

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Santa Rosa 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, 2016. 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 the financial statements found immediately following the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2015-16 fiscal year are as follows:

- As of June 30, 2016, assets and deferred outflows of resources exceed liabilities and deferred inflows of resources by \$178,647,078.
- The District's net position increased by \$5,767,856, which represents a 3.34 percent increase from the prior fiscal year.
- General revenues total \$230,521,006, or 93.18 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total \$16,876,834, or 6.82 percent of all revenues.
- Expenses total \$241,629,984. Only \$16,876,834 of these expenses was offset by program specific charges, with the remainder paid from general revenues.
- At the end of the current fiscal year, the fund balance of the General Fund totals \$22,961,635, which is \$3,526,985 more than the prior fiscal year balance. The combined assigned and unassigned fund balance for the General Fund was \$18,918,599, or approximately 9.60 percent of total General Fund revenues.

OVERVIEW OF FINANCIAL STATEMENTS

The basic financial statements consist of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to financial statements. This report also includes supplementary information intended to furnish additional details to support the basic financial statements.

Government-wide Financial Statements

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

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 units – The District presents three separate legal entities in this report. The Learning Academy, Inc., and Capstone Academy, LLC, are legally separate organizations and component units that are included in this report because they meet the criteria for inclusion provided by generally accepted accounting principles. Financial information for these component units is reported separately from the financial information presented for the primary government.

The Santa Rosa School Board Leasing Corporation (Leasing Corporation), although also a legally separate entity, was formed to facilitate financing for the acquisition of facilities and equipment for the District. Due to the substantive economic relationship between the District and the Leasing Corporation, the Leasing Corporation has been included as an integral part of 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 the broad categories discussed below.

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

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

The governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances provide detailed information about the District's most significant funds. The District's major funds are the General Fund, the Capital Projects – Local Capital Improvement Fund, and the Capital Projects – Other 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 to demonstrate compliance with the budget.

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 program. Since these services predominantly benefit governmental rather than business-type functions, the internal service fund has 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 the financial resources of the District's pre-tax flexible benefits plan and the school internal funds which are used to account for moneys collected at the various schools in connection with school, student athletic, class, and club activities.

Notes to Financial Statements

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

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position over time may serve as a useful indicator of a government's financial health. The following is a summary of the District's net position as of June 30, 2016, as compared to June 30, 2015:

	Governmental Activities	
	6-30-16	6-30-15
Current and Other Assets	\$ 58,918,178	\$ 51,311,721
Capital Assets	267,599,563	266,793,818
Total Assets	326,517,741	318,105,539
Deferred Outflows of Resources	14,628,107	14,628,107
Long-Term Liabilities	140,920,517	120,251,789
Other Liabilities	6,403,570	7,735,170
Total Liabilities	147,324,086	127,986,959
Deferred Inflows of Resources	11,507,971	31,867,465
Net Position:		
Net Investment in Capital Assets	230,724,961	226,687,250
Restricted	27,656,055	23,629,247
Unrestricted Deficit	(79,733,938)	(77,437,275)
Total Net Position	\$ 178,647,078	\$ 172,879,222

The unrestricted portion of the District's net position may be used to meet the District's ongoing obligation to students, employees, and creditors. The unrestricted net position decreased by approximately \$2.3 million from the prior year primarily as a result of the District's implementation of GASB No. 68, *Accounting and Financial Reporting for Pensions*. Additional information on the District's proportionate share of the Florida Retirement System's net pension liability can be found in Note D of the notes to the financial statements. The impact of implementing GASB Statement No. 68 on the District's financial statements is as follows:

- Long-term liabilities increased approximately \$22.2 million at June 30, 2016, for the net pension liability.
- Deferred outflows of resources decreased approximately \$3.6 million.
- Deferred inflows of resources decreased approximately \$20.4 million.

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

to repay the debt must be provided from other sources, since the capital assets cannot be used to liquidate these liabilities.

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

The chart on the following page is a summary of the changes in the District's net position as of June 30, 2016 and June 30, 2015.

The key elements of the changes in the District's net position for the fiscal year ended June 30, 2016, as compared to June 30, 2015, are as follows:

Grants and contributions not restricted to specific programs represent 61.75 percent of total governmental revenues in the 2015-16 fiscal year. Grants and contributions not restricted to specific programs increased by \$11,906,331 or 8.45 percent, primarily due to increases in Florida Education Finance Program (FEFP) funds. 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.

Instruction expenses represent 56.97 percent of total governmental expenditures for the 2015-16 fiscal year.

