

**STATE OF FLORIDA AUDITOR GENERAL**

**Financial and Federal Single Audit**

Report No. 2017-151  
March 2017

**ORANGE COUNTY  
DISTRICT SCHOOL BOARD**

For the Fiscal Year Ended  
June 30, 2016



Sherrill F. Norman, CPA  
Auditor General

## **Board Members and Superintendent**

During the 2015-16 fiscal year, Dr. Barbara M. Jenkins served as Superintendent of the Orange County Schools and the following individuals served as School Board Members:

	<u>District No.</u>
Bill Sublette, Chair	Districtwide
Joie W. Cadle	1
Daryl Flynn	2
Linda Kobert	3
Pam Gould	4
Kathleen "Kat" Gordon, Vice Chair to 11-16-15	5
Nancy Robinson, Vice Chair from 11-17-15	6
Christine Moore	7

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

The team leader was Sherry J. Homayouni, CPA, and the audit was supervised by Brenda C. Racis, CPA.

Please address inquiries regarding this report to Micah E. Rodgers, CPA, Audit Supervisor, by e-mail at [micahrodgers@aud.state.fl.us](mailto:micahrodgers@aud.state.fl.us) or by telephone at (850) 412-2905.

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## SUMMARY

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### SUMMARY OF REPORT ON FINANCIAL STATEMENTS

Our audit disclosed that the Orange County District School Board (District's) basic financial statements were presented fairly, in all material respects, in accordance with prescribed financial reporting standards.

### SUMMARY OF REPORT ON INTERNAL CONTROL AND COMPLIANCE

Our audit did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* issued by the Comptroller General of the United States; however, we noted a certain additional matter as summarized below.

#### Additional Matter

**Finding No. 2016-001:** As similarly noted in our report No. 2014-147, the District's financial reporting procedures need improvement to ensure consistent, proper reporting of discretely presented component units.

### SUMMARY OF REPORT ON FEDERAL AWARDS

We audited the District's compliance with applicable Federal awards requirements. The Child and Adult Care Food Program, Title I, and Federal Pell Grant programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that could have a direct and material effect on each of its major Federal programs.

### AUDIT OBJECTIVES AND SCOPE

Our audit objectives were to determine whether the School Board and its officers with administrative and stewardship responsibilities for District operations had:

- Presented the District's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements or on a major Federal program;
- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements, and those applicable to the District's major Federal programs; and
- Taken corrective action for Finding No. 1 in our report No. 2014-147.

The scope of this audit included an examination of the District's basic financial statements and the accompanying Schedule of Expenditures of Federal Awards as of and for the fiscal year ended June 30, 2016. We obtained an understanding of the District's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial

statements and Federal awards. We also examined various transactions to determine whether they were executed, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements. The results of our operational audit of the District are included in our report No. 2017-132.

#### AUDIT METHODOLOGY

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.



Sherrill F. Norman, CPA  
Auditor General

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

## INDEPENDENT AUDITOR'S REPORT

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Orange County District School Board, as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the school internal funds, which represent 3 percent of the assets and 14 percent of the liabilities of the aggregate remaining fund information. In addition, we did not audit the financial statements of the aggregate discretely presented component units, which represent 100 percent of the transactions and account balances of the aggregate discretely presented component units' columns. Those statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for the school internal funds and the aggregate discretely presented component units, are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and

perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Orange County District School Board, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matters***

As discussed in Note III. to the financial statements, certain component units included in the financial statements for the 2015-16 fiscal year were excluded from the financial statements for the 2014-15 fiscal year. This matter affects the comparability of amounts reported for the 2014-15 fiscal year with amounts reported for the 2015-16 fiscal year. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS**, the **Budgetary Comparison Schedule – General Fund**, **Schedule of Funding Progress – Other Postemployment Benefits Plan**, **Schedule of the District's Proportionate Share of the Net Pension Liability – Florida Retirement System Pension Plan**, **Schedule of District Contributions – Florida Retirement System Pension Plan**, **Schedule of the District's Proportionate Share of the Net Pension Liability – Health Insurance Subsidy Pension Plan**, **Schedule of District Contributions – Health Insurance Subsidy Pension Plan**, and **Notes to Required Supplementary Information**, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or

historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The accompanying **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

#### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued a report dated March 13, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Respectfully submitted,



Sherrill F. Norman, CPA  
Tallahassee, Florida  
March 13, 2017

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The management of the Orange 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 financial statements found immediately following the MD&A.

### **FINANCIAL HIGHLIGHTS**

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

- The assets and deferred outflows of the District exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$3,490,355,266 (net position).
- The District's total net position increased by \$397,065,223. This increase is primarily attributable to the ongoing investment of the District in new schools and the renovation of existing schools supported by sales tax proceeds and other capital outlay revenues.
- Total revenues of \$2,266,898,783 were comprised of general revenues in the amount of \$2,102,584,032, or 92.8 percent, and program specific revenues from charges for services, grants and contributions in the amount of \$164,314,751, or 7.2 percent.
- For the year ended June 30, 2016, the District had \$1,869,833,560 in expenses related to governmental activities; \$164,314,751 of which were offset by program specific charges or services, grants and other sources. General revenues (primarily taxes and State funding programs) of \$2,102,584,032 were sufficient to provide for the District's programs.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$1,798,646,442, an increase of \$145,424,851 in comparison with the prior year. Approximately 7 percent of this total amount, \$126,427,470, is available for spending at the District's discretion for the purposes defined for each governmental fund (unassigned fund balance). The remaining balance of \$1,672,218,972 has been designated as nonspendable, restricted, or assigned.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$126,427,470, or 8.4 percent of total General Fund expenditures.
- The District's total long-term debt for bonds, certificates of participation, and capital leases decreased by \$15,081,202, or 1.2 percent, during the current fiscal year due to principal payments and the effect of refunding debt issues.

### **OVERVIEW OF FINANCIAL STATEMENTS**

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise 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 (or district-wide financial statements) are designed to provide a broad overview of the District's finances, in a manner similar to those of a private-sector business.

The statement of net position presents information on all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities provides information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g., uncollected taxes, other postemployment benefits, and earned but unused vacation and sick leave).

All of the District's activities and services are reported in the government-wide financial statements, including instruction, pupil support services, instructional support services, administrative support services, facility maintenance, transportation, and food services. Property taxes, State assistance, and interest and investment earnings finance most of these activities. Additionally, all capital and debt financing activities are reported here. The District currently does not report any business-type activities, which would include functions that are intended to recover all or a significant portion of their costs through user fees and charges.

The government-wide financial statements include not only the District itself (known as the primary government), but also the School Board of Orange County Employee Benefits Trust and the Orange County School Board Leasing Corporation. The School Board of Orange County Employee Benefits Trust (Trust) and the Orange County School Board Leasing Corporation (Corporation), although also legally separate, were formed to administer the District's group health and life insurance program and facilitate financing for the acquisition of facilities and equipment, respectively. Due to the substantive economic relationships between the District and the Trust and Corporation, their financial activities have been included as an integral part of the primary government.

### **Fund 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, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**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, and 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 District'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 District maintains 11 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the General Fund and Capital Projects – Other Fund, which are considered to be major funds. Data from the other 9 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 this budget.

**Proprietary Funds:** The District maintains one type of proprietary fund – internal service funds. Internal service funds are an accounting device used to accumulate and allocate cost internally among the District's various functions. The District uses internal service funds to account for its self-insurance programs, employee benefits trust, and printing services. Because these services benefit the District's governmental functions, they have been included within governmental activities in the government-wide financial statements.

The three internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds are provided in a subsequent note.

**Fiduciary Funds:** Fiduciary funds, which, for the District, consist solely of agency funds, are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide statements because the resources of those funds are not available to support the District's own programs. The accounting used for fiduciary funds is similar to that used for proprietary funds, except that agency funds do not report changes in fiduciary net assets, as agency fund assets should equal liabilities.

### **Notes to Financial Statements**

The notes provide additional information that is essential to fully understanding 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 net pension liability, its progress in funding its obligation to provide other postemployment benefits to its employees, and the General Fund budgetary schedule.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$3,490,355,266 at the close of the most recent fiscal year. The following

is a summary of the District's net position as of June 30, 2016, compared to net position as of June 30, 2015:

**Net Position, End of Year**

	<b>Governmental Activities</b>		<b>Percentage Change</b>
	<b>6-30-16</b>	<b>6-30-15</b>	
Current and Other Assets	\$ 2,070,226,196	\$ 1,891,276,134	9.5%
Capital Assets	3,540,955,855	3,379,313,586	4.8%
<b>Total Assets</b>	<b>5,611,182,051</b>	<b>5,270,589,720</b>	<b>6.5%</b>
Deferred Outflows of Resources	294,638,046	195,235,054	50.9%
Long-Term Liabilities	2,161,561,379	1,976,703,510	9.4%
Other Liabilities	174,022,172	156,043,318	11.5%
<b>Total Liabilities</b>	<b>2,335,583,551</b>	<b>2,132,746,828</b>	<b>9.5%</b>
Deferred Inflows of Resources	79,881,280	239,787,903	-66.7%
Net Position:			
Net Investment in Capital Assets	2,284,888,206	2,077,277,202	10.0%
Restricted	1,397,745,901	1,279,210,000	9.3%
Unrestricted (Deficit)	(192,278,841)	(263,197,159)	26.9%
<b>Total Net Position</b>	<b>\$ 3,490,355,266</b>	<b>\$ 3,093,290,043</b>	<b>12.8%</b>

The largest portion of the District's net position reflects its investment in existing capital assets (e.g., land; buildings; machinery, and equipment), net of accumulated depreciation and less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide educational and related services to students; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A portion of the District's net position reflects its restricted net position for capital projects, debt service, food service, and other purposes. The District will use these resources in a continuing effort to build and refurbish sufficient classroom space for the growing student population in Orange County, Florida.

The balance of the District's net position is shown as unrestricted deficit net position of \$192,278,841. The deficit balance in unrestricted net position is primarily due to reporting the District's proportionate share of the State's pension liability.

Overall, the District's net position increased by \$397,065,223 during the current fiscal year primarily due to building of restricted capital fund resources for future school renovations, construction projects, and expansion of the digital curriculum initiative.

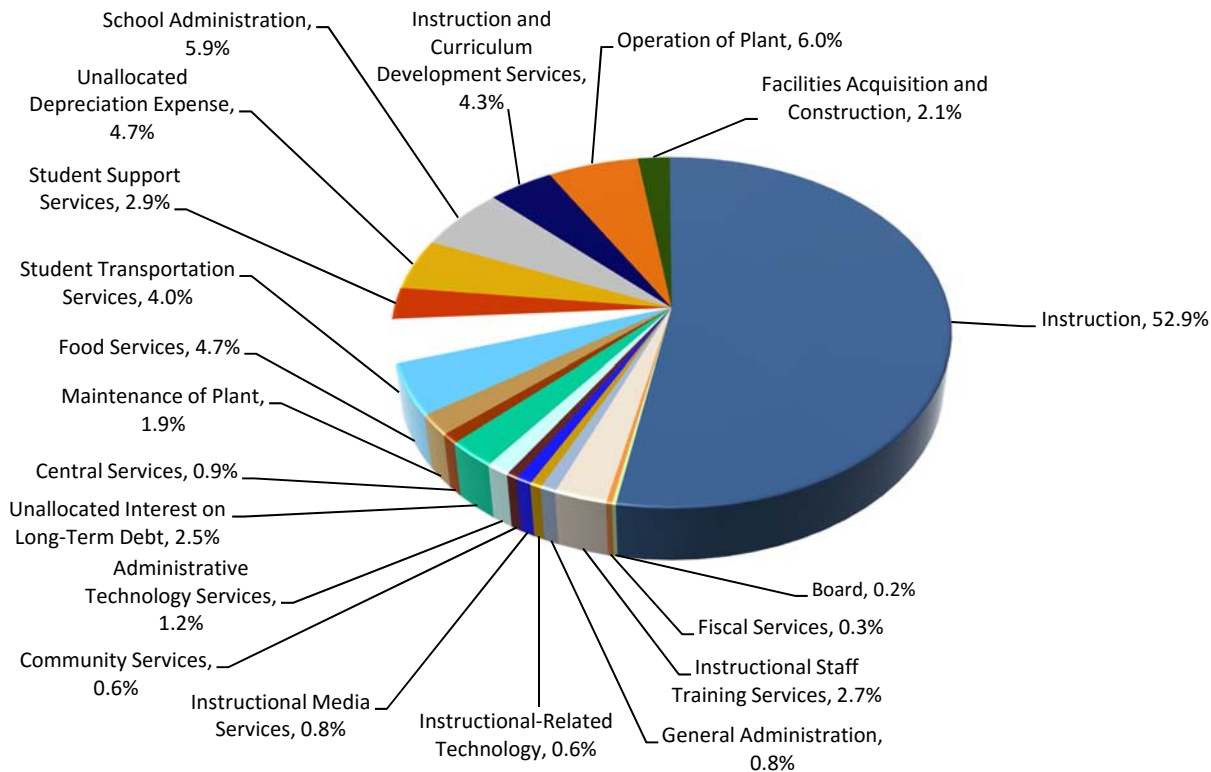
The key elements of the changes in the District's net position for the fiscal years ended June 30, 2016, and June 30, 2015, are as follows:

### Operating Results for the Fiscal Year Ended

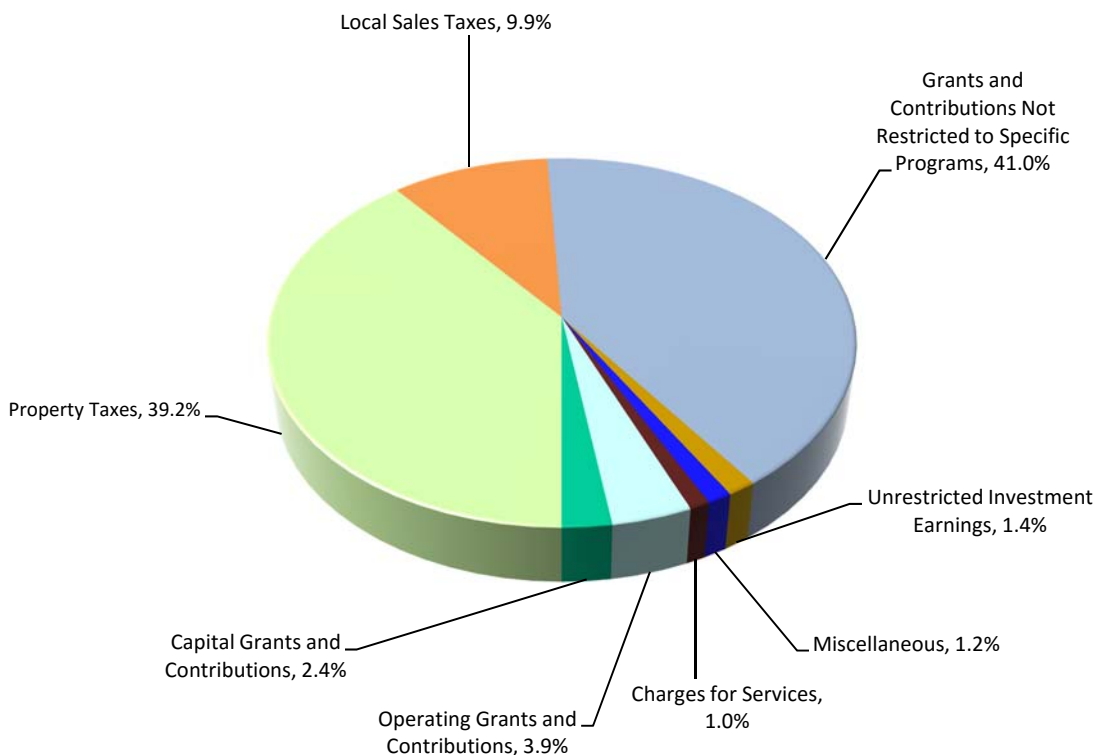
	Governmental Activities		Percentage Change
	6-30-16	6-30-15	
Program Revenues:			
Charges for Services	\$ 21,908,498	\$ 21,681,151	1.0%
Operating Grants and Contributions	88,648,135	78,619,599	12.8%
Capital Grants and Contributions	53,758,118	63,809,285	-15.8%
General Revenues:			
Property Taxes	889,668,804	787,688,840	12.9%
Local Sales Taxes	224,024,409	209,231,028	7.1%
Grants and Contributions Not Restricted to Specific Programs	930,098,898	927,235,614	0.3%
Unrestricted Investment Earnings	32,400,496	13,142,839	146.5%
Miscellaneous	26,391,425	19,822,234	33.1%
<b>Total Revenues</b>	<b>2,266,898,783</b>	<b>2,121,230,590</b>	<b>6.9%</b>
Functions/Program Expenses:			
Instruction	990,035,828	980,500,950	1.0%
Student Support Services	53,842,060	52,618,608	2.3%
Instructional Media Services	15,492,974	15,715,124	-1.4%
Instruction and Curriculum Development Services	80,784,750	78,648,709	2.7%
Instructional Staff Training Services	50,411,593	56,362,038	-10.6%
Instructional-Related Technology	11,109,995	11,790,895	-5.8%
Board	4,467,870	4,647,303	-3.9%
General Administration	12,200,342	11,239,101	8.6%
School Administration	110,160,514	106,137,125	3.8%
Facilities Acquisition and Construction	39,378,441	66,466,826	-40.8%
Fiscal Services	6,291,443	6,266,407	0.4%
Food Services	88,776,772	84,404,556	5.2%
Central Services	17,751,309	14,750,356	20.3%
Student Transportation Services	73,885,523	76,109,464	-2.9%
Operation of Plant	111,339,104	108,568,604	2.6%
Maintenance of Plant	34,943,170	35,909,409	-2.7%
Administrative Technology Services	21,960,369	21,921,750	0.2%
Community Services	10,791,115	10,832,534	-0.4%
Unallocated Interest on Long-Term Debt	47,613,039	53,174,813	-10.5%
Unallocated Depreciation Expense	88,597,349	83,401,950	6.2%
<b>Total Functions/Program Expenses</b>	<b>1,869,833,560</b>	<b>1,879,466,522</b>	<b>-0.5%</b>
<b>Change in Net Position</b>	<b>397,065,223</b>	<b>241,764,068</b>	<b>64.2%</b>
Net Position - Beginning	3,093,290,043	3,413,439,867	-9.4%
Adjustment to Beginning Net Position (1)	-	(561,913,892)	-100.0%
Net Position - Beginning, as Restated	3,093,290,043	2,851,525,975	8.5%
<b>Net Position - Ending</b>	<b>\$ 3,490,355,266</b>	<b>\$ 3,093,290,043</b>	<b>12.8%</b>

Note: (1) Adjustment to beginning net position was due to the implementation of Governmental Accounting Standards Board Statement No. 68, which was a change in accounting principle that required employers participating in cost-sharing multiple-employer defined benefit pension plans to report the employers' proportionate share of the net pension liability of the defined benefit pension plans.

