of retirements and savings on benefits in part from becoming self-insured. Actual expenditures were \$7,081,239 below the final amended expenditure budget.

CAPITAL ASSETS AND LONG-TERM DEBT

At June 30, 2017, the District had \$978,358,976 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 \$11,474,558 or 1 percent, from last fiscal year due primarily to the improvements and rebuilds at Fruitville Elementary School, and Sarasota High School.

	Governmental Activities			Percentage Change
	<u>6/30/2017</u>	<u>6/30/2016</u>	<u>Change</u>	
Capital assets not being depreciated:				
Land	\$ 36,942,046	\$ 33,139,925	\$ 3,802,121	11%
Land improvements	77,416,807	76,585,315	831,492	1%
Construction in progress	32,742,239	49,986,449	(17,244,210)	-34%
Capital assets being depreciated:				
Improvements other than buildings	70,964,566	66,569,178	4,395,388	7%
Buildings and fixed equipment	1,029,878,189	986,810,242	43,067,947	4%
Furniture, fixtures and equipment and Audio visual materials	57,866,223	56,868,772	997,451	2%
Motor vehicles	34,414,032	33,998,898	415,134	1%
Equipment under capital leases	45,992,767	45,818,994	173,773	0%
Computer software	13,092,877	13,033,449	59,428	0%
Total Capital Assets	1,399,309,746	1,362,811,222	36,498,524	3%
Less accumulated depreciation	(420,950,770)	(395,926,804)	(25,023,966)	6%
Total Capital Assets, net	<u>\$ 978,358,976</u>	<u>\$ 966,884,418</u>	<u>\$ 11,474,558</u>	1%

Detailed information regarding the District's capital asset balances and activity for the fiscal year ended June 30, 2017, is provided in Note 5 to the basic financial statements.

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Long-Term Debt

At June 30, 2017, the District had \$168,882,275 in bonds payable, obligations under capital leases, and certificates of participation versus \$180,605,272 last fiscal year, a decrease of 6 percent. A summary of the long-term debt obligations are listed in the following table:

	<u>6/30/2017</u>	<u>6/30/2016</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
Obligations under capital leases	\$ 25,623,097	\$ 24,895,361	\$ 727,736	3%
State school bonds	6,166,436	7,627,743	(1,461,307)	-19%
Qualified zone academy bonds	1,299,696	1,299,696	-	0%
Certificates of participation	135,793,046	146,782,472	(10,989,426)	-7%
Total	\$ 168,882,275	\$ 180,605,272	\$ (11,722,997)	-6%

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 2017 for Sarasota County was 3.9 percent, which is a decrease of 0.9 percent from June 2016. The State's average unemployment rate in June 2017 was 4.3 percent. Florida's unemployment rate has decreased 0.6 percent while the nation's unemployment rate has decreased 0.8 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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June 30, 2017

In fiscal year 2016-17, taxable property values increased 9 percent from the prior year to \$53.2 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 \$47,480,009. It is anticipated that the unassigned fund balance at June 30, 2018 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.