Operating Results for the Fiscal Year Ended

	Governmental Activities	
	6-30-16	6-30-15
Program Revenues:		
Charges for Services	\$ 7,274,115	\$ 7,200,249
Operating Grants and Contributions	7,801,072	7,506,253
Capital Grants and Contributions	1,801,646	948,140
General Revenues:		
Property Taxes, Levied for Operational Purposes	52,747,090	52,705,711
Property Taxes, Levied for Capital Projects	12,697,265	12,216,536
Local Sales Taxes	8,530,136	7,804,989
Grants and Contributions Not Restricted to Specific Programs	152,768,374	140,862,043
Unrestricted Investment Earnings	196,644	59,653
Miscellaneous	3,581,498	4,035,914
Total Revenues	247,397,840	233,339,488
Functions/Program Expenses:		
Instruction	137,653,438	119,952,616
Pupil Personnel Services	8,311,938	9,756,704
Instructional Media Services	2,276,096	2,301,492
Instruction and Curriculum Development Services	6,527,167	5,874,938
Instructional Staff Training Services	3,379,113	2,282,731
Instruction Related Technology	5,335,773	5,457,928
School Board	548,953	573,579
General Administration	1,264,261	1,416,607
School Administration	14,565,291	13,073,039
Facilities Acquisition and Construction	722,351	1,080,751
Fiscal Services	1,298,235	1,101,225
Food Services	11,572,558	11,520,109
Central Services	2,229,301	2,161,171
Pupil Transportation Services	11,831,231	11,953,579
Operation of Plant	12,888,663	13,010,914
Maintenance of Plant	6,970,223	8,519,730
Administrative Technology Services	2,041,668	1,748,996
Community Services	2,389,035	2,280,703
Interest on Long-Term Debt	1,718,007	2,122,620
Unallocated Depreciation Expense	8,106,681	7,804,255
Total Functions/Program Expenses	241,629,984	223,993,687
Change in Net Position	5,767,856	9,345,801
Net Position - Beginning	172,879,222	240,394,507
Adjustment to Net Position (1)	-	(76,861,086)
Net Position - Beginning, restated	172,879,222	163,533,421
Net Postion - Ending	\$ 178,647,078	\$ 172,879,222

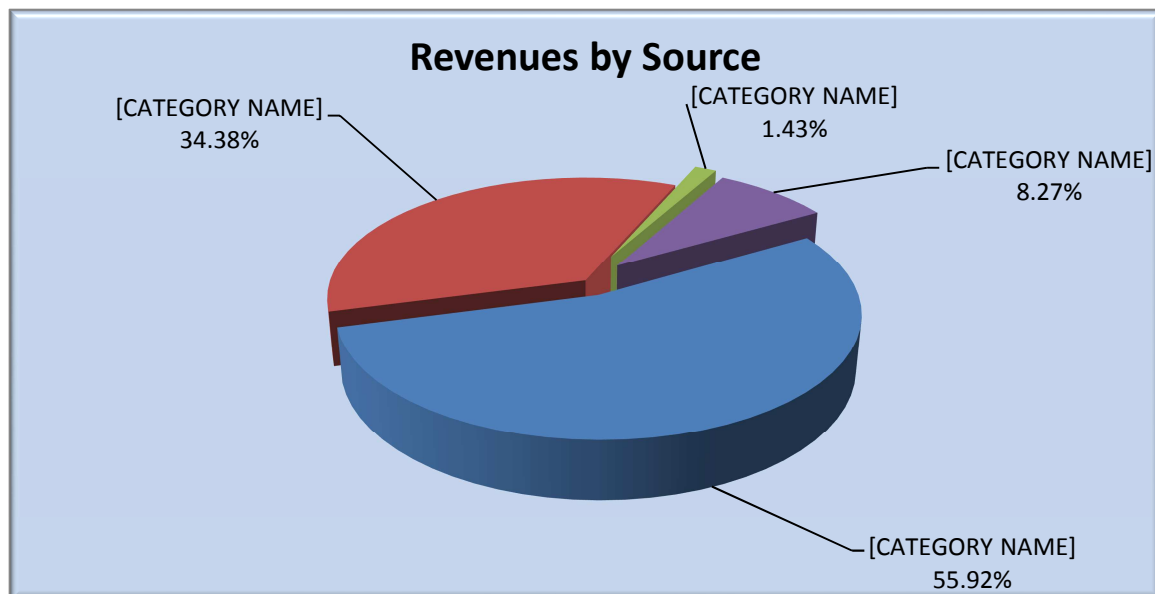
(1) Represents the adjustment to beginning net position due to the implementation of GASB No. 68. This adjustment is the result of reflecting the net pension liability and deferred outflows as of 7/1/14.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Governmental Funds