### Expenses – Statement of Activities



### Revenues by Source – Statement of Activities



As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

### **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.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$1,798,646,442, an increase of \$145,424,851 in comparison with the prior fiscal year. Approximately 7 percent of this total amount (\$126,427,470) constitutes unassigned fund balance. The remainder of fund balance is nonspendable (\$4,863,975), restricted (\$1,399,169,005), or assigned (\$268,185,992) to indicate that it is not available for new spending.

### **Major Governmental Funds**

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$126,427,470, while total fund balance was \$418,660,657. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total expenditures. Unassigned fund balance represents 8.4 percent of total General Fund expenditures, while total fund balance represents 27.7 percent of that same amount.

The fund balance of the District's General Fund increased by \$50,754,246 during the current fiscal year. Key factors impacting the change in fund balance are as follows:

- Planned expenditures for professional development training were delayed and expended after the end of the fiscal year.
- Planned expenditures for major student and business system implementations were delayed or canceled.
- Funds were reserved for future planned expenditures.

The Capital Projects – Other Fund, which is used to account for capital project activity funded sources such as certificates of participation, sales tax, and impact fees, has a total fund balance of \$1,049,133,792, all of which is reserved for specific capital projects. The net increase in fund balance during the current fiscal year in the Capital Projects – Other Fund was \$38,531,497 and resulted primarily from building capital fund reserves for future renovation projects. It should also be noted that the entire fund balance has been restricted for capital projects at year-end, and \$292,452,551 has been encumbered for specific projects.

## GENERAL FUND BUDGETARY HIGHLIGHTS

There were no differences between the original budget and the final amended General Fund budget other than a functional expenditure reclassification at year-end to reflect capital outlay purchases.

The General Fund revenues exceeded the budgeted revenues by approximately \$19.9 million. Local revenue exceeded the budget by \$21.6 million. The State revenue was less by approximately \$5.1 million. The General Fund actual expenditures were less than the budgeted appropriations by approximately \$85.7 million. This was due to the delay of planned expenditures for several major initiatives.

## CAPITAL ASSETS AND LONG-TERM DEBT

### **Capital Assets**

The District's investment in capital assets as of June 30, 2016, amounts to \$3,540,955,855 (net of accumulated depreciation). This investment in capital assets includes land; construction in progress; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; audio visual materials and computer software. The total increase in the District's investment in capital assets (net of accumulated depreciation) for the current fiscal year was \$161,642,269 (4.8 percent).

Major capital asset events during the current fiscal year included the following:

- Rebuilding of Apopka Elementary School
- Rebuilding of Apopka High School
- Construction of 133-K8-N-6 Audubon School
- Construction of 21-M-E-2 Avalon Park School
- Construction of Bay Lake Elementary School
- Rebuilding of Carver Middle School
- Rebuilding of Chain of Lakes Middle School
- Rebuilding of Clay Springs Elementary School
- Rebuilding of Cypress Creek High School
- Rebuilding of Dr. Phillips High School
- Rebuilding of Dream Lake Elementary School
- Construction of 131-PS8-SW-5 Downtown K-8 School
- Rebuilding of Eagle Creek Elementary School
- Construction of Independence Elementary School
- Rebuilding of Lake Silver Elementary School
- Rebuilding of Lake Weston Elementary School
- Rebuilding of Lake Whitney Elementary School
- Rebuilding of Liberty Middle School
- Rebuilding of Lockhart Elementary School

- Construction of 84-E-W-4 Metrowest School
- Construction of Millenia Gardens Elementary School
- Rebuilding of Pine Hills Transportation Facility
- Rebuilding of Riverside Elementary School
- Rebuilding of Tangelo Park Elementary School
- Rebuilding of Ventura Elementary School
- Construction of Wedgefield School
- Rebuilding of Westridge Middle School
- Construction of 27-H-W-4 West Orange School
- Construction of 52-M-SE-2

**Summary of Capital Assets**  
(net of depreciation)

	<b>Governmental Activities</b>	
	<b>June 30, 2016</b>	<b>June 30, 2015</b>
Land	\$ 286,013,604	\$ 273,315,801
Improvements Other Than Buildings	10,664,552	8,910,061
Buildings and Fixed Equipment	3,021,055,140	2,893,230,599
Furniture, Fixtures, and Equipment	63,325,544	58,179,572
Motor Vehicles	42,898,245	40,575,586
Construction in Progress	112,424,342	100,198,661
Computer Software	4,574,428	4,903,306
<b>Total Capital Assets</b>	<b>\$ 3,540,955,855</b>	<b>\$ 3,379,313,586</b>

Additional information on the District's capital assets can be found in Notes IV.C. and IV.F. to the financial statements.

**Long-Term Debt**

At the end of the current fiscal year, the District had total long-term debt outstanding of \$1,292,774,559, none of which is considered to be general "bonded debt" (i.e., backed by the full faith and credit of the District). The District's debt consisted of certificates of participation payable, State school bonds payable, and obligations under capital leases, which are secured by specific revenue sources or the underlying assets.

**Summary of Outstanding Debt**

	<b>Governmental Activities</b>	
	<b>June 30, 2016</b>	<b>June 30, 2015</b>
Certificates of Participation Payable	\$ 1,283,016,298	\$ 1,292,614,623
State School Bonds Payable	7,859,000	11,519,000
Obligations Under Capital Leases	1,899,261	3,722,138
<b>Total Debt</b>	<b>\$ 1,292,774,559</b>	<b>\$ 1,307,855,761</b>

During the current fiscal year, the District's total long-term debt decreased by \$15,081,202 (1.2 percent). The District's Moody's rating for its certificates of participation remained the same "Aa2" rating. Fitch's rating remained the same "AA" rating. The Standard & Poor's rating remained the same "AA" rating. Additional information on the District's long-term debt can be found in Note IV.I. to the financial statements.

## ECONOMIC FACTORS AND NEW YEAR'S BUDGETS AND RATES

The following factors were considered in preparing the District's budget for the 2016-17 fiscal year:

- The unemployment rate in June 2016 for the District (Orlando, Florida) was 4.4 percent, a decrease of 0.6 percent from the prior year rate of 5.0 percent. The State's average unemployment rate as of June 2016 was 4.9 percent. Florida's unemployment rate has decreased 0.6 percent since last year while the nation's rate decreased 0.4 percent during the same time period from 5.5 to 5.1 percent.
- Residential housing continues to rebound, with more housing developments being approved. Related to the District's student population, projected growth in fiscal year 2017 is 4,996 full-time equivalent.
- The cost of health benefits will continue to increase due to the Federal Patient Protection and Affordable Care Act.
- The District continues to expand its digital curriculum initiative and has budgeted funds to build infrastructure and add devices for all remaining students.
- Unassigned fund balance in the General Fund at June 30, 2016, was \$126,427,470. The District has assigned \$257,565,822. Of this amount, \$188,009,445 was assigned for school operations included in the 2017 fiscal year budget. The remainder, \$69,556,377 for Other Postemployment Benefits (OPEB), is a long-term liability and as such is not included in the 2017 fiscal year budget.

Although current estimates indicate that no subsequent reductions will be required, the historical experience, where adjustments were made in prior years, causes some concerns regarding the consistency of State funding for the current year. The District has therefore been proactive and set aside adequate reserves to deal with such a contingency should it materialize.

## REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, Orange County Public Schools, 445 W. Amelia Street, Orlando, Florida 32801.

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# BASIC FINANCIAL STATEMENTS

## Orange County District School Board Statement of Net Position June 30, 2016

	Primary Government	Component Units
	Governmental Activities	Charter Schools/ Educational Foundation
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 415,084,875	\$ 17,213,929
Investments	1,582,566,191	2,561,242
Accounts Receivable	2,030,799	5,908,636
Interest Receivable	1,201,851	-
Deposits Receivable	225,000	420,136
Due from Other Agencies	64,183,165	1,229,730
Prepaid Items	150,050	764,014
Inventories	4,784,265	-
Capital Assets:		
Nondepreciable Capital Assets	398,437,946	2,947,413
Depreciable Capital Assets, Net	3,142,517,909	38,731,323
<b>TOTAL ASSETS</b>	<b>5,611,182,051</b>	<b>69,776,423</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Pensions	187,210,074	1,239,301
Accumulated Decrease in Fair Value of Hedging		
Derivatives	54,420,628	-
Net Carrying Amount of Debt Refundings	53,007,344	89,588
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>294,638,046</b>	<b>1,328,889</b>
<b>LIABILITIES</b>		
Accrued Salaries and Benefits	36,610,234	1,485,257
Payroll Deductions and Withholdings	1,618	-
Accounts Payable	33,516,940	4,824,930
Sales Tax Payable	7,654	-
Construction Contracts Payable	5,310,093	-
Construction Contracts Payable - Retained Percentage	11,053,529	-
Due to Other Agencies	3,298,337	540,253
Matured Bonds Payable	2,750,861	-
Accrued Interest Payable	17,723,538	6,740
Unearned Revenues	48,649,368	438,402
Estimated Liability for Self-Insurance Program	15,100,000	-
Long-Term Liabilities:		
Portion Due Within One Year	76,979,152	1,867,517
Portion Due After One Year	2,084,582,227	39,419,045
<b>TOTAL LIABILITIES</b>	<b>2,335,583,551</b>	<b>48,582,144</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Pensions	79,881,280	377,843
<b>NET POSITION</b>		
Net Investment in Capital Assets	2,284,888,206	2,607,448
Restricted for:		
State Required Carryover Programs	5,180,191	-
Debt Service	109,309,541	402,704
Capital Projects	1,229,293,118	166,068
Food Service	27,683,711	-
Other Purposes	26,279,340	1,905,133
Unrestricted (Deficit)	(192,278,841)	17,063,972
<b>TOTAL NET POSITION</b>	<b>\$ 3,490,355,266</b>	<b>\$ 22,145,325</b>

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

**Orange County District School Board  
Statement of Activities  
For the Fiscal Year Ended June 30, 2016**

Functions/Programs	Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions
<b>Primary Government</b>			
<b>Governmental Activities:</b>			
Instruction	\$ 990,035,828	\$ 3,521,361	\$ -
Student Support Services	53,842,060	-	-
Instructional Media Services	15,492,974	-	-
Instruction and Curriculum Development Services	80,784,750	-	-
Instructional Staff Training Services	50,411,593	-	-
Instructional-Related Technology Board	11,109,995	-	-
Board	4,467,870	-	-
General Administration	12,200,342	-	-
School Administration	110,160,514	-	-
Facilities Acquisition and Construction	39,378,441	-	-
Fiscal Services	6,291,443	-	-
Food Services	88,776,772	10,459,520	88,648,135
Central Services	17,751,309	-	-
Student Transportation Services	73,885,523	657,386	-
Operation of Plant	111,339,104	-	-
Maintenance of Plant	34,943,170	-	-
Administrative Technology Services	21,960,369	-	-
Community Services	10,791,115	7,270,231	-
Unallocated Interest on Long-Term Debt	47,613,039	-	-
Unallocated Depreciation Expense *	88,597,349	-	-
<b>Total Governmental Activities</b>	<b>\$ 1,869,833,560</b>	<b>\$ 21,908,498</b>	<b>\$ 88,648,135</b>
<b>Component Units</b>			
Charter Schools/Educational Foundation	\$ 91,950,961	\$ 1,032,952	\$ 4,431,709

General Revenues:

Taxes:

Property Taxes, Levied for Operational Purposes

Property Taxes, Levied for Capital Projects

Local Sales Taxes

Grants and Contributions Not Restricted to Specific Programs

Unrestricted Investment Earnings

Miscellaneous

Transfers:

**Total General Revenues and Transfers**

**Change in Net Position**

Net Position - Beginning

Adjustment to Beginning Net Position

Net Position - Beginning, as Restated

**Net Position - Ending**

\* This amount excludes the depreciation that is included in the direct expenses of the various functions.

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

<b>Net (Expense) Revenue and Changes in Net Position</b>			
<b>Capital Grants and Contributions</b>	<b>Primary Government</b>		<b>Component Units</b>
	<b>Governmental Activities</b>		<b>Charter Schools/Educational Foundation</b>
\$ -	\$ (986,514,467)	\$ -	-
-	(53,842,060)	-	-
-	(15,492,974)	-	-
-	(80,784,750)	-	-
-	(50,411,593)	-	-
-	(11,109,995)	-	-
-	(4,467,870)	-	-
-	(12,200,342)	-	-
-	(110,160,514)	-	-
49,603,969	10,225,528	-	-
-	(6,291,443)	-	-
-	10,330,883	-	-
-	(17,751,309)	-	-
-	(73,228,137)	-	-
-	(111,339,104)	-	-
-	(34,943,170)	-	-
-	(21,960,369)	-	-
-	(3,520,884)	-	-
4,154,149	(43,458,890)	-	-
-	(88,597,349)	-	-
<u>\$ 53,758,118</u>	<u>(1,705,518,809)</u>	<u>-</u>	<u>-</u>
<u>\$ 1,232,547</u>	<u>-</u>	<u>(85,253,753)</u>	<u>-</u>
	727,285,169	-	-
	162,383,635	-	-
	224,024,409	-	-
	930,098,898	88,148,870	-
	32,400,496	66,339	-
	26,391,425	843,431	-
	-	134,685	-
	<u>2,102,584,032</u>	<u>89,193,325</u>	<u>-</u>
	397,065,223	3,939,572	-
	3,093,290,043	1,183,638	-
	-	17,022,115	-
	<u>3,093,290,043</u>	<u>18,205,753</u>	<u>-</u>
	<u>\$ 3,490,355,266</u>	<u>\$ 22,145,325</u>	<u>-</u>

**Orange County District School Board  
Balance Sheet – Governmental Funds  
June 30, 2016**

	<u>General Fund</u>	<u>Capital Projects - Other Fund</u>
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 132,811,216	\$ 171,228,957
Investments	324,220,525	869,244,999
Accounts Receivable	540,621	-
Interest Receivable	-	1,018,734
Due from Other Funds	3,073,099	-
Due from Other Agencies	15,401,404	29,004,074
Due from Internal Funds	59,911	-
Prepaid Items	100,050	-
Inventories	3,107,784	-
<b>TOTAL ASSETS</b>	<u>\$ 479,314,610</u>	<u>\$ 1,070,496,764</u>
<b>LIABILITIES AND FUND BALANCES</b>		
Liabilities:		
Accrued Salaries and Benefits	\$ 33,298,898	\$ -
Payroll Deductions and Withholdings	1,618	-
Accounts Payable	24,098,077	5,665,453
Sales Tax Payable	7,654	-
Construction Contracts Payable	-	5,021,068
Construction Contracts Payable - Retained Percentage	-	10,676,451
Due to Other Funds	-	-
Due to Other Agencies	3,247,706	-
Matured Bonds Payable	-	-
Unearned Revenues	-	-
<b>Total Liabilities</b>	<u>60,653,953</u>	<u>21,362,972</u>
Fund Balances:		
Nonspendable:		
Inventories	3,107,784	-
Prepaid Items	100,050	-
<b>Total Nonspendable Fund Balance</b>	<u>3,207,834</u>	<u>-</u>
Restricted for:		
State Required Carryover Programs	5,180,191	-
Post-Secondary Rollover Budgets	20,558,656	-
Debt Service	-	-
Capital Projects	-	1,049,133,792
Restricted for State Grants	5,720,684	-
Restricted for Food Service	-	-
<b>Total Restricted Fund Balance</b>	<u>31,459,531</u>	<u>1,049,133,792</u>
Assigned for:		
Other Purposes	69,556,377	-
School Operations	188,009,445	-
<b>Total Assigned Fund Balance</b>	<u>257,565,822</u>	<u>-</u>
Unassigned Fund Balance	126,427,470	-
<b>Total Fund Balances</b>	<u>418,660,657</u>	<u>1,049,133,792</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 479,314,610</u>	<u>\$ 1,070,496,764</u>

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

<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 66,369,688	\$ 370,409,861
254,968,484	1,448,434,008
3,445	544,066
181,264	1,199,998
-	3,073,099
19,777,687	64,183,165
-	59,911
-	100,050
1,656,141	4,763,925
<b>\$ 342,956,709</b>	<b>\$ 1,892,768,083</b>
\$ 3,268,387	\$ 36,567,285
-	1,618
1,509,343	31,272,873
-	7,654
289,025	5,310,093
377,078	11,053,529
2,996,310	2,996,310
50,631	3,298,337
2,750,861	2,750,861
863,081	863,081
<b>12,104,716</b>	<b>94,121,641</b>
1,656,141	4,763,925
	100,050
<b>1,656,141</b>	<b>4,863,975</b>
-	5,180,191
-	20,558,656
127,033,078	127,033,078
163,858,893	1,212,992,685
-	5,720,684
27,683,711	27,683,711
<b>318,575,682</b>	<b>1,399,169,005</b>
10,620,170	80,176,547
-	188,009,445
10,620,170	268,185,992
-	126,427,470
<b>330,851,993</b>	<b>1,798,646,442</b>
<b>\$ 342,956,709</b>	<b>\$ 1,892,768,083</b>

**Orange County District School Board  
Reconciliation of the Governmental Funds Balance Sheet  
to the Statement of Net Position  
June 30, 2016**

**Total Fund Balances - Governmental Funds** \$ 1,798,646,442

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

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

Non-Depreciable Assets	\$ 398,437,946	
Depreciable Assets, Net	<u>3,142,517,909</u>	3,540,955,855

Interest on long-term debt is accrued as a liability in the government-wide statements, but not recognized in the governmental funds until due, except for accrued interest received as part of a debt issue.

Accrued Interest Payable - Government-wide Statement of Net Position		(17,723,538)
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Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.

Total Assets - Internal Service Funds	\$ 180,551,391	
Less, Total Liabilities - Internal Service Funds	(77,727,584)	
Less, Depreciable Assets Reported Above	<u>(20,179)</u>	102,803,628

Long-term liabilities are not due and payable in the fiscal year and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consist of:

Certificates of Participation Payable	\$ (1,283,016,298)	
Bonds Payable	(7,859,000)	
Obligations Under Capital Lease	(1,899,261)	
Compensated Absences Payable	(110,744,043)	
Other Postemployment Benefits Payable	(69,556,377)	
Net Pension Liability	(621,588,280)	
Derivative Instrument	<u>(54,420,628)</u>	(2,149,083,887)

The deferred outflows of resources and deferred inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds.

Deferred Outflows Related to Pensions	\$ 187,210,074	
Deferred Inflows Related to Pensions	<u>(79,881,280)</u>	107,328,794

The deferred outflows of resources related to accumulated fair value of hedging derivatives are applicable to future periods and, therefore, are not reported in the governmental funds.		54,420,628
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The deferred outflows of resources related to the deferred amount on refunding are applicable to future periods and, therefore, are not reported in the governmental funds.		<u>53,007,344</u>
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**Net Position - Governmental Activities** \$ 3,490,355,266

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

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**Orange County District School Board  
Statement of Revenues, Expenditures, and Changes in  
Fund Balances – Governmental Funds  
For the Fiscal Year Ended June 30, 2016**

	<u>General Fund</u>	<u>Capital Projects - Other Fund</u>
<b>Revenues</b>		
Intergovernmental:		
Federal Direct	\$ 1,283,629	\$ -
Federal Through State and Local	7,841,333	-
State	783,517,938	-
Local:		
Property Taxes	727,285,169	-
Local Sales Taxes	-	224,024,409
Impact Fees	-	45,961,820
Charges for Services - Food Service	-	-
Interest Income	6,198,198	18,127,628
Miscellaneous	28,034,682	2,699,672
Total Local Revenues	<u>761,518,049</u>	<u>290,813,529</u>
<b>Total Revenues</b>	<u>1,554,160,949</u>	<u>290,813,529</u>
<b>Expenditures</b>		
Current - Education:		
Instruction	969,274,367	-
Student Support Services	42,389,662	-
Instructional Media Services	15,499,879	-
Instruction and Curriculum Development Services	54,444,467	-
Instructional Staff Training Services	25,309,551	-
Instructional - Related Technology	11,216,670	-
Board	4,544,304	-
General Administration	6,995,085	-
School Administration	112,069,924	-
Facilities Acquisition and Construction	8,238,326	27,543,237
Fiscal Services	6,276,346	-
Food Services	-	-
Central Services	17,703,489	-
Student Transportation Services	59,975,925	-
Operation of Plant	112,346,955	-
Maintenance of Plant	34,334,441	-
Administrative Technology Services	21,823,737	-
Community Services	1,049,636	-
Fixed Capital Outlay:		
Facilities Acquisition and Construction	86,858	222,998,021
Other Capital Outlay	5,677,524	-
Debt Service:		
Principal	-	-
Interest and Fiscal Charges	-	-
<b>Total Expenditures</b>	<u>1,509,257,146</u>	<u>250,541,258</u>
<b>Excess of Revenues Over Expenditures</b>	<u>44,903,803</u>	<u>40,272,271</u>
<b>Other Financing Sources (Uses)</b>		
Transfers In	4,731,503	-
Issued Refunding Certificates of Participation	-	-
Premium on Refunding Certificates of Participation	-	-
Payments to Refunding Escrow Agent	-	-
Sale of Capital Assets	966,693	3,980,000
Loss Recoveries	152,247	-
Transfers Out	-	(5,720,774)
<b>Total Other Financing Sources (Uses)</b>	<u>5,850,443</u>	<u>(1,740,774)</u>
<b>Net Change in Fund Balances</b>	50,754,246	38,531,497
Fund Balances, Beginning	367,906,411	1,010,602,295
<b>Fund Balances, Ending</b>	<u>\$ 418,660,657</u>	<u>\$ 1,049,133,792</u>

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

<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 11,098,342	\$ 12,381,971
208,080,672	215,922,005
13,944,232	797,462,170
162,383,635	889,668,804
-	224,024,409
-	45,961,820
10,459,520	10,459,520
6,016,079	30,341,905
6,913,568	37,647,922
<u>185,772,802</u>	<u>1,238,104,380</u>
<u>418,896,048</u>	<u>2,263,870,526</u>
42,292,951	1,011,567,318
12,878,405	55,268,067
380,319	15,880,198
28,383,885	82,828,352
26,191,731	51,501,282
201,612	11,418,282
-	4,544,304
5,349,225	12,344,310
949,344	113,019,268
1,875,766	37,657,329
172,615	6,448,961
89,971,925	89,971,925
359,297	18,062,786
7,635,443	67,611,368
302,150	112,649,105
49,150	34,383,591
349,920	22,173,657
9,832,488	10,882,124
34,701,510	257,786,389
2,018,550	7,696,074
37,864,482	37,864,482
57,041,432	57,041,432
<u>358,802,200</u>	<u>2,118,600,604</u>
<u>60,093,848</u>	<u>145,269,922</u>
111,286,595	116,018,098
327,295,000	327,295,000
36,642,567	36,642,567
(368,881,578)	(368,881,578)
-	4,946,693
-	152,247
<u>(110,297,324)</u>	<u>(116,018,098)</u>
<u>(3,954,740)</u>	<u>154,929</u>
56,139,108	145,424,851
274,712,885	1,653,221,591
<u>\$ 330,851,993</u>	<u>\$ 1,798,646,442</u>

**Orange County District School Board**  
**Reconciliation of the Governmental Funds Statement of Revenues, Expenditures,**  
**and Changes in Fund Balances to the Statement of Activities**  
**For the Fiscal Year Ended June 30, 2016**

**Net Change in Fund Balances - Governmental Funds** \$ 145,424,851

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

Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital outlays and donations in excess of depreciation expense and loss on sale of capital assets in the current period.

Capital outlays net of amounts not capitalized	\$ 265,482,463	
Donated Assets	969,665	
Net Loss on Sale	(6,985,786)	
Depreciation Expense	<u>(97,824,073)</u>	161,642,269

Proceeds of refunding debt are reported as other financing sources in the governmental funds, while payments to the escrow agent for advance-refunding of outstanding debt are shown as other financing uses. Government-wide statements are affected only to the extent these amounts differ. Other long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the net effect of these transactions.

Certificates of Participation	\$ (327,295,000)	
Premium on Certificates of Participation	(36,642,567)	
Payments to Bond Escrow Agent	<u>368,881,578</u>	4,944,011

Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. The amortization of debt premiums does not require the use of current financial resources and are not reported in the governmental funds.

Bonds Payable	\$ 3,660,000	
Obligations Under Capital Leases	1,822,877	
Certificates of Participation	<u>32,381,605</u>	37,864,482

Premiums and deferred loss on debt refundings are reported in the governmental funds in the year the debt is issued, but are deferred and amortized over the life of the debt in the government-wide statements. This is the net increase in premiums and the decrease in deferred charges during the current period, exclusive of the \$34,116,578 in additions to the deferred loss reported under payments to escrow agent above.

Amortization of Deferred Loss on Refunding	\$ (1,750,783)	
Amortization of Premium of Debt	<u>6,409,287</u>	4,658,504

Interest on long-term debt is recognized in the governmental funds when due, but is recognized as interest accrues in the statement of activities.

Prior Year Accrual	\$ 22,493,426	
Less, Current Year Accrual	<u>(17,723,538)</u>	4,769,888

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

4,284,762

Other postemployment benefits (OPEB) costs are recorded in the governmental funds under the pay-as-you go method, but are recorded under the full accrual basis in the government-wide financial statements.

Prior Year Accrual	\$ 75,446,684	
Less, Current Year Accrual	<u>(69,556,377)</u>	5,890,307

In the statement of activities, the cost of pension benefits is measured by the change in the net pension liability during the year, while in the governmental funds, expenditures are recognized based on the amounts actually paid for the pension expense. This is the amount of the pension contributions in excess of pension expense in the current period.

FRS Pension Contribution	\$ 53,281,522	
HIS Pension Contribution	15,773,166	
FRS Pension Expense	(27,282,951)	
HIS Pension Expense	<u>(26,226,072)</u>	15,545,665

Internal service funds are used by management to charge the cost of certain activities, such as insurance, to individual funds. The net revenue of internal service funds is reported with governmental activities plus the depreciation reported above, less capital acquisitions.

12,040,484

**Change in Net Position - Governmental Activities** **\$ 397,065,223**

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

**Orange County District School Board  
Statement of Net Position – Proprietary Funds  
June 30, 2016**

	<u><b>Governmental Activities - Internal Service Funds</b></u>
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 44,675,014
Investments	134,132,183
Accounts Receivable	1,426,822
Interest Receivable	1,853
Deposits Receivable	225,000
Inventories	20,340
Prepaid Items	50,000
<b>Total Current Assets</b>	<u>180,531,212</u>
Noncurrent Assets:	
Furniture and Equipment	97,387
Less Accumulated Depreciation	(77,208)
Computer Software	1,100
Less Accumulated Depreciation	(1,100)
<b>Total Noncurrent Assets</b>	<u>20,179</u>
<b>TOTAL ASSETS</b>	<u>180,551,391</u>
<b>LIABILITIES</b>	
Current Liabilities:	
Accrued Salaries and Benefits	42,949
Accounts Payable	2,244,067
Due to Other Funds	76,789
Unearned Revenues	47,786,287
Estimated Liability for Self-Insurance Program	15,100,000
<b>Total Current Liabilities</b>	<u>65,250,092</u>
Noncurrent Liabilities:	
Estimated Liability for Self-Insurance Program	
Portion Due Within One Year	5,816,874
Portion Due After One Year	6,660,618
<b>Total Noncurrent Liabilities</b>	<u>12,477,492</u>
<b>TOTAL LIABILITIES</b>	<u>77,727,584</u>
<b>NET POSITION</b>	
Investment in Capital Assets	20,179
Unrestricted	102,803,628
<b>TOTAL NET POSITION</b>	<u>\$ 102,823,807</u>

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

**Orange County District School Board  
Statement of Revenues, Expenses, and Changes in Fund  
Net Position – Proprietary Funds  
For the Fiscal Year Ended June 30, 2016**

	<b>Governmental Activities - Internal Service Funds</b>
<b>OPERATING REVENUES</b>	
Charges for Services	\$ 5,450,851
Premiums	206,256,504
Other	92,040
<b>Total Operating Revenues</b>	<b>211,799,395</b>
<b>OPERATING EXPENSES</b>	
Salaries	842,057
Employee Benefits	363,816
Purchased Services	14,885,652
Energy Services	85,000
Materials and Supplies	251,741
Capital Outlay	3,430
Claims Expense	185,375,411
Depreciation	7,402
<b>Total Operating Expenses</b>	<b>201,814,509</b>
<b>Operating Income</b>	<b>9,984,886</b>
<b>NONOPERATING REVENUES</b>	
Investment Earnings	2,058,593
<b>Change in Net Position</b>	<b>12,043,479</b>
Total Net Position - Beginning	90,780,328
<b>Total Net Position - Ending</b>	<b>\$ 102,823,807</b>

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

**Orange County District School Board  
Statement of Cash Flows – Proprietary Funds  
For the Fiscal Year Ended June 30, 2016**

	<b>Governmental Activities - Internal Service Funds</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from Interfund Services Provided	\$ 228,244,329
Payments for Insurance Claims	(184,639,425)
Payments to Suppliers for Goods and Services	(12,227,926)
Payments to Employees for Services	(1,186,484)
Other Operating Cash Receipts	92,040
	<b>30,282,534</b>
<b>Net Cash Provided by Operating Activities</b>	
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisition and Construction of Capital Assets	(10,397)
	<b>(10,397)</b>
<b>Net Cash Used by Capital and Related Financing Activities</b>	
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Proceeds from Sales of Investments	2,344,284
Investment Earnings	2,058,593
	<b>4,402,877</b>
<b>Net Cash Provided by Investing Activities</b>	
<b>Net Increase in Cash and Cash Equivalents</b>	
	34,675,014
Cash and Cash Equivalents, Beginning	10,000,000
	<b>\$ 44,675,014</b>
<b>Cash and Cash Equivalents, Ending</b>	
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>	
Operating Income	\$ 9,984,886
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	7,402
Changes in Assets and Liabilities:	
Decrease in Receivables	16,536,976
Increase in Inventories	(2,445)
Increase in Accrued Salaries and Benefits	19,388
Increase in Accounts Payable	809,262
Increase in Due To Other Funds	76,789
Increase in Unearned Revenues	2,114,290
Increase in Estimated Liability for Self-Insurance Program	735,986
	<b>20,297,648</b>
<b>Total Adjustments</b>	
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 30,282,534</b>
<b>Noncash Investing, Capital, and Financing Activities</b>	
Net Increase in Fair Value of Investments	<b>\$ 828,539</b>

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

**Orange County District School Board  
Statement of Fiduciary Assets and Liabilities – Fiduciary Funds  
June 30, 2016**

		<u>Agency Funds</u>
<b>ASSETS</b>		
Cash and Cash Equivalents	\$	12,341,131
Investments		2,455,904
Accounts Receivable		41,735
Inventory		223,760
<b>TOTAL ASSETS</b>	<b>\$</b>	<b><u>15,062,530</u></b>
<b>LIABILITIES</b>		
Accounts Payable	\$	431,971
Internal Accounts Payable		14,630,559
<b>TOTAL LIABILITIES</b>	<b>\$</b>	<b><u>15,062,530</u></b>

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

# **NOTES TO FINANCIAL STATEMENTS**

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## **I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **A. Reporting Entity**

The Orange County District School Board (Board) has direct responsibility for operation, control, and supervision of District schools and is considered a primary government for financial reporting. The District School Board of Orange County, Florida (District) is considered part of the Florida system of public education, operates under the general direction of the Florida Department of Education (FDOE), and is governed by State law and State Board of Education (SBE) rules. The governing body of the District is the Board that is composed of eight elected members, seven board members elected by district and one Board Chairman elected at large. The appointed Superintendent of Schools (Superintendent) is the executive officer of the Board. Geographic boundaries of the District correspond with those of Orange County.

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

As required by accounting principles generally accepted in the United States (GAAP), these basic financial statements present the District (primary government) and its component units. The component units discussed below are included in the District's reporting entity because of the significance of their operational or financial relationships with the District.

**Blended Component Units.** The District's employee group health and life insurance program, described in a subsequent note, is administered through the School Board of Orange County Employee Benefits Trust (Trust). Assets necessary to fund the program are transferred to the Trust; however, under the terms of the Trust Agreement, the School Board retains control of the assets. Due to the substantive economic relationship between the District and the Trust, the financial activities of the Trust are reported in the accompanying basic financial statements as an internal service fund.

The Orange County School Board Leasing Corporation (Leasing Corporation) was formed to facilitate financing for the acquisition of facilities and equipment as further discussed in a subsequent note. The Board of Directors of the Leasing Corporation are members of the Board who elect to serve as ex-officio Directors. Due to the substantive economic relationship between the District and the Leasing Corporation, the financial activities of the Leasing Corporation are included in the accompanying basic financial statements. Separate financial statements for the Leasing Corporation are not published.

**Discretely Presented Component Units.** The component units' columns in the government-wide financial statements include the financial data of the District's other component units. The Foundation

for Orange County Public Schools, Inc. (the Foundation) is a separate not-for-profit corporation organized and operating as a direct-support organization under Section 1001.453, Florida Statutes, to raise funds; receive, hold, invest and administer property; and to make expenditures for the benefit of the District. Section 1001.453, Florida Statutes, requires the Foundation to be authorized and approved by the District. The stated mission of the Foundation is to identify, develop and focus community resources to make a meaningful impact on the success of students and teachers of Orange County Public Schools. Because of the nature and significance of its relationship with the District, the Foundation is considered a component unit.

Access Charter School, Inc.; Sunshine High School - Central Orange County Campus, Inc. (d/b/a Aloma High School); Aspire Charter Academy, Inc.; Central Florida Leadership Academy Charter School; Sunshine High School – Orlando Campus, Inc. (d/b/a Chancery High School); Hope Charter School, Inc.; Innovations Middle Charter School; Kid’s Community College Orange County Charter School; Lake Eola Charter School, Inc.; Legacy High School, Inc.; Legends Academy; Montessori of Winter Garden Charter; Nap Ford Community School, Inc.; Oasis Preparatory Academy; Orange County Preparatory Academy; Orlando Science Elementary Charter School, Inc.; Orlando Science Middle/High Charter School, Inc.; The Passport Charter School, Inc.; Pinecrest Creek; Pinecrest Preparatory Charter School (Orlando Campus); Princeton House Charter School, Inc.; Prosperitas Leadership Academy, Inc.; Renaissance Charter School at Chickasaw Trail; Renaissance at Goldenrod; Renaissance at Hunter’s Creek; Sunshine High School - Orange County (d/b/a Sheeler Charter High School); Sunshine High School - Greater Orlando (d/b/a Sunshine High School); United Cerebral Palsy (UCP) Downtown/Holloway Charter School; UCP East Orange Charter School; UCP Transitional Learning Academy Charter School; UCP West Orange Charter School; UCP Pine Hills Charter School; and Workforce Advantage Academy Charter High School, Inc. (Charter Schools) are separate not-for-profit corporations organized pursuant to Chapter 617, Florida Statutes, the Florida Not For Profit Corporation Act, and Section 1002.33, Florida Statutes. These charter schools operate under charters approved by their sponsor, the Orange County District School Board.

In accordance with the FDOE requirements, the charter schools are included as component units of the District. According to the FDOE, the charter schools are fiscally dependent on the District for their tax levy and the majority of their funding, which creates a financial burden to the District because the charter schools’ full-time equivalent (FTE) student enrollment is the basis for the District to provide funding to the charter schools.

The following charter schools are reported by other governmental entities and are therefore not included in the District’s basic financial statements in accordance with generally accepted accounting principles: Oakland Avenue Charter School, Cornerstone Charter Academy, and Cornerstone Charter High School. The charter schools are organized under the Town of Oakland (Oakland Avenue), and the City of Belle Isle (both Cornerstone Charter Schools).

Audits of the financial statements of the Foundation and the charter schools for the fiscal year ended June 30, 2016, are conducted by independent certified public accountants and their audit reports are filed in the District’s administrative office at 445 West Amelia Street, Orlando, Florida 32801.

## **B. Basis of Presentation: Government-wide Financial Statements**

The government-wide financial statements are prepared under the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. Nonexchange transactions, in which the District gives or receives value without directly receiving or giving value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The Statement of Net Position includes all assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the District. The Statement of Activities presents a comparison between the direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Depreciation expenses associated with the District's transportation and maintenance departments are allocated to the student transportation services and maintenance of plant functions, while remaining depreciation expenses are not readily associated with a particular function and are reported as unallocated.

Amounts reported as program revenues include (1) charges for services provided to students for tuition, fees, rental, material, supplies, or other services, (2) operating grants and contributions, and (3) capital grants and contributions. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

The District eliminates from the Statement of Net Position and the Statement of Activities most interfund receivables and payables and transfers between funds as well as the transactions associated with its Internal Service Funds.

The Foundation is accounted for as a governmental organization and follows the same accounting model as the District's governmental activities. The District's charter schools use the economic resources measurement focus and accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred. Twenty-eight charter schools follow GASB standards of accounting and financial reporting. Five charter schools and the Foundation follow FASB standards of accounting and financial reporting for not-for-profit organizations.

## **C. Basis of Presentation: Fund Financial Statements**

The governmental fund financial statements are prepared utilizing the current financial resource measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period in which they become susceptible to accrual, that is, both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Significant revenues "susceptible to accrual" include ad valorem taxes, reimbursable-type grants and interest on investments. The District considers revenues from ad

valorem taxes as available if they are collected within 60 days after year-end. Expenditures are recorded when the fund liability is incurred. However, exceptions include unmatured principal and interest on general long-term debt, accumulated sick and vacation pay, other postemployment benefits liability, claims and judgments and certain prepaid items, which are recognized when due/paid.

In applying the “susceptible to accrual” concept to revenues from Federal and State sources, the legal contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of revenues. In one type, moneys must be expended for the specific purpose or project before the District will receive any amounts; therefore, revenues are recognized based upon the occurrence of the expenditure. In the other type, moneys are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed legal and contractual requirements. These resources are reflected as revenues at the time of receipt or earlier if the “susceptible to accrual” criteria are met. In all cases, moneys received before the revenue recognition criteria have been met, are reported as deferred revenue.

The Agency (Fiduciary) funds are purely custodial in nature (assets equal liabilities) and as such do not have a measurement focus. Agency funds use the accrual basis of accounting to recognize receivables, inventories, and payables.

The Proprietary Fund Financial Statements are prepared under the economic resources measurement focus and the accrual basis of accounting.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the District’s internal service funds are for self-insurance (property, casualty, liability, and workers’ compensation), employee benefits (health and prescription), and printing provided to other funds. Operating expenses for the internal service funds include salaries, employee benefits, purchased services, energy services, materials and supplies, claims expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The fund financial statements provide information about the District’s funds, including fiduciary funds. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. The emphasis of fund financial statements is on major funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The District reports the following major funds:

- General Fund – to account for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes. The General Fund is the District’s primary operating fund.
- Capital Projects – Other Fund – to account for the financial resources generated by certificates of participation, impact fees, lottery, sales tax and other local sources to be used for educational capital outlay needs, including new construction and renovation and remodeling projects.

Additionally, the District reports the following nonmajor fund types:

- Special Revenue Funds – to account for the financial resources of the school food service program, certain grant program resources, the extended day childcare program, and other such restricted sources.
- Debt Service Funds – to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related debt issuance costs.
- Capital Projects Funds – to account for the financial resources generated from allocations of State revenues that are to be used for educational capital outlay needs, including new construction, renovation and remodeling projects.
- Internal Service Funds – to account for the District’s limited self-insurance programs and printing service operations.
- Agency Funds – to account for resources of the school internal funds, which are used to administer moneys collected at all schools in connection with school, student athletic, class, and club activities.

When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, and then unrestricted resources as they are needed.

#### **D. Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

#### **E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance**

##### **1. Cash and Cash Equivalents**

Cash deposits are held by banks qualified as public depositories under Florida law. All deposits are insured by Federal depository insurance, up to specified limits, and/or collateralized with securities held in Florida’s multiple financial institution collateral pool required by Sections 280.07 and 280.08, Florida Statutes. For the internal service funds, the statement of cash flows considers cash as those accounts used as demand deposit accounts.

Cash balances from all funds are combined and invested to extent available. Earnings are allocated monthly to each fund based on a rolling 2-month average balance of cash and investments.

##### **2. Investments**

Investments consist of amounts placed with various intergovernmental investment pools, which hold a majority of United States government securities, municipal securities, and repurchase agreements. The investment earnings are allocated to each fund based on a rolling 2-month average investment balance in that fund. Investments also consist of the State of Florida’s Special Purpose Investment Account (SPIA) authorized in Section 17.61(1), Florida Statutes, Florida PRIME, Florida Education Investment Trust Fund (FEITF), corporate bonds, municipal bonds, commercial paper, and United States instrumentality securities. All investments are reported at fair value based on quoted market prices. The District’s investment in SPIA is part of an

investment pool managed by the Florida Department of Treasury, where the District owns a share of the pool, not the underlying shares of the assets in the pool. The District relies on policies developed by the State Treasury for managing interest and credit risk for this external investment pool.

The District's investments in Florida PRIME, which the SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. The District's investments in the Florida Education Investment Trust Fund (FEITF), which FEITF indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. These investments are reported at fair value, which is amortized cost.

### **3. Inventories**

Inventories consist of expendable supplies held for consumption in the course of District operations. Transportation, custodial, and school supply inventories are stated at cost on a weighted average basis. Food service inventories are stated at cost on the last invoice basis, which approximates the first-in, first-out basis, except that United States Department of Agriculture donated foods are stated at their fair value as determined at the time of donation to the District's food service program by the Florida Department of Agriculture and Consumer Services, Bureau of Food Distribution. The costs of inventories are recorded as expenditures when used rather than purchased.

### **4. Capital Assets**

Expenditures for capital assets acquired or constructed for general District purposes are reported in the governmental fund that financed the acquisition or construction. The capital assets so acquired are reported at cost in the government-wide statement of net position but are not reported in the governmental fund financial statements. Capital assets are defined by the District as those costing more than \$1,000 for furniture, fixtures and equipment; motor vehicles; audio visual materials and computer software; improvements other than buildings; buildings and fixed equipment; and construction in progress and which have an estimated life of 2 or more years. All land purchases are capital assets regardless of cost. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the values of the assets or materially extend assets lives are not capitalized and are expensed when incurred. Interest costs incurred during construction of capital assets are not considered material and are not capitalized as part of the cost of construction.

Capital assets of the primary government, excluding land and construction in progress, are depreciated using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Estimated Useful Lives</u>
Improvements Other Than Buildings	15 years
Buildings and Fixed Equipment	20 - 40 years
Furniture, Fixtures, and Equipment	5 - 15 years
Motor Vehicles	5 - 10 years
Audio Visual Materials and Computer Software	5 years

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

## **5. Pensions**

In the government-wide statement of net position, liabilities are recognized for the District's proportionate share of each pension plan's net pension liability. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Florida Retirement System (FRS) defined benefit plan and the Health Insurance Subsidy (HIS) defined benefit plan and additions to/deductions from the FRS and the HIS fiduciary net position have been determined on the same basis as they are reported by the FRS and the HIS plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

The District's retirement plans and related amounts are described in a subsequent note.

## **6. Unearned Revenue**

Unearned revenue consists primarily of health insurance premiums collected from employees during the fiscal year for the coverage period extending through the plan year-end of September 30.

## **7. Long-Term Liabilities**

Long-term obligations that will be financed from resources to be received in the future by governmental funds are reported as liabilities in the government-wide statement of net position. Debt premiums and discounts, as well as deferred amounts on refunding, are deferred and amortized over the life of the debt using the effective interest method. Debt is reported net of the applicable premium or discount and deferred amounts on refunding. Debt issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

In the government-wide financial statements, compensated absences (i.e., paid absences for employee vacation leave and sick leave) are accrued as liabilities to the extent that it is probable

that the benefits will result in termination payments. A liability is reported in the governmental fund financial statements only for the portion due and payable at year-end.

Other Postemployment Benefits (OPEB) are reported in the government-wide financial statements. The District subsidizes the premium rates paid by Non-Medicare eligible retirees by allowing them to participate in the health plan at the blended group premium rates for both active and retired employees. OPEB is recorded by the District for the implicit subsidy for Non-Medicare eligible retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the District than those of active employees. The District funds OPEB on a pay-as-you-go basis.

The District makes healthcare available but no longer pays any portion of the healthcare benefits for Medicare eligible retirees. As a result, no healthcare experience for this group, whether favorable or unfavorable, would reflect on the cost of insurance to the District. Additional information on OPEB is described in a subsequent note.

In the government-wide statement of net position, pension liabilities are recognized for the District's proportionate share of each pension plan's net pension liability. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the fiduciary net position of the Florida Retirement System (FRS) defined benefit plan and the Health Insurance Subsidy (HIS) defined benefit plan and additions to/deductions from the FRS's and HIS's fiduciary net position have been determined on the same basis as they are reported by the FRS and HIS plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

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

## **8. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until then. The District has three items that qualify for reporting in this category. They are (1) accumulated decrease in fair value of hedging derivatives, (2) deferred amounts on debt refundings, and (3) pensions reported in the government-wide statement of net position. A deferred amount on debt refunding results from the difference in the carrying value of the refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The decrease in fair value of hedging and pensions are discussed in subsequent notes.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category, which is related to pensions and discussed in a subsequent note.

## **9. Fund Balance Flow Assumptions**

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of restricted, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's procedure to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, assigned fund balance is depleted first, followed by unassigned fund balance.

## **10. Fund Balance Policies**

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. The Board is the highest level of decision-making authority for the District that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation. The District reported no committed fund balances at June 30, 2016.

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes. The District also assigns fund balance when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget.

## **F. Revenues and Expenditures/Expenses**

### **1. Program Revenues**

Amounts reported as program revenues include charges paid by the recipient of the goods or services offered by the program, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than program revenues. Revenues that are not classified as program revenues are presented as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

### **2. State Revenue Sources**

Revenues from State sources for current operations are primarily from the Florida Education Finance Program administered by the FDOE under the provisions of Section 1011.62, Florida

Statutes. In accordance with this law, the District determines and reports the number of full-time equivalent (FTE) students and related data to the FDOE. The FDOE performs certain edit checks on the reported number of FTE and related data and calculates the allocation of funds to the District. The District is permitted to amend its original reporting for a period of 5 months following the date of the original reporting. Such amendments may impact funding allocations for subsequent fiscal years. The FDOE may also adjust subsequent fiscal period allocations based upon an audit of the District's compliance in determining and reporting FTE and related data. Normally, such adjustments are treated as reductions or additions of revenue in the fiscal year when the adjustments are made.

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

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

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

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

### **3. District Property Taxes**

The Board is authorized by State law to levy property taxes for district school operations, capital improvements, and debt service. Property taxes consist of ad valorem taxes on real and personal property within the District. The Orange County Property Appraiser determines the real and personal property values within the District. The Orange County Tax Collector then collects the taxes and remits them to the District.

The Board adopted the 2015 tax levy on September 15, 2015. Tax bills are mailed in October and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to 4 percent for early payment.

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

Property tax revenues are recognized in the government-wide financial statements when the Board adopts the tax levy. Property tax revenues are recognized in the governmental fund financial statements when taxes are received by the District, except that revenue is accrued for taxes collected by the Orange County Tax Collector at fiscal year-end but not yet remitted to the District. Because any delinquent taxes collected after June 30 would not be material, delinquent taxes receivable are not accrued and no delinquent tax revenue deferral is recorded.

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

#### **4. Federal Revenue Sources**

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

## **II. ACCOUNTING CHANGES**

### **A. Governmental Accounting Standards Board (GASB) Statement No. 72.**

In February 2015, the GASB issued Statement No.72, *Fair Value Measurement and Application*. The objective of the Statement is to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements. These improvements are based in part on the concepts and definitions established in Concepts Statement No. 6, *Measurement of Elements of Financial Statements*, and other relevant literature. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015. The District has implemented this statement for the fiscal year 2016.

### **B. GASB Statement No. 75.**

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for periods beginning after June 15, 2017, replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Among other things, GASB Statement No. 75 requires governments to report a liability on the face of the financial statements for the other postemployment benefits (OPEB) that they provide and requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information about their OPEB liabilities.

Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

### III. PRIOR PERIOD ADJUSTMENTS

For the fiscal year ended June 30, 2015, certain charter schools were excluded from the District's reporting entity, but were included for the fiscal year ended June 30, 2016, affecting the comparability of financial statements for those years. As a result of this change, beginning net position of the component units as a whole has been adjusted by \$17,022,115.

The following is a summary of the adjustment to beginning net position of the discretely presented component units reported in the statement of activities:

	<u>Component Units</u>
Beginning net position as previously reported at June 30, 2015	\$ 1,183,638
Prior period restatement to increase beginning net position balance by the June 30, 2015, net position of charter schools.	<u>17,022,115</u>
Net position as restated, July 1, 2015	<u>\$ 18,205,753</u>

### IV. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

#### A. Deposits and Investments

**Custodial Credit Risk-Deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to the District. The District does not have a policy for custodial credit risk. All bank balances of the District are fully insured or collateralized as required by Chapter 280, Florida Statutes.

#### **Fair Value Measurement-Investments.**

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The District's investments at June 30, 2016, are reported as follows:

	Fair Value Measurements at Reporting Date Using Quoted Prices			
	Amounts Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments by fair value level</b>				
United States Government Agencies and Instrumentalities	\$ 200,285,242	\$ -	\$ 200,285,242	\$ -
Corporate Bonds	127,450,587	-	127,450,587	-
Municipal Bonds	40,690,221	-	40,690,221	-
Total investments by fair value level	368,426,050	\$ -	\$ 368,426,050	\$ -
<b>Investments measured at the net asset value (NAV)</b>				
Florida Special Purpose Investment Account (SPIA)	718,634,958			
<b>Investments reported at amortized cost</b>				
Florida Prime (formally SBA)	422,383,421			
Florida Education Investment Trust Fund (FEITF)	65,610,671			
Money Market Funds	7,131,768			
Commercial Paper	379,323			
<b>Total investments reported at amortized cost</b>	<b>495,505,183</b>			
<b>Total Investments, Primary Government</b>	<b>1,582,566,191</b>			
Fiduciary Funds:				
Florida PRIME	2,455,904			
<b>Total Investments, Reporting Entity</b>	<b>\$ 1,585,022,095</b>			

The District's recurring fair value measurements are valued using quoted prices for similar assets or liabilities in active markets (Level 2 inputs). Certain investments are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. Money market, commercial paper, Florida PRIME and FEITF are reported at amortized cost. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of net position.

### **Interest Rate Risk**

District policies limit the maturity of investments to a 5-year weighted average life as a means of limiting its exposure to fair value losses arising from rising interest rates. Also, at least 3 months of average disbursements should be invested in highly liquid funds with a maturity range of 0-90 days.

The District has \$240,975,463 in obligations of the United States Government Sponsored Agencies/Federal Instrumentalities and Municipal Bonds and \$127,450,587 in Corporate Bonds. These securities included embedded options to call the entire security or a portion thereof, at the option of the issuer, or, depending on market conditions, the issuer may decide to leave the security intact, at a stated interest rate, until final maturity. These securities have various call dates with final maturity dates being December 2028.

At June 30, 2016, the District's investments had the following maturities:

Investment	Fair Value	Investment Maturities				
		6 Months	1 Year	Less Than 2 Years	5 Years	After
Florida Special Purpose Investment Account (SPIA)	\$ 718,634,958	\$ -	\$ -	\$ -	\$718,634,958	\$ -
Florida PRIME (SBA)	424,839,325	424,839,325	-	-	-	-
Florida Education Investment Trust Fund (FEITF)	65,610,671	65,610,671	-	-	-	-
Money Market Funds	7,131,768	7,131,768	-	-	-	-
Commercial Paper	379,323	379,323	-	-	-	-
Corporate Bonds	127,450,587	52,135,879	24,575,833	17,038,269	33,700,606	-
Obligations of the United States Government Agencies and Instrumentalities	200,285,242	15,014,657	2,861,750	22,813,242	104,681,733	54,913,860
Municipal Bonds	40,690,221	2,504,275	-	3,150,229	35,035,717	-
<b>Total Investments, Reporting Entity</b>	<b>\$ 1,585,022,095</b>	<b>\$ 567,615,898</b>	<b>\$ 27,437,583</b>	<b>\$ 43,001,740</b>	<b>\$892,053,014</b>	<b>\$ 54,913,860</b>

For Florida PRIME, Section 218.409(8)(a), Florida Statutes, states that “the principal, and any part thereof, of each account constituting the trust fund is subject to payment at any time from the moneys in the trust fund. However, the executive director may, in good faith, on the occurrence of an event that has a material impact on liquidity or operations of the trust fund, for 48 hours limit contributions to or withdrawals from the trust fund to ensure that the Board [State Board of Administration] can invest moneys entrusted to it in exercising its fiduciary responsibility. Such action must be immediately disclosed to all participants, the trustees, the Joint Legislative Auditing Committee, the Investment Advisory Council, and the Participant Local Government Advisory Council. The trustees shall convene an emergency meeting as soon as practicable from the time the executive director has instituted such measures and review the necessity of those measures. If the trustees are unable to convene an emergency meeting before the expiration of the 48-hour moratorium on contributions and withdrawals, the moratorium may be extended by the executive director until the trustees are able to meet to review the necessity for the moratorium. If the trustees agree with such measures, the trustees shall vote to continue the measures for up to an additional 15 days. The trustees must convene and vote to continue any such measures before the expiration of the time limit set, but in no case may the time limit set by the trustees exceed 15 days.” As of June 30, 2016, there were no redemption fees or maximum transaction amounts, or any other requirements that serve to limit a participant’s daily access to 100 percent of their account value.

### **Credit Risk**

Investments authorized by District policy are:

- Direct Obligations of United States Treasury;
- United States Government Sponsored Agencies or Federal Instrumentalities;
- Florida PRIME;
- Florida Special Purpose Investment Account;
- Florida Education Investment Trust Fund;
- Certificates of Deposit and Savings Accounts;
- Repurchase Agreements;

- State and/or Local Government Taxable or Tax-Exempt Debt;
- Corporate Notes;
- Commercial Paper; and
- Money Market Funds.

Section 218.415(18), Florida Statutes, requires the District to earmark all investments and (1) if registered with the issuer or its agents, the investment must be immediately placed for safekeeping in a location that protects the governing body's interest in the security; (2) if in a book entry form, the investment must be held for the credit of the governing body by a depository chartered by the Federal Government, the State, or any other state or territory of the United States which has a branch or principal place of business in this State, or by a national association organized and existing under the laws of the United States which is authorized to accept and execute trusts and which is doing business in this State, and must be kept by the depository in an account separate and apart from the assets of the financial institution; or (3) if physically issued to the holder but not registered with the issuer or its agents, must be immediately placed for safekeeping in a secured vault. The District's \$240,975,463 investments in obligations of Municipalities and United States Government Agencies and Instrumentalities and \$127,450,587 in Corporate Bonds are held by the safekeeping agent, in the name of the District.

### **Concentration of Credit Risk**

Composition of investment portfolio is limited by District policy to:

- Direct Obligations of the United States Treasury to 100 percent;
- United States Government Sponsored Agencies (Federal Instrumentalities) to 80 percent;
- Florida PRIME to 100 percent;
- Florida Special Purpose Investment Account to 100 percent;
- Florida Education Investment Trust Fund to 100 percent;
- Certificates of Deposit and Savings Accounts to 100 percent;
- Repurchase Agreements, fully collateralized by Direct Obligations of United States Government Securities to 30 percent;
- State and/or Local Government Taxable or Tax-Exempt Debt to 20 percent;
- Corporate Notes to 20 percent;
- Commercial Paper to 30 percent; and
- Money Market Funds to 100 percent.

As of June 30, 2016, the District investments in the SPIA totaled \$718,634,958 which is rated A+f by Standard & Poor's (S&P) with an effective duration of 2.61 years. These funds allocate investment earnings monthly.

As of June 30, 2016, the District investments in Florida PRIME totaled \$424,839,325, which the SBA indicates are 2a7-like funds with a weighted average life of 39 days and are rated AAAm by S&P. These funds allocate investment earnings monthly.

As of June 30, 2016, the District investments in the FEITF totaled \$65,610,671. These funds are rated AAAM by S&P. The FEITF indicates that the fund is also a 2a7 like fund with a weighted maturity of 41 days.

As of June 30, 2016, the District investments in commercial paper were \$379,323. These funds are rated A-1+, P-1 by S&P and Moody's, respectively, as required by the District's investment policy. The District holds these funds under a trust indenture in connection with several certificates of participation series.

Investments of \$140,280,630, representing 8.86 percent of the District's investments are with the Federal National Mortgage Association (FNMA), and are recorded in the Governmental Activities on the Statement of Net Position. Of these FNMA investments, \$122,793,630 are recorded in the Capital Projects – Other Fund and represent 14.13 percent of the District's investments in the Capital Projects – Other Fund.

All District investments are in compliance with District policy in relation to interest rate risk, credit risk, and concentration of credit risk.

## B. Receivables

The majority of receivables are due from other agencies. These receivables and the remaining accounts receivable are considered to be fully collectible. As such, no allowance for uncollectible accounts receivable is accrued.

The following is a schedule of due from other agencies at June 30, 2016:

<u>Fund:</u>	<u>Amount</u>
Major Governmental Funds:	
General Fund:	
Orange County Tax Collector:	
Unremitted Property Taxes	\$ 12,746,373
Miscellaneous State Agencies	2,655,031
Capital Projects - Other:	
State of Florida - Department of Revenue:	
Unremitted Sales Tax	19,721,317
Orange County Board of County Commissioners:	
Unremitted Impact Fee Collections	5,397,236
City of Orlando: Unremitted Impact Fee Collections	572,411
Miscellaneous Cities Impact Fee Collections	3,313,110
Nonmajor Governmental Funds:	
Special Revenue - Other Fund:	
Florida Department of Education:	
Federal Grant Reimbursements	4,364,280
Miscellaneous Grantor Agencies	763,350
Capital Projects - Capital Improvement Tax Fund:	
Orange County Tax Collector:	
Unremitted Property Taxes	2,845,599
Capital Projects - Capital Outlay & Debt Service (CO&DS) Fund:	
Florida Department of Education:	
CO&DS	50,597
Special Revenue - Food Service Fund:	
Meal Reimbursements	11,753,861
<b>Total Due From Other Agencies</b>	<b>\$ 64,183,165</b>

## C. Changes in Capital Assets

Changes in capital assets are presented in the table below:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance</b>
<b>GOVERNMENTAL ACTIVITIES</b>				
Capital Assets Not Being Depreciated:				
Land	\$ 273,315,801	\$ 12,697,803	\$ -	\$ 286,013,604
Construction in Progress	100,198,661	218,125,196	205,899,515	112,424,342
Total Capital Assets Not Being Depreciated	<u>373,514,462</u>	<u>230,822,999</u>	<u>205,899,515</u>	<u>398,437,946</u>
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	22,265,604	3,089,815	-	25,355,419
Buildings and Fixed Equipment	3,624,793,840	205,899,515	13,670,772	3,817,022,583
Furniture, Fixtures, and Equipment	157,689,058	20,826,421	16,000,269	162,515,210
Motor Vehicles	124,871,402	11,701,137	8,806,032	127,766,507
Audio Visual Materials	6,928	-	-	6,928
Computer Software	7,335,841	11,756	169,548	7,178,049
Total Capital Assets Being Depreciated	<u>3,936,962,673</u>	<u>241,528,644</u>	<u>38,646,621</u>	<u>4,139,844,696</u>
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	13,355,543	1,335,324	-	14,690,867
Buildings and Fixed Equipment	731,563,241	72,716,446	8,312,244	795,967,443
Furniture, Fixtures, and Equipment	99,509,486	14,487,899	14,807,719	99,189,666
Motor Vehicles	84,295,816	8,952,109	8,379,663	84,868,262
Audio Visual Materials	6,928	-	-	6,928
Computer Software	2,432,535	332,295	161,209	2,603,621
Total Accumulated Depreciation	<u>931,163,549</u>	<u>97,824,073</u>	<u>31,660,835</u>	<u>997,326,787</u>
Total Capital Assets Being Depreciated, Net	<u>3,005,799,124</u>	<u>143,704,571</u>	<u>6,985,786</u>	<u>3,142,517,909</u>
Governmental Activities Capital Assets, Net	<u>\$ 3,379,313,586</u>	<u>\$ 374,527,570</u>	<u>\$ 212,885,301</u>	<u>\$ 3,540,955,855</u>

Depreciation expense was charged to functions/programs as follows:

<b>Function</b>	<b>Amount</b>
<b>GOVERNMENTAL ACTIVITIES</b>	
Student Transportation Services	\$ 8,047,838
Maintenance of Plant	1,178,886
Unallocated	88,597,349
Total Depreciation Expense - Governmental Activities	<u>\$ 97,824,073</u>

## D. Retirement Plans

### 1. FRS – Defined Benefit Pension Plans

#### General Information about the FRS

The FRS was created in Chapter 121, Florida Statutes, to provide a defined benefit pension plan for participating public employees. The FRS was amended in 1998 to add the Deferred

Retirement Option Program (DROP) under the defined benefit plan and amended in 2000 to provide a defined contribution plan alternative to the defined benefit plan for FRS members effective July 1, 2002. This integrated defined contribution pension plan is the FRS Investment Plan. Chapter 112, Florida Statutes, established the Retiree HIS Program, a cost-sharing multiple-employer defined benefit pension plan, to assist retired members of any State-administered retirement system in paying the costs of health insurance.

Essentially all regular employees of the District are eligible to enroll as members of the State-administered FRS. Provisions relating to the FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and FRS Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. Such provisions may be amended at any time by further action from the Florida Legislature. The FRS is a single retirement system administered by the Florida Department of Management Services, Division of Retirement, and consists of the two cost-sharing multiple-employer defined benefit plans and other nonintegrated programs. A comprehensive annual financial report of the FRS, which includes its financial statements, required supplementary information, actuarial report, and other relevant information, is available from the Florida Department of Management Services' Web site ([www.dms.myflorida.com](http://www.dms.myflorida.com)).

The District's FRS and HIS pension expense totaled \$53,509,023 for the fiscal year ended June 30, 2016.

### **FRS Pension Plan**

*Plan Description.* The FRS Pension Plan (Plan) is a cost-sharing multiple-employer defined benefit pension plan, with a DROP for eligible employees. The general classes of membership are as follows:

- *Regular Class* – Members of the FRS who do not qualify for membership in the other classes.
- *Elected County Officers Class* – Members who hold specified elective offices in local government.
- *Senior Management Service Class (SMSC)* – Members in senior management level positions.
- *Special Risk Class* – Members who are employed as law enforcement officers and meet the criteria to qualify for this class.

Employees enrolled in the Plan prior to July 1, 2011, vest at 6 years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at 8 years of creditable service. All vested members, enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, except for members classified as special risk who are eligible for normal retirement benefits at age 55 or at any age after 25 years of service. All members enrolled in the Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 65 or any time after 33 years of creditable service, except for members classified as special risk who are eligible for normal retirement benefits at age 60 or at any age after 30 years of service. Employees enrolled in the Plan may include up to 4 years of credit for

military service toward creditable service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost-of-living adjustments to eligible participants.

DROP, subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with an FRS participating employer. An employee may participate in DROP for a period not to exceed 60 months after electing to participate, except that certain instructional personnel may participate for up to 96 months. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest. The net pension liability does not include amounts for DROP participants, as these members are considered retired and are not accruing additional pension benefits.

*Benefits Provided.* Benefits under the Plan are computed on the basis of age and/or years of service, average final compensation, and service credit. Credit for each year of service is expressed as a percentage of the average final compensation. For members initially enrolled before July 1, 2011, the average final compensation is the average of the 5 highest fiscal years' earnings; for members initially enrolled on or after July 1, 2011, the average final compensation is the average of the 8 highest fiscal years' earnings. The total percentage value of the benefit received is determined by calculating the total value of all service, which is based on the retirement class to which the member belonged when the service credit was earned. Members are eligible for in-line-of-duty or regular disability and survivors' benefits. The following chart shows the percentage value for each year of service credit earned:

<u>Class, Initial Enrollment, and Retirement Age/Years of Service</u>	<u>Percent Value</u>
<b>Regular Class members initially enrolled before July 1, 2011</b>	
Retirement up to age 62 or up to 30 years of service	1.60
Retirement at age 63 or with 31 years of service	1.63
Retirement at age 64 or with 32 years of service	1.65
Retirement at age 65 or with 33 or more years of service	1.68
<b>Regular Class members initially enrolled on or after July 1, 2011</b>	
Retirement up to age 65 or up to 33 years of service	1.60
Retirement at age 66 or with 34 years of service	1.63
Retirement at age 67 or with 35 years of service	1.65
Retirement at age 68 or with 36 or more years of service	1.68
<b>Elected County Officers</b>	3.00
<b>Senior Management Service Class</b>	2.00
<b>Special Risk Regular Service on and after October 1, 1974</b>	3.00

As provided in Section 121.101, Florida Statutes, if the member is initially enrolled in the FRS before July 1, 2011, and all service credit was accrued before July 1, 2011, the annual cost-of-living adjustment is 3 percent per year. If the member is initially enrolled before July 1, 2011, and has service credit on or after July 1, 2011, there is an individually calculated cost-of-living adjustment. The annual cost-of-living adjustment is a proportion of 3 percent

determined by dividing the sum of the pre-July 2011 service credit by the total service credit at retirement multiplied by 3 percent. Plan members initially enrolled on or after July 1, 2011, will not have a cost-of-living adjustment after retirement.

Contributions. The Florida Legislature establishes contribution rates for participating employers and employees. Contribution rates during the 2015-16 fiscal year were as follows:

<u>Class</u>	<u>Percent of Gross Salary</u>	
	<u>Employee</u>	<u>Employer (1)</u>
FRS, Regular	3.00	7.26
FRS, Elected County Officers	3.00	42.27
FRS, Senior Management Service	3.00	21.43
FRS, Special Risk Regular	3.00	22.04
DROP - Applicable to		
Members from All of the Above Classes	0.00	12.88
FRS, Reemployed Retiree	(2)	(2)

Notes: (1) Employer rates include 1.66 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.04 percent for administrative costs of the Investment Plan.

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

The District's contributions to the Plan totaled \$53,281,522 for the fiscal year ended June 30, 2016.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2016, the District reported a liability of \$304,309,382 for its proportionate share of the Plan's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015. The District's proportionate share of the net pension liability was based on the District's 2015-16 fiscal year contributions relative to the total 2014-15 fiscal year contributions of all participating members. At June 30, 2015, the District's proportionate share was 2.36 percent, which was an increase of 0.09 percent from its proportionate share measured as of June 30, 2014.

For the fiscal year ended June 30, 2016, the District recognized the Plan pension expense of \$27,282,951. In addition, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 32,126,060	\$ 7,217,292
Change of assumptions	20,198,034	-
Net difference between projected and actual earnings on FRS pension plan investments	-	72,663,988
Changes in proportion and differences between District FRS contributions and proportionate share of contributions	25,854,034	-
District FRS contributions subsequent to the measurement date	53,281,522	-
<b>Total</b>	<b>\$ 131,459,650</b>	<b>\$ 79,881,280</b>

The deferred outflows of resources related to pensions resulting from District contributions to the Plan subsequent to the measurement date, totaling \$53,281,522, will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2017	\$ (18,546,634)
2018	(18,546,634)
2019	(18,546,634)
2020	41,403,426
2021	10,087,946
Thereafter	2,445,378
<b>Total</b>	<b>\$ (1,703,152)</b>

Actuarial Assumptions. The total pension liability in the July 1, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60 percent
Salary increases	3.25 percent, average, including inflation
Investment rate of return	7.65 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the Generational RP-2000 with Projection Scale BB.

The actuarial assumptions used in the July 1, 2015, valuation were based on the results of an actuarial experience study for the period July 1, 2008, through June 30, 2013.

The long-term expected rate of return on pension plan investments was not based on historical returns, but instead is based on a forward-looking capital market economic model. The allocation policy's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes an adjustment for the inflation assumption. The target allocation and

best estimates of arithmetic and geometric real rates of return for each major asset class are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation (1)</b>	<b>Annual Arithmetic Return</b>	<b>Compound Annual (Geometric) Return</b>	<b>Standard Deviation</b>
Cash	1%	3.2%	3.1%	1.7%
Fixed Income	18%	4.8%	4.7%	4.7%
Global Equity	53%	8.5%	7.2%	17.7%
Real Estate (Property)	10%	6.8%	6.2%	12.0%
Private Equity	6%	11.9%	8.2%	30.0%
Strategic Investments	12%	6.7%	6.1%	11.4%
<b>Total</b>	<b>100%</b>			
Assumed Inflation - Mean		2.6%		1.9%

Note: (1) As outlined in the Plan's investment policy.

**Discount Rate.** The discount rate used to measure the total pension liability was 7.65 percent. The Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return.

**Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate.** The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.65 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.65 percent) or 1 percentage point higher (8.65 percent) than the current rate:

	<b>1% Decrease (6.65%)</b>	<b>Current Discount Rate (7.65%)</b>	<b>1% Increase (8.65%)</b>
District's proportionate share of the net pension liability (asset)	\$ 788,534,432	\$ 304,309,382	\$ (98,645,397)

**Pension Plan Fiduciary Net Position.** Detailed information about the Plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State Administered Systems Comprehensive Annual Financial Report.

**Payables to the Pension Plan.** At June 30, 2016, the District reported no payables for the outstanding amount of contributions to the Plan required for the fiscal year ended June 30, 2016.

### **HIS Pension Plan**

**Plan Description.** The HIS Pension Plan (HIS Plan) is a cost-sharing multiple-employer defined benefit pension plan established under Section 112.363, Florida Statutes, and may be amended

by the Florida Legislature at any time. The benefit is a monthly payment to assist retirees of State-administered retirement systems in paying their health insurance costs and is administered by the Florida Department of Management Services, Division of Retirement.

*Benefits Provided.* For the fiscal year ended June 30, 2016, eligible retirees and beneficiaries received a monthly HIS payment of \$5 for each year of creditable service completed at the time of retirement, with a minimum HIS payment of \$30 and a maximum HIS payment of \$150 per month, pursuant to Section 112.363, Florida Statutes. To be eligible to receive a HIS Plan benefit, a retiree under a State-administered retirement system must provide proof of health insurance coverage, which may include Federal Medicare.

*Contributions.* The HIS Plan is funded by required contributions from FRS participating employers as set by the Florida Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the fiscal year ended June 30, 2016, the contribution rate was 1.66 percent of payroll pursuant to Section 112.363, Florida Statutes. The District contributed 100 percent of its statutorily required contributions for the current and preceding 3 years. HIS Plan contributions are deposited in a separate trust fund from which payments are authorized. HIS Plan benefits are not guaranteed and are subject to annual legislative appropriation. In the event the legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or canceled.

The District's contributions to the HIS Plan totaled \$15,773,166 for the fiscal year ended June 30, 2016.

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources Related to Pensions.* At June 30, 2016, the District reported a net pension liability of \$317,278,898 for its proportionate share of the HIS Plan's net pension liability. The current portion of the net pension liability is the District's proportionate share of benefit payments expected to be paid within 1 year, net of the District's proportionate share of the pension plan's fiduciary net position available to pay that amount. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014, and update procedures were used to determine liabilities as of July 1, 2015. The District's proportionate share of the net pension liability was based on the District's 2014-15 fiscal year contributions relative to the total 2014-15 fiscal year contributions of all participating members. At June 30, 2015, the District's proportionate share was 3.11 percent, which was an increase of 0.11 percent from its proportionate share measured as of June 30, 2014.

For the fiscal year ended June 30, 2016, the District recognized the HIS Plan pension expense of \$26,226,072. In addition, the District reported deferred outflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>
Change of assumptions	\$ 24,961,568
Net difference between projected and actual earnings on HIS pension plan investments	171,752
Changes in proportion and differences between District HIS contributions and proportionate share of HIS contributions	14,843,938
District contributions subsequent to the measurement date	15,773,166
<b>Total</b>	<b>\$ 55,750,424</b>

The deferred outflows of resources related to pensions resulting from District contributions to the HIS Plan subsequent to the measurement date, totaling \$15,773,166, will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2017. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2017	\$ 6,935,835
2018	6,935,835
2019	6,935,835
2020	6,900,926
2021	6,884,170
Thereafter	5,384,657
<b>Total</b>	<b>\$ 39,977,258</b>

Actuarial Assumptions. The total pension liability in the July 1, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60 percent
Salary increases	3.25 percent, average, including inflation
Municipal bond rate	3.80 percent

Mortality rates were based on the Generational RP-2000 with Projected Scale BB.

While an experience study had not been completed for the HIS plan, the actuarial assumptions that determined the total pension liability for the HIS Plan were based on certain results of the most recent experience study for the FRS Plan.

Discount Rate. The discount rate used to measure the total pension liability was 3.8 percent. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the HIS Plan sponsor. The Bond Buyer General Obligation

20-Bond Municipal Bond Index was adopted as the applicable municipal bond index. The discount rate used to determine the total pension liability decreased from 4.29 percent from the prior measurement date.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 3.8 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.8 percent) or 1 percentage point higher (4.8 percent) than the current rate:

	<b>1% Decrease (2.8%)</b>	<b>Current Discount Rate (3.8%)</b>	<b>1% Increase (4.8%)</b>
District's proportionate share of the net pension liability	\$ 361,524,535	\$ 317,278,898	\$ 280,384,679

Pension Plan Fiduciary Net Position. Detailed information about the HIS Plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State Administered Systems Comprehensive Annual Financial Report.

Payables to the Pension Plan. At June 30, 2016, the District reported no payables for the outstanding amount of contributions to the HIS Plan required for the fiscal year ended June 30, 2016.

## **2. FRS – Defined Contribution Pension Plan**

The SBA administers the defined contribution plan officially titled the FRS Investment Plan (Investment Plan). The Investment Plan is reported in the SBA's annual financial statements and in the State of Florida Comprehensive Annual Financial Report.

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined benefit plan. District employees participating in DROP are not eligible to participate in the Investment Plan. Employer and employee contributions, including amounts contributed to individual member's accounts, are defined by law, but the ultimate benefit depends in part on the performance of investment funds. Retirement benefits are based upon the value of the member's account upon retirement. Benefit terms, including contribution requirements, for the Investment Plan are established and may be amended by the Florida Legislature. The Investment Plan is funded with the same employer and employee contribution rates that are based on salary and membership class (Regular Class, Elected County Officers, etc.), as the FRS defined benefit plan. Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Costs of administering the Investment Plan, including the FRS Financial Guidance Program, are funded through an employer contribution of 0.04 percent of payroll and by forfeited benefits of plan members. Allocations to the Investment Plan members' accounts during the 2015-16 fiscal year were as follows:

<u>Class</u>	<u>Percent of Gross Compensation</u>
FRS, Regular	6.30
FRS, Elected County Officers	11.34
FRS, Senior Management Service	7.67

For all membership classes, employees are immediately vested in their own contributions and are vested after 1 year of service for employer contributions and investment earnings, regardless of membership class. If an accumulated benefit obligation for service credit originally earned under the FRS Pension Plan is transferred to the Investment Plan, the member must have the years of service required for FRS Pension Plan vesting (including the service credit represented by the transferred funds) to be vested for these funds and the earnings on the funds. Nonvested employer contributions are placed in a suspense account for up to 5 years. If the employee returns to FRS-covered employment within the 5-year period, the employee will regain control over their account. If the employee does not return within the 5-year period, the employee will forfeit the accumulated account balance. For the fiscal year ended June 30, 2016, the information for the amount of forfeitures was unavailable from the SBA; however, management believes that these amounts, if any, would be immaterial to the District.

After termination and applying to receive benefits, the member may rollover vested funds to another qualified plan, structure a periodic payment under the Investment Plan, receive a lump-sum distribution, leave the funds invested for future distribution, or any combination of these options. Disability coverage is provided; the member may either transfer the account balance to the FRS Pension Plan when approved for disability retirement to receive guaranteed lifetime monthly benefits under the FRS Pension Plan, or remain in the Investment Plan and rely upon that account balance for retirement income.

The District's Investment Plan pension expense totaled \$11,987,305 for the fiscal year ended June 30, 2016.

## **E. Other Postemployment Benefit Obligations**

**Plan Description.** The Other Postemployment Benefits Plan (OPEB Plan) is a single-employer defined benefit plan administered by the District. Pursuant to the provisions of Section 112.0801, Florida Statutes, employees who retire from the District, and eligible dependents, may continue to participate in the District's health and hospitalization plan for medical, and prescription drug coverages. The OPEB Plan does not issue a stand-alone report, and is not included in the report of a public employee retirement system or other entity.

**Funding Policy.** The District funds the postemployment benefit on a pay-as-you-go basis. Contribution requirements of the plan members and the District are established and may be amended by the Board. Effective October 1, 2014, once the participant or spouse attains age 65, the District does not continue coverage. Postemployment healthcare and life insurance are optional benefits available through the District after retirement, but retirees must pay the full premium. Therefore, no

liability to the District for these benefits. For the fiscal year 2015-16, retiree contributions totaled \$4,749,747, which represented 0.06 percent of covered payroll.

**Annual OPEB Cost and Net OPEB Obligation.** The District's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the District's annual OPEB cost for the fiscal year, the amount actually contributed to the OPEB Plan, and changes in the District's net OPEB obligation:

<u>Description</u>	<u>Amount</u>
Normal Cost (service cost for 1 year)	\$ 1,039,827
Amortization of Unfunded Actuarial Accrued Liability	1,545,910
Interest on Normal Cost and Amortization	<u>41,593</u>
Annual Required Contribution	2,627,330
Interest on Net OPEB Obligation	3,017,867
Adjustment to Annual Required Contribution	<u>(6,785,757)</u>
Annual OPEB Cost (Expense)	(1,140,560)
Contribution Toward the OPEB Cost	<u>(4,749,747)</u>
Decrease in Net OPEB Obligation	(5,890,307)
Net OPEB Obligation, Beginning of Year	<u>75,446,684</u>
Net OPEB Obligation, End of Year	<u>\$ 69,556,377</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the OPEB Plan, and the net OPEB obligation as of June 30, 2016, and the 2 preceding fiscal years, were as follows:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Amount Contributed</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2013-14	\$ 11,225,626	\$ 3,970,389	35.37%	\$ 79,408,945
2014-15	(655,813)	3,306,448	-504.18%	75,446,684
2015-16	(1,140,560)	4,749,747	-416.44%	69,556,377

The change in plan provisions in the prior fiscal year, to exclude any subsidy of retirees once they turn 65, has a lingering impact on the expense for the fiscal year 2015-16. The expense remains negative (\$1,140,560). The actuarial accrued liability remains low at \$40,066,679.

**Funded Status and Funding Progress.** As of July 1, 2015, the most recent valuation date, the actuarial accrued liability for benefits was \$40,066,679, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$40,066,679 and a funded ratio of 0 percent.

The covered payroll (annual payroll of active participating employees) was \$797,002,438, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 5 percent.

Actuarial valuations of an ongoing OPEB Plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and termination, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the OPEB Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress immediately following the notes to financial statements as required supplementary information, presents multiyear trend information about whether the actuarial value of OPEB Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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

The entry age normal cost actuarial method was used to determine OPEB actuarial valuation. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent discount rate. The actuarial assumptions also included an annual healthcare cost trend of 6.5 percent for the fiscal year 2015-16, then dropping to an ultimate rate of 5 percent in fiscal year 2020-21. The actuarial assumptions also included an inflation rate of 3 percent and 3 percent for salary increases. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll over a 30-year period on an open basis.

## **F. Construction and Other Significant Commitments**

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

The following is a schedule of encumbrances at June 30, 2016:

<b>Major Funds</b>			
<b>General</b>	<b>Capital Projects - Other</b>	<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
<u>\$ 18,644,170</u>	<u>\$ 292,452,551</u>	<u>\$ 33,802,514</u>	<u>\$ 344,899,235</u>

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

<b>Project</b>	<b>Contract Amount</b>	<b>Completed to Date</b>	<b>Balance Committed</b>
Avalon Park School	\$ 22,535,893	\$ 5,356,877	\$ 17,179,016
Carver Middle School Replacement	23,564,939	4,253,941	19,310,998
Downtown K-8 School	37,499,557	5,193,665	32,305,892
Englewood Elementary School Replacement	14,598,872	-	14,598,872
Innovation Place	19,894,721	3,674,289	16,220,432
Metrowest School	15,133,122	387,371	14,745,751
Ventura Elementary School Replacement	12,955,797	3,975,466	8,980,331
West Orange School	52,628,101	9,935,570	42,692,531
44-E-SE-2	15,635,581	573,524	15,062,057
<b>Total</b>	<b>\$ 214,446,583</b>	<b>\$ 33,350,703</b>	<b>\$ 181,095,880</b>

### G. Risk Management Programs

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District relies on sovereign immunity and therefore does not procure general liability or automobile insurance. Other lines of coverage are being provided on a self-insured basis subject to specified retentions. The District has contracted with claims administrators to administer these self-insurance programs, including the processing, investigating, and payment of claims.

A liability was actuarially determined to cover estimated incurred, but not reported, insurance claims payable at June 30, 2016. Liabilities for incurred losses to be settled by fixed or reasonably determinable payments over a long period of time are reported at their present value using an investment yield rate of 2 percent as determined by a review of the District's interest rates received from intergovernmental pooled investment funds and government securities. These liabilities are \$12,477,492 at June 30, 2016. Settled claims resulting from the risks described above have not exceeded commercial insurance coverage in any of the past 3 fiscal years.

The District provides employee group health and life insurance. The group health plan is self-insured through the Employee Benefits Trust and life insurance is obtained through a commercial carrier. Under these plans, the Board contributes employee premiums as fringe benefits to employees. The employees pay a portion of the costs in the two premium group health plans while the District pays all of the employee costs in the two basic group health plans. Premiums for coverages provided for employee dependents and retirees and their dependents are paid in advance by the employee or retiree. These plans provide for maximum premiums based on the number of participants and individual or family coverages. The group health plan is administered by third-party administrators that are reimbursed by the District from a detail record of services provided. There is no stop loss protection on the group health plan. The District has different funding arrangements with each of the groups that reimburse the claims and healthcare expenses. The District reported an estimated unpaid claims liability of \$15,100,000 in the Internal Service Funds for the group health insurance program at June 30, 2016.

The following schedule represents the changes in claims liability for the past 2 fiscal years for the District's self-insurance programs:

<u>Fiscal Year</u>	<u>Beginning-of-Fiscal-Year Liability</u>	<u>Current-Year Claims and Changes in Estimates</u>	<u>Claims Payments</u>	<u>Balance at Fiscal Year-End</u>
2014-15	\$ 24,958,765	\$ 176,295,476	\$ (174,412,735)	\$ 26,841,506
2015-16	26,841,506	185,375,411	(184,639,425)	27,577,492

## H. Lease Obligations

### 1. Obligation Under Capital Leases

The classes and amounts of property being acquired under capital leases are as follows:

<u>Asset Description</u>	<u>Asset Balance</u>
Buses, Vehicles, and Equipment	<u>\$ 13,219,028</u>

The amortization of assets recorded under capital leases is included with depreciation expense in the accompanying financial statements.

Following are the future minimum lease payments and the present value of the minimum lease payments as of June 30, 2016:

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 1,978,844	<u>\$ 1,899,261</u>	<u>\$ 79,583</u>
Less Interest	<u>(79,583)</u>		
Present Value of Minimum Payments	<u>\$ 1,899,261</u>		

The stated and imputed interest rate is 4.19 percent.

## I. Long-Term Liabilities

### 1. Certificates of Participation

The District entered into a master financing arrangement on May 1, 1997, which was characterized as a lease-purchase agreement, with the Orange County School Board Leasing Corporation (Leasing Corporation) whereby the District secured financing of various educational facilities, vehicles, and equipment. The financing was accomplished through the issuance of Certificates of Participation (COPs).

Certificates of participation at June 30, 2016, are as follows:

<b>Series</b>	<b>Amount Issued</b>	<b>Amount Outstanding</b>	<b>Remaining Interest Rates (Percent) (21)</b>	<b>Facility Lease Term Maturity (22)</b>
2002-QZAB (1)	\$ 3,900,000	\$ 211,605	None	2016
2007A (2)	165,425,000	9,895,000	4 - 5	2017
2008B (3)	105,000,000	105,000,000	Synthetic 4.412	2032
2008C (4)	47,845,000	35,915,000	Synthetic 4.615	2025
2008D (5)	49,255,000	2,640,000	4 - 5	2018
2008E (6)	51,020,000	51,020,000	Synthetic 5.112	2022
2009A (7)	185,000,000	620,000	4 - 5	2019
2009B-QSCB (8)	35,820,000	35,820,000	1.15	2024
2010A-QSCB (9)	36,229,000	36,229,000	None	2029
2012A (10)	58,530,000	13,680,000	5	2019
2012B (11)	79,295,000	75,935,000	5	2027
2013A (12)	19,290,000	17,645,000	4 - 5	2025
2014A (13)	63,840,000	63,840,000	5	2029
2015A (14)	107,420,000	107,420,000	2.88	2023
2015B (15)	59,325,000	59,325,000	2.71	2026
2015C (16)	132,340,000	132,340,000	5	2032
2015D (17)	114,170,000	114,170,000	5	2033
2016A (18)	108,155,000	108,155,000	2.23	2027
2016B (19)	36,785,000	36,785,000	2 - 5	2034
2016C (20)	182,375,000	182,375,000	5	2024
<b>Total</b>		<b>\$ 1,189,020,605</b>		

- Notes: (1) On December 11, 2002, the master financing arrangement was amended and the Leasing Corporation issued COPs Series 2002-Qualified Zone Academy Bonds (QZAB). Under the terms of this lease agreement, the District is required to make 13 annual payments of \$211,605 which are deposited with a Trustee and are to be invested with a qualified financial institution until maturity date and, when combined with interest earnings and net appreciation in market value, will be sufficient to pay off the principal balance, in full, at maturity on December 11, 2016.
- (2) On June 29, 2007, the Leasing Corporation issued COPs Series 2007A and Series 2007B to finance the cost of the acquisition and construction of certain educational facilities and related furniture, fixtures, equipment and technology; and costs associated with the issuance of Series 2007A and Series 2007B COPs.
- (3) On April 11, 2008, the Leasing Corporation issued COPs Series 2008B to advance refund COPs Series 2007B.
- (4) On June 30, 2008, the Leasing Corporation issued COPs Series 2008C to advance refund COPs Series 2000B.
- (5) On September 8, 2008, the Leasing Corporation issued COPs Series 2008D to advance refund COPs Series 2002B.
- (6) On September 8, 2008, the Leasing Corporation issued COPs Series 2008E to advance refund COPs Series 2007C.
- (7) On March 11, 2009, the Leasing Corporation issued COPs Series 2009A to finance the cost of the acquisition and construction of certain educational facilities and related furniture, fixtures, equipment and technology; and costs associated with the issuance of Series 2009A COPs.
- (8) On November 24, 2009, the Leasing Corporation issued COPs Series 2009B-Qualified School Construction Bond (QSCB). The proceeds from the issue will be used for comprehensive updates for one middle school.
- (9) On November 15, 2010, the Leasing Corporation issued COPs Series 2010A-Qualified School Construction Bond (QSCB). The proceeds from the issue will be used for

comprehensive updates for two elementary schools and one new construction elementary school.

- (10) On May 3, 2012, the Leasing Corporation issued COPs Series 2012A to advance refund COPs Series 2001A.
- (11) On May 3, 2012, the Leasing Corporation issued COPs Series 2012B to advance refund COPs Series 2002A.
- (12) On September 18, 2013, the Leasing Corporation issued COPs Series 2013A to advance refund COPs Series 2004A.
- (13) On March 11, 2014, the Leasing Corporation issued COPs Series 2014A to advance refund COPs Series 2004A.
- (14) On March 11, 2015, the Leasing Corporation entered into a forward refunding of the COPs Series 2005A. On April 1, 2015, the Leasing Corporation issued COPs Series 2015A.
- (15) On June 10, 2014, the Leasing Corporation entered into a forward refunding of the COPs Series 2005B. On May 4 2015, the Leasing Corporation issued COPs Series 2015B.
- (16) On December 9, 2014, the Leasing Corporation issued COPs Series 2015C to advance refund COPs Series 2006A.
- (17) On January 21, 2015, the Leasing Corporation issued COPs Series 2015D to advance refund COPs Series 2007A.
- (18) On May 27, 2015, the Leasing Corporation entered into a forward refunding of the COPs Series 2006B. On May 5, 2016, the Leasing Corporation issued COPs Series 2016A.
- (19) On April 6, 2016, the Leasing Corporation issued COPs Series 2016B to advance refund COPs Series 2008D.
- (20) On April 20, 2016, the Leasing Corporation issued COPs Series 2016C to advance refund COPs Series 2009A.
- (21) The lease payments are payable by the District, semiannually, except for the Series 2002 QZAB which is paid annually on December 10, and interest is paid by the Federal government in the form of annual tax credits to the bank or other eligible financial institution that holds the Certificates.
- (22) As a condition of the financing arrangements, the District has given ground leases on District property to the Leasing Corporation, with a rental fee of \$1 per year. The properties covered by the ground lease are, together with the improvement constructed thereon (facilities) and the vehicles and equipment purchased from the financing proceeds, leased back to the District. The lease agreements are automatically renewable through varying dates unless early terminated following the occurrence of an event of default or a nonappropriation of funds to make lease payments, all as described and defined in the leases. If the District fails to renew the lease and to provide for rent payments through to term, it may be required to surrender all facilities, vehicles, and equipment included under the terms of the lease agreements for the benefit of the securers of the COPs.

The District properties included in the various ground leases under these arrangements include:

<b>Certificates</b>	<b>Description of Properties</b>
Series 1997A	Renovation and remodeling at eighteen elementary, four middle, two high schools, and two 9th grade centers.
Series 1999A	Three new elementary and one new middle school; replacement of modular buildings; and a high school expansion/replacement.
Series 2000A	Three elementary schools.
Series 2000B	One high school.
Series 2001A	Refunding of COPs, Series 1997A and 2000A.
Series 2002A	Two alternative education schools; the replacement of one elementary, one middle, and one high school; an addition at one middle school and concrete modular buildings at various sites.
Series 2002B	Three new elementary schools and the replacment of one elementary school.
Series 2002-QZAB	Comprehensive needs and renovation at one elementary school.
Series 2003	Financing and refinancing 295 premanufactured concrete modular structures.
Series 2004	Two middle schools, two elementary schools, portable classrooms to meet immediate needs and portable replacements.
Series 2005A	Refunding of COPs, Series 1997A and 1999A.
Series 2005B	Refunding of COPs, Series 2000A.
Series 2006A	One replacment high school and four elementary schools.
Series 2006B	Refunding of COPs, Series 1999A and 2002A.
Series 2007A/B	Onre replacement high school, one replacement middle school, one technical center, one high school, and two elementary schools.
Series 2007C	Refunding of COPs, Series 1997A.
Series 2008B	Refunding of COPs, Series 2007B.
Series 2008C	Refunding of COPs, Series 2000B.
Series 2008D	Refunding of COPs, Series 2002B.
Series 2008E	Refunding of COPs, Series 2007C.
Series 2009A	Two replacement high schools.
Series 2009B-QSCB	Comprehensive needs and renovation at one middle school.
Series 2010A-QSCB	Comprehensive needs at two elementary schools and one new elementary school.
Series 2012A	Refunding of COPs, Series 2001A.
Series 2012B	Refunding of COPs, Series 2002A.
Series 2013A	Refunding of a portion of COPs, Series 2004A.
Series 2014A	Refunding of a portion of COPs, Series 2004A.
Series 2015A	Refunding of COPs, Series 2005A.
Series 2015B	Refunding of COPs, Series 2005B.
Series 2015C	Refunding of COPs, Series 2006A.
Series 2015D	Refunding of COPs, Series 2007A.
Series 2016A	Refunding of COPs, Series 2006B.
Series 2016B	Refunding of COPs, Series 2008D.
Series 2016C	Refunding of COPs, Series 2009A.

The following is a schedule by years of future minimum lease payments under the lease agreement together with the present value of minimum lease payments as of June 30:

<b>Fiscal Year Ending June 30</b>	<b>Total</b>	<b>Principal</b>	<b>Interest</b>
2017	\$ 84,807,252	\$ 38,276,605	\$ 46,530,647
2018	87,833,668	40,140,000	47,693,668
2019	88,212,983	42,115,000	46,097,983
2020	87,995,900	43,350,000	44,645,900
2021	88,612,346	45,435,000	43,177,346
2022-2026	480,864,718	289,610,000	191,254,718
2027-2031	483,894,040	356,844,000	127,050,040
2032-2035	366,462,950	333,250,000	33,212,950
<b>Total Minimum Lease Payments</b>	<b>\$ 1,768,683,857</b>	<b>\$ 1,189,020,605</b>	<b>\$ 579,663,252</b>
Add: Unamortized Premium	93,995,693	93,995,693	-
Less: Interest	(579,663,252)	-	(579,663,252)
<b>Total Certificates of Participation</b>	<b>\$ 1,283,016,298</b>	<b>\$ 1,283,016,298</b>	<b>\$ -</b>

## 2. Hedged Debt and Hedging Derivative Instrument Payments

As of June 30, 2016, aggregate debt service requirements of the District's debt (fixed-rate and variable-rate) and net receipts/payments on associated hedging derivative instruments are as follows. These amounts assume that current interest rates on variable-rate bonds and the current reference rate of hedging derivative instruments will remain the same for their term. As these rates vary, interest payments on variable-rate bonds and net receipts/payments on the hedging derivative instruments will vary.

Series 2008B COPs Swap Agreement – Swap Payments and Associated Debt. Assuming interest rates remain the same as at June 30, 2016, annual debt service requirements on the Series 2008B COPs and the interest rate swap would be as follows:

<b>Fiscal Year Ending June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Interest Rate Swaps, Net</b>	<b>Total</b>
2017	\$ -	\$ 876,750	\$ 4,202,100	\$ 5,078,850
2018	-	876,750	4,202,100	5,078,850
2019	-	876,750	4,202,100	5,078,850
2020	-	876,750	4,202,100	5,078,850
2021	-	876,750	4,202,100	5,078,850
2022-2026	-	4,383,750	21,010,500	25,394,250
2027-2031	27,125,000	4,164,103	19,957,774	51,246,877
2032-2033	77,875,000	1,217,889	5,837,117	84,930,006
<b>Total</b>	<b>\$ 105,000,000</b>	<b>\$ 14,149,492</b>	<b>\$ 67,815,891</b>	<b>\$ 186,965,383</b>

Series 2008C COPs Swap Agreement – Swap Payments and Associated Debt. Assuming interest rates remain the same as at June 30, 2016, annual debt service requirements on the Series 2008C COPs and the interest rate swap would be as follows:

<b>Fiscal Year Ending June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Interest Rate Swaps, Net</b>	<b>Total</b>
2017	\$ 1,920,000	\$ 147,252	\$ 1,510,226	\$ 3,577,478
2018	2,040,000	139,380	1,429,490	3,608,870
2019	2,160,000	131,016	1,343,708	3,634,724
2020	2,290,000	122,159	1,252,880	3,665,039
2021	2,435,000	112,770	1,156,585	3,704,355
2022-2026	25,070,000	402,312	4,126,156	29,598,468
<b>Total</b>	<b>\$ 35,915,000</b>	<b>\$ 1,054,889</b>	<b>\$ 10,819,045</b>	<b>\$ 47,788,934</b>

Series 2008E COPs Swap Agreement – Swap Payments and Associated Debt. Assuming interest rates remain the same as at June 30, 2016, annual debt service requirements on the Series 2008E COPs and the interest rate swap would be as follows:

<b>Fiscal Year Ending June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Interest Rate Swaps, Net</b>	<b>Total</b>
2017	\$ 18,955,000	\$ 408,160	\$ 2,398,960	\$ 21,762,120
2018	19,975,000	256,520	1,507,696	21,739,216
2019	-	96,720	568,472	665,192
2020	-	96,720	568,472	665,192
2021	-	96,720	568,472	665,192
2022-2023	12,090,000	193,440	1,136,944	13,420,384
<b>Total</b>	<b>\$ 51,020,000</b>	<b>\$ 1,148,280</b>	<b>\$ 6,749,016</b>	<b>\$ 58,917,296</b>

### 3. Bonds Payable

Bonds payable at June 30, 2016, are as follows:

<b>Bond Type</b>	<b>Amount Outstanding</b>	<b>Interest Rates (Percent)</b>	<b>Annual Maturity To</b>
State School Bonds:			
Series 2009A	\$ 780,000	5	2019
Series 2010A	1,725,000	4 - 5	2022
Series 2014B	5,354,000	2 - 5	2020
<b>Total Bonds Payable</b>	<b>\$ 7,859,000</b>		

The various bonds were issued to finance capital outlay projects of the District. The following is a description of the bonded debt issues:

#### State School Bonds

These bonds are issued by the SBE on behalf of the District. The bonds mature serially, and are secured by a pledge of the District's portion of the State-assessed motor vehicle license tax. The State's full faith and credit is also pledged as security for these bonds. Principal and interest

payments, investment of debt service fund resources, and compliance with reserve requirements are administered by the SBE and the SBA.

Annual requirements to amortize all bonded debt outstanding as of June 30, 2016, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 3,448,860	\$ 3,067,000	\$ 381,860
2018	2,990,510	2,762,000	228,510
2019	927,410	837,000	90,410
2020	644,460	593,000	51,460
2021	375,000	345,000	30,000
2022-2023	267,750	255,000	12,750
<b>Total Bonds Payable</b>	<b>\$ 8,653,990</b>	<b>\$ 7,859,000</b>	<b>\$ 794,990</b>

#### 4. Defeased Debt

On April 6, 2016, the District issued Certificates of Participation (COPs) Series 2016B to advance refund COPs Series 2008D. The COPs Series 2016B of \$36,785,000 (par value) with interest rates ranging from 2 to 5 percent was issued to advance refund Certificates of Participation Series 2008D with interest rates ranging from 4.375 to 5 percent and a par value of \$41,500,000. The refunding of the 2008D Series resulted in an economic savings (difference between the present value of the debt service payments on the old and new debt) of \$4,649,196 and a decrease in the District's total debt service requirement by \$5,433,018. The COPs final maturity was not extended. The COPs were issued at a net premium of \$8,662,260 and after paying issuance costs of \$304,514, the net proceeds were \$45,142,746. The net proceeds from issuance of the COPs along with \$352,526 of the District's funds were used to provide funds for purpose of funding an escrow deposit of \$45,495,271, the proceeds of which will be applied to fully prepay on August 1, 2018, the COPs Series 2008D. As a result, \$41,500,000 of the 2008D certificates are considered to be defeased in-substance and the liability for these certificates has been removed from the District's government-wide financial statements in the current fiscal year.

On April 20, 2016, the District issued COPs Series 2016C to advance refund COPs Series 2009A. The COPs Series 2016C of \$182,375,000 (par value) with interest rate of 5 percent was issued to advance refund COPs Series 2009A with interest rates ranging from 4.25 to 5.5 percent and a par value of \$184,380,000. The refunding of the 2009A Series resulted in an economic savings (difference between the present value of the debt service payments on the old and new debt) of \$18,076,829 and a decrease in the District's total debt service requirement by \$23,945,370. The COPs final maturity was not extended. The COPs were issued at a net premium of \$27,980,307 and after paying issuance costs of \$743,662, the net proceeds were \$211,813,976. The net proceeds totaling \$211,813,976 were used to provide funds for purpose of funding and escrow deposit, the proceeds of which will be applied to fully prepay on August 1, 2019, the COPs Series 2009A. As a result, \$184,380,000 of the 2009A certificates are considered to be defeased in-substance and the liability for these certificates has been removed from the District's government-wide financial statements in the current fiscal year.

On May 5, 2016, the District issued COPs Series 2016A to advance refund COPs Series 2006B. The COPs Series 2016A of \$108,155,000 (par value) with interest rate of 2.23 percent were issued to advance refund COPs Series 2006B with interest rate ranging from 4 to 5 percent and a par value of \$108,885,000. The refunding of the 2006B Series resulted in an economic savings (difference between the present value of the debt service payments on the old and new debt) of \$15,750,219 which will decrease the District's total debt service requirement by \$19,771,922. The COPs final maturity was not extended and remains August 1, 2024. After paying issuance costs of \$173,034, the net proceeds of the COPs issuance were \$107,981,966. The net proceeds from issuance along with \$3,590,365 of the District funds, or \$111,572,331, were used to provide funds for purpose of funding an escrow deposit, the proceeds of which will be applied to fully prepay on August 1, 2016, the COPs Series 2006B. As a result, \$108,885,000 of the 2006B certificates are considered to be defeased in-substance and the liability for these certificates has been removed from the District's government-wide financial statements in the current fiscal year.

The Board defeased in-substance certain outstanding bonds and certificates of participation (COPs) by placing a portion of the proceeds of new bonds and new COPs in an irrevocable trust to provide for all future debt service payments on the old COPs. Accordingly, the trust account assets and the liability for the in-substance defeased COPs are not included in the District's financial statements. On June 30, 2016, debt considered defeased in-substance is as follows:

<u>Debt Issues</u>	<u>Amount Outstanding</u>
Certificates of Participation, Series 2006A	\$ 145,215,000
Certificates of Participation, Series 2006B	108,885,000
Certificates of Participation, Series 2007A	124,395,000
Certificates of Participation, Series 2008D	41,500,000
Certificates of Participation, Series 2009A	184,380,000
<b>Total Defeased Debt</b>	<u>\$ 604,375,000</u>

## 5. Changes in Long-Term Liabilities

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

Description	Beginning Balance	Additions	Deductions	Ending Balance	Due In One Year
<b>GOVERNMENTAL ACTIVITIES</b>					
Certificates of Participation Payable	\$ 1,228,852,210	\$ 327,295,000	\$ 367,126,605	\$ 1,189,020,605	\$ 38,276,605
Add: Unamortized COPs					
Premium (Discount)	63,762,413	36,642,567	6,409,287	93,995,693	6,781,916
Total Certificates of Participation Payable	1,292,614,623	363,937,567	373,535,892	1,283,016,298	45,058,521
Bonds Payable	11,519,000	-	3,660,000	7,859,000	3,067,000
Obligations Under Capital Lease	3,722,138	-	1,822,877	1,899,261	1,899,261
Estimated Insurance Claims Payable	13,741,506	4,488,706	5,752,720	12,477,492	5,816,874
Compensated Absences Payable	115,028,805	4,548,307	8,833,069	110,744,043	9,492,445
Other Postemployment Benefits Payable	75,446,684	5,645,198	11,535,505	69,556,377	-
Net Pension Liability	419,170,469	411,452,312	209,034,501	621,588,280	11,645,051
Derivative Instrument	45,460,285	10,208,111	1,247,768	54,420,628	-
<b>Total Governmental Activities</b>	<b>\$ 1,976,703,510</b>	<b>\$ 800,280,201</b>	<b>\$ 615,422,332</b>	<b>\$ 2,161,561,379</b>	<b>\$ 76,979,152</b>

For the governmental activities, compensated absences, pensions, and other postemployment benefits are generally liquidated with resources of the General Fund. The estimated insurance claims are generally liquidated with the resources of the Internal Service Funds, as discussed in Notes IV.G. and V.

## 6. Derivative Instruments

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2016, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the 2016 financial statements are as follows:

	Changes in Fair Value		Fair Value at June 30, 2016		Notional
	Classification	Amount	Classification	Amount	
<b>Governmental activities</b>					
Fair value hedges:					
2008B Pay-fixed Interest Rate Swap	Deferred Outflow of Resources	\$(9,721,483)	Liability	\$(42,073,756)	\$105,000,000
2008C Pay-fixed Interest Rate Swap	Deferred Outflow of Resources	(486,628)	Liability	(8,415,151)	35,915,000
2008E Pay-fixed Interest Rate Swap	Deferred Outflow of Resources	1,247,768	Liability	(3,931,721)	51,020,000
Total Hedging Derivative Instruments				<u>\$(54,420,628)</u>	

The fair values of the hedging derivatives take into consideration the prevailing interest rate environment and the specific terms and conditions of each swap. All fair values were estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps.

Objective and Terms of Hedging Derivative Instruments. The following table displays the objective and terms of the District's hedging derivative instruments outstanding at June 30, 2016, along with the credit rating of the associated counterparty.

Type	Objective	Notional Amount	Effective Date	Maturity Date	Amount of Cash Received	Terms	Counterparty	Counterparty Credit Rating
2008B Interest Rate Swap	Hedge of changes in cash flows on the 2008B Certificates	\$ 105,000,000	6/29/2007	8/1/2032	N/A	Pay 4.412%; receives SIFMA swap index	Citibank, NA, New York	A1, A+, A
2008C Interest Rate Swap	Hedge of changes in cash flows on the 2008C Certificates	35,915,000	6/16/2002	8/1/2025	N/A	Pay 4.615%; receives SIFMA swap index	UBS AG, Stamford Branch	A1, A, A
2008E Interest Rate Swap	Hedge of changes in cash flows on the 2008E Certificates	51,020,000	8/1/2007	8/1/2022	N/A	Pay 5.112%; receives SIFMA swap index	UBS AG, Stamford Branch	A1, A, A

## **Risks**

*Credit Risk.* The District is exposed to credit risk on hedging derivative instruments. The swap's fair value represented the District's credit exposure to the counterparty. Should the counterparty to this transaction fail to perform according to the terms of the swap contract, the District is left with variable rate bonds. As of June 30, 2016, the swap counterparties' credit ratings are noted in the above table.

It is the District's policy to enter into netting arrangements whenever it has entered into more than one derivative instrument transaction with a counterparty. Under the terms of these arrangements, should one party become insolvent or otherwise default on its obligations, close-out netting provisions permit the nondefaulting party to accelerate and terminate all outstanding transactions and net the transactions' fair values so that a single sum will be owed by, or owed to, the nondefaulting party.

The District has no hedging derivative instruments in asset positions at June 30, 2016.

*Interest Rate Risk.* Interest rate risk is the risk that changes in interest rates will adversely affect the fair values of the District's financial instruments or the District's cash flows. The District is exposed to interest rate risk on its interest rate swaps. As the SIFMA swap index decreases, the District's net payment on the swap increases which is offset by the variable rate paid on the hedged debt.

*Basis Risk.* Basis risk is the risk that arises when variable rates or prices of a hedging derivative instrument and a hedged item are based on different reference rates. The District is exposed to basis risk should the variable rate it receives under the agreement be different than the rate it pays on its COPs. Under the requirements of the swap, the District receives a variable payment based on the SIFMA index from the counterparty. The 2008B and 2008E COPs are currently priced in a daily mode and the SIFMA index reflects weekly interest rates. The 2008C COPs are currently priced in a weekly mode and the SIFMA index reflects weekly interest rates. Should the weekly rates become higher than daily rates, the District maintains the option to change the mode on the COPs from a weekly mode to a daily mode.

*Termination Risk.* Termination risk is that a hedging derivative instrument's unscheduled end will affect the District's asset and liability strategy or will present the District with potentially significant unscheduled termination payments to the counterparty. The District or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract including if either parties credit rating falls below designated levels.

## **J. Fund Balance Reporting**

Governmental Accounting Standards Board (GASB) has issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions (GASB 54) to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the District's financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources.

GASB 54 provides for two major types of fund balances for governmental funds, which are nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of this classification are prepaid items, inventories, and principal (corpus) of an endowment fund. The District reports its inventories as nonspendable and does not have any prepaid items or nonspendable funds related to endowments.

In addition to the nonspendable fund balance, GASB Statement No. 54 has provided a hierarchy of spendable fund balances, based on spending constraints.

- **Restricted.** Fund balances that are constrained by external parties, constitutional provisions, or enabling legislation.
- **Committed.** Fund balances that contain self-imposed constraints of the government from its highest level of decision making authority such as school board resolutions.
- **Assigned.** Fund balances that contain self-imposed constraints of the government to be used for a particular purpose.
- **Unassigned.** Fund balances of the general fund that does not have a constraint for any particular purpose.

The District has classified its fund balances with the following hierarchy:

- **Nonspendable.** The District has inventories totaling \$4,763,925 and prepaid items totaling \$100,050 that are classified as nonspendable.
- **Spendable.** The District has classified the spendable fund balances as Restricted, Assigned and Unassigned and considered each to have been spent when expenditures are incurred. The District does not have a policy regarding the commitment or assignment of fund balances, however; by resolution, the Board has given the ability to assign fund balance to the Superintendent and the Chief Financial Officer. As such, the District does not report any Committed fund balance. When restricted, assigned, and unassigned funds are available for use, the District's procedures are to use the restricted funds first, followed by the assigned funds and then the unassigned funds last.
- **Restricted for State Categorical Programs, State Grants, Food Service, Debt Service and Capital Projects.** Federal Laws, Florida Statutes, and local ordinances require that certain revenues be specifically designated for purposes of State categorical programs, State Grants, food service, debt service, and capital projects. These funds have been included in the restricted

category of fund balance. The restricted fund balances totaled \$1,399,169,005 and represented \$5,180,191 in State categorical programs, \$20,558,656 Post-Secondary Schools Rollover budgets, \$5,720,684 in State Grants, \$27,683,711 in food service, \$127,033,078 in debt service and \$1,212,992,685 in capital projects.

- **Assigned for School Operations and Other Purposes.** The assigned fund balances totaled \$268,185,992. The Chief Financial Officer of the Board has assigned in the General Fund the OPEB liability of \$69,556,377; Board Projects of \$69,597,286; and K-12 School Rollover Budgets of \$46,424,901. Also for the General Fund, the District reports as assigned outstanding purchase obligations of \$3,468,609 that have not been previously reported as restricted and \$68,518,649 needed to eliminate expected expenditures over expected revenues in the subsequent year budget approved by the Board. In addition, \$10,620,170 is a positive fund balance of non-General Funds that have not been previously reported as nonspendable or restricted and is reported as assigned fund balance.
- **Unassigned.** The unassigned fund balance for the general fund is \$126,427,470.

The following is a schedule of fund balances by category at June 30, 2016:

Fund Balances	Major Funds			Total Governmental Funds
	General	Capital Projects - Other	Nonmajor Governmental Funds	
<b>Nonspendable:</b>				
Inventories				
General Fund	\$ 3,107,784	\$ -	\$ -	\$ 3,107,784
Special Revenue - Food Service	-	-	1,656,141	1,656,141
Prepaid Items	100,050	-	-	100,050
<b>Restricted:</b>				
Categorical Programs	5,180,191	-	-	5,180,191
Post-Secondary Rollover Budgets	20,558,656	-	-	20,558,656
State Grants	5,720,684	-	-	5,720,684
Special Revenue - Food Service	-	-	27,683,711	27,683,711
Debt Service	-	-	127,033,078	127,033,078
Capital Projects	-	1,049,133,792	163,858,893	1,212,992,685
<b>Assigned:</b>				
School Operations:				
Purchases on Order	3,468,609	-	-	3,468,609
Board Projects	69,597,286	-	-	69,597,286
K-12 Schools Rollover Budget	46,424,901	-	-	46,424,901
Next Year's Budget Deficit	68,518,649	-	-	68,518,649
Other Purposes				
OPEB	69,556,377	-	-	69,556,377
Special Revenue - Other	-	-	10,620,170	10,620,170
<b>Unassigned</b>	<b>126,427,470</b>	<b>-</b>	<b>-</b>	<b>126,427,470</b>
<b>Total Fund Balances</b>	<b>\$ 418,660,657</b>	<b>\$ 1,049,133,792</b>	<b>\$ 330,851,993</b>	<b>\$ 1,798,646,442</b>

The District has not established a contingency reserve or "Rainy Day Fund." Instead the Board has approved in the budget to set aside at least 3 percent of recurring budgeted revenues at the beginning of each year to cover unforeseen events (e.g., revenue shortfalls, student enrollment under projections, etc.). At the end of fiscal year, the unassigned General Fund balance was \$126,427,470 or 7.9 percent of General Fund total budgeted revenues for fiscal year 2017.

## K. Interfund Receivables, Payables, and Transfers

The following is a summary of interfund receivables and payables reported in the fund financial statements:

<u>Funds</u>	<u>Interfund</u>	
	<u>Receivables</u>	<u>Payables</u>
Major:		
General	\$ 3,073,099	\$ -
Nonmajor Governmental:		
Special Revenue - Other	-	2,996,310
Internal Service	-	76,789
<b>Total</b>	<b>\$ 3,073,099</b>	<b>\$ 3,073,099</b>

The interfund receivables and payables represents payments made prior to year-end but reimbursed by the grantor after year-end and therefore are repaid within 12 months.

The following is a summary of interfund transfers reported in the fund financial statements at June 30, 2016:

<u>Funds</u>	<u>Interfund</u>	
	<u>Transfers In</u>	<u>Transfers Out</u>
Major:		
General	\$ 4,731,503	\$ -
Capital Projects - Other	-	5,720,774
Nonmajor Governmental:		
Debt Service - Other	111,279,595	-
Debt Service - ARRA	7,000	-
Capital Projects - PECO	-	4,731,503
Capital Projects - Local Capital Improvement Tax	-	105,565,821
<b>Total</b>	<b>\$ 116,018,098</b>	<b>\$ 116,018,098</b>

The interfund transfers represent the payments of expenditures by one fund for another fund. The transfers in for the General Fund consist of \$2.3 million from the Capital Projects – PECO Fund for Charter School Capital Outlay and \$2.4 million from the Capital Projects – PECO Maintenance Fund. The transfers in for debt service funds are from capital projects funds for the debt service payments for capital leases and COPs payments recorded in the Debt Service – Other Fund.

## L. Revenues

### 1. Schedule of State Revenue Sources

A significant source of the District's revenues is the State, which provided approximately 35 percent of total revenues in the 2016 fiscal year. The following is a schedule of the District's State revenue sources for the 2015-16 fiscal year:

<u>Source</u>	<u>Amount</u>
Florida Education Finance Program	\$ 507,299,057
Categorical Educational Program - Class Size Reduction	221,056,441
Workforce Development Program	33,303,528
School Recognition	9,676,304
Florida Best and Brightest Teacher Scholarship Program	5,548,213
Voluntary Prekindergarten Program	4,522,169
CO&DS Withheld for SBE/COBI Bonds	4,268,266
CO&DS Distributed to District	3,528,032
PECO Maintenance	2,764,569
Charter Schools Capital Outlay	2,307,927
Food Service Supplement	1,189,555
State License Tax	523,014
Miscellaneous	1,475,095
<b>Total</b>	<b>\$ 797,462,170</b>

Accounting policies relating to certain State revenue sources are described in Note I.F.2.

### 2. Property Taxes

The following is a summary of millages and taxes levied on the 2015 tax roll for the 2015-16 fiscal year:

<u>General Fund</u>	<u>Millages</u>	<u>Taxes Levied</u>
Nonvoted School Tax:		
Required Local Effort	4.970	\$ 558,467,607
Basic Discretionary Local Effort	0.748	84,051,060
Voted School Tax:		
Additional Voted Millage	1.000	112,367,728
<b>Capital Projects Funds</b>		
Nonvoted Tax:		
Local Capital Improvements	1.500	168,551,591
<b>Total</b>	<b>8.218</b>	<b>\$ 923,437,986</b>

## V. INTERNAL SERVICE FUNDS

The following is a summary of financial information as reported in the internal service funds for the 2015-16 fiscal year:

	<u>Total</u>	<u>Employee Benefit Insurance</u>	<u>Self-Insurance</u>	<u>District Print Center</u>
Total Assets	<u>\$ 180,551,391</u>	<u>\$ 137,991,518</u>	<u>\$ 42,512,356</u>	<u>\$ 47,517</u>
Liabilities and Net Position:				
Accrued Salaries and Benefits Payable	\$ 42,949	\$ 13,216	\$ -	\$ 29,733
Accounts Payable	2,244,067	2,213,891	-	30,176
Due to Other Funds	76,789	-	-	76,789
Unearned Revenues	47,786,287	47,786,287	-	-
Estimated Liability for Self- Insurance Program	27,577,492	15,100,000	12,477,492	-
Net Position:				
Investment in Capital Assets	20,179	-	-	20,179
Unrestricted	<u>102,803,628</u>	<u>72,878,124</u>	<u>30,034,864</u>	<u>(109,360)</u>
Total Liabilities and Net Position	<u>\$ 180,551,391</u>	<u>\$ 137,991,518</u>	<u>\$ 42,512,356</u>	<u>\$ 47,517</u>
Revenues:				
Charges for Services	\$ 5,450,851	\$ -	\$ -	\$ 5,450,851
Premium Contributions	206,256,504	195,703,281	10,553,223	-
Other	<u>2,150,633</u>	<u>1,570,778</u>	<u>579,591</u>	<u>264</u>
Total Revenues	213,857,988	197,274,059	11,132,814	5,451,115
Total Expenses	<u>(201,814,509)</u>	<u>(190,248,858)</u>	<u>(5,873,052)</u>	<u>(5,692,599)</u>
Change in Net Position	<u>\$ 12,043,479</u>	<u>\$ 7,025,201</u>	<u>\$ 5,259,762</u>	<u>\$ (241,484)</u>

## VI. SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES

### A. Litigation

The District is a defendant in numerous lawsuits as of June 30, 2016. It is the opinion of management, after giving consideration to the District's related insurance coverage, as well as the Florida statutory limitations on governmental liabilities on uninsured risk, that the amount of loss resulting from litigation that exceeds the above-mentioned limits would not be material to the financial position of the District.

### B. Other Loss Contingencies

Amounts received or receivable from grantors are subject to audit and adjustment by grantor agencies, principally the Federal Government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by grantors cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

# OTHER REQUIRED SUPPLEMENTARY INFORMATION

## Budgetary Comparison Schedule General Fund For the Fiscal Year Ended June 30, 2016

	General Fund			Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget	Actual	
<b>Revenues</b>				
Intergovernmental:				
Federal Direct	\$ 1,289,826	\$ 1,289,826	\$ 1,283,629	\$ (6,197)
Federal Through State and Local	4,475,000	4,475,000	7,841,333	3,366,333
State	788,592,147	788,592,147	783,517,938	(5,074,209)
Local:				
Property Taxes	724,690,940	724,690,940	727,285,169	2,594,229
Interest Income	-	-	6,198,198	6,198,198
Miscellaneous	15,223,768	15,223,768	28,034,682	12,810,914
Total Local Revenues	<u>739,914,708</u>	<u>739,914,708</u>	<u>761,518,049</u>	<u>21,603,341</u>
<b>Total Revenues</b>	<u>1,534,271,681</u>	<u>1,534,271,681</u>	<u>1,554,160,949</u>	<u>19,889,268</u>
<b>Expenditures</b>				
Current - Education:				
Instruction	1,053,962,639	1,001,648,257	969,274,367	32,373,890
Student Support Services	40,329,612	43,529,612	42,389,662	1,139,950
Instructional Media Services	15,521,128	16,521,128	15,499,879	1,021,249
Instruction and Curriculum Development Services	51,912,322	55,512,322	54,444,467	1,067,855
Instructional Staff Training Services	16,888,495	33,888,495	25,309,551	8,578,944
Instructional - Related Technology	13,280,834	13,280,834	11,216,670	2,064,164
Board	4,236,474	4,736,474	4,544,304	192,170
General Administration	5,028,955	7,528,955	6,995,085	533,870
School Administration	102,702,890	115,202,890	112,069,924	3,132,966
Facilities Acquisition and Construction	7,417,609	8,267,609	8,238,326	29,283
Fiscal Services	7,111,844	7,111,844	6,276,346	835,498
Central Services	19,334,974	19,334,974	17,703,489	1,631,485
Student Transportation Services	60,887,310	60,887,310	59,975,925	911,385
Operation of Plant	114,859,584	114,859,584	112,346,955	2,512,629
Maintenance of Plant	31,001,877	35,501,877	34,334,441	1,167,436
Administrative Technology Services	50,226,174	50,226,174	21,823,737	28,402,437
Community Services	240,000	1,140,000	1,049,636	90,364
Fixed Capital Outlay:				
Facilities Acquisition and Construction	-	86,858	86,858	-
Other Capital Outlay	-	5,677,524	5,677,524	-
<b>Total Expenditures</b>	<u>1,594,942,721</u>	<u>1,594,942,721</u>	<u>1,509,257,146</u>	<u>85,685,575</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>(60,671,040)</u>	<u>(60,671,040)</u>	<u>44,903,803</u>	<u>105,574,843</u>
<b>Other Financing Sources</b>				
Transfers In	19,508,085	19,508,085	4,731,503	(14,776,582)
Sale of Capital Assets	-	-	966,693	966,693
Loss Recoveries	-	-	152,247	152,247
<b>Total Other Financing Sources</b>	<u>19,508,085</u>	<u>19,508,085</u>	<u>5,850,443</u>	<u>(13,657,642)</u>
<b>Net Change in Fund Balances</b>	(41,162,955)	(41,162,955)	50,754,246	91,917,201
Fund Balances, Beginning	<u>367,906,411</u>	<u>367,906,411</u>	<u>367,906,411</u>	<u>-</u>
<b>Fund Balances, Ending</b>	<u>\$ 326,743,456</u>	<u>\$ 326,743,456</u>	<u>\$ 418,660,657</u>	<u>\$ 91,917,201</u>

**Schedule of Funding Progress –  
Other Postemployment Benefits Plan**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) (1) (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll [(b-a)/c]</b>
07/01/13	\$ -	\$ 232,984,958	\$ 232,984,958	0.0%	\$ 677,026,084	34.4%
07/01/14	-	47,497,511	47,497,511	0.0%	791,543,300	6.0%
07/01/15	-	40,066,679	40,066,679	0.0%	797,002,438	5.0%

Note: (1) The District's OPEB actuarial valuation used the entry age normal cost actuarial method to estimate the actuarial accrued liability.

**Schedule of the District's Proportionate Share  
of the Net Pension Liability –  
Florida Retirement System Pension Plan (1)**

	<b>2015</b>	<b>2014</b>	<b>2013</b>
District's proportion of the FRS net pension liability	2.36%	2.27%	2.10%
District's proportionate share of the FRS net pension liability	\$ 304,309,382	\$ 138,601,800	\$ 369,393,623
District's covered-employee payroll (2)	\$ 943,941,480	\$ 891,614,637	\$ 842,736,529
District's proportionate share of the FRS net pension liability as a percentage of its covered-employee payroll	32.2%	15.5%	43.8%
FRS Plan fiduciary net position as a percentage of the total pension liability	92.00%	96.09%	88.54%

Notes: (1) The amounts presented for each fiscal year were determined as of June 30.

(2) Covered-employee payroll includes defined benefit plan actives, investment plan members, and members in DROP.

**Schedule of District Contributions –  
Florida Retirement System Pension Plan (1)**

	<b>2016</b>	<b>2015</b>	<b>2014</b>
Contractually required FRS contribution	\$ 53,281,522	\$ 57,441,353	\$ 49,757,965
FRS contributions in relation to the contractually required contribution	(53,281,522)	(57,441,353)	(49,757,965)
FRS contribution deficiency (excess)	\$ -	\$ -	\$ -
District's covered-employee payroll (2)	\$ 950,205,116	\$ 943,941,480	\$ 891,614,637
FRS contributions as a percentage of covered-employee payroll	5.61%	6.09%	5.58%

Notes: (1) The amounts presented for each fiscal year were determined as of June 30.

(2) Covered-employee payroll includes defined benefit plan actives, investment plan members, and members in DROP.

**Schedule of the District's Proportionate Share  
of the Net Pension Liability –  
Health Insurance Subsidy Pension Plan (1)**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
District's proportion of the HIS net pension liability	3.11%	3.00%	2.90%
District's proportionate share of the HIS net pension liability	\$ 317,278,898	\$ 280,568,669	\$ 252,557,472
District's covered-employee payroll (2)	\$ 943,941,480	\$ 891,614,637	\$ 842,736,529
District's proportionate share of the HIS net pension liability as a percentage of its covered-employee payroll	33.6%	31.5%	30.0%
HIS Plan fiduciary net position as a percentage of the total pension liability	0.50%	0.99%	1.78%

Notes: (1) The amounts presented for each fiscal year were determined as of June 30.

(2) Covered-employee payroll includes defined benefit plan actives, investment plan members, and members in DROP.

**Schedule of District Contributions –  
Health Insurance Subsidy Pension Plan (1)**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required HIS contribution	\$ 15,773,166	\$ 11,892,397	\$ 10