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. Specifically, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as it represents the portion of fund balance that has not been limited to a particular purpose by an external party, the District, or a group or individual delegated authority by the Board to assign resources for particular purposes. The total fund balances of governmental funds increased by \$6,718,226 during the fiscal year to \$48,668,370 at June 30, 2016. Approximately 38 percent of this amount is unassigned fund balance (\$18,323,182), which is available for spending at the District's discretion. The remainder of the fund balance is nonspendable, restricted, committed, or assigned to indicate that it is 1) not in spendable form (\$231,265), 2) restricted for particular purposes (\$27,463,951), 3) committed for particular purposes (\$2,054,556), or 4) assigned for particular purposes (\$595,417).

In the governmental funds, revenues by source for the 2015-16 fiscal year were as follows:



The largest revenue source is the State of Florida (55.92 percent). Revenues from State sources for current operations are primarily received through the FEEP funding formula. Other State revenues primarily fund specific projects. State revenues increased by \$12,529,630, or 9.96 percent, primarily due to increases in FEEP funding and categoricals.

Major Governmental Funds

The General Fund is the District's chief operating fund. At the end of the current fiscal year, unassigned fund balance is \$18,323,182, while the total fund balance is \$22,961,635. As a measure of

the General Fund's liquidity, it may be useful to compare the assigned and unassigned fund balance to General Fund total revenues. The total assigned and unassigned fund balance represents 9.60 percent of total General Fund revenues, while total fund balance represents approximately 11.65 percent of total General Fund revenues.

Total General fund balance increased by \$3,526,985. Key factors impacting the change in fund balance are as follows:

- Increases in state funding.
- Decreases in expenditures.
- Revenue from BP lawsuit.

The Capital Projects – Local Capital Improvement Fund has a total fund balance of \$7,639,391, which is restricted for the acquisition, construction, and maintenance of capital assets. The fund balance increased by \$3,050,726, or 66.48 percent, during the 2015-16 fiscal year, primarily due to increases in local capital improvement taxes and decreases in expenditures. It should be noted that \$647,103 of fund balance has been encumbered for specific projects.

The Capital Projects – Other Fund has a total fund balance of \$12,443,059, of which \$11,624,494 is restricted for financial resources generated by various capital funding sources. The fund balance decreased by \$669,325, or 5.10 percent, during the 2015-16 fiscal year, primarily due to an increase in expenditures. It should be noted that \$1,282,882 of fund balance has been encumbered for specific projects.

Proprietary Fund

The unrestricted net position of the Internal Service Fund totaled \$114,400 at June 30, 2016. This amount decreased by \$123,007, or 51.81 percent, during the 2015-16 fiscal year. The amount represents the excess insurance claims paid over the excess of insurance premiums collected from participants.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the 2015-16 fiscal year, the District amended its General Fund budget several times; however, final budgeted revenues and expenditures were in line with original budgeted amounts.

Actual revenues are in line with the final budgeted amounts. Actual expenditures are \$7,725,590 less than final budgeted amounts due to the fact that: \$4,290,532 of the unexpended budgeted amounts are restricted and committed funds that cannot be touched; \$2,608,241 is for budgeted transfers to self-insurance and ROTC; and \$373,319 is unexpended budgeted amounts for Community School. The actual ending fund balance exceeded the estimated fund balance contained in the final amended budget by \$8,770,764.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets for its governmental activities as of June 30, 2016, amounts to \$267,599,563 (net of accumulated depreciation). This investment in capital assets includes land; land improvements; construction in progress; improvements other than buildings; buildings and fixed

equipment; furniture, fixtures, and equipment; motor vehicles; and audio visual materials and computer software.

Major capital asset events included the following:

- During the current fiscal year, the District completed multiple projects, including construction technology lab and kitchen/cafeteria expansions/renovations.
- At June 30, 2016, construction in progress includes locker room/weight room renovations, kitchen expansions/renovations, chiller plant/HVAC renovations, and building energy renovations.

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

Long-Term Debt

At June 30, 2016, the District has total long-term debt outstanding of \$37,867,733, comprised of \$2,712,852 of bonds payable and \$35,154,880 of certificates of participation payable. During the 2015-16 fiscal year, retirement of debt totaled \$3,811,202.

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

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of District's finances for all those with an interest in the District's finances. Questions concerning information provided in the MD&A or other required supplementary information, and financial statements and notes thereto, or requests for additional financial information should be addressed to the Assistant Superintendent for Finance, Santa Rosa County District School Board, 5086 Canal Street, Milton, Florida 32570. Information is also available on the web at <http://www.santarosa.k12.fl.us/finance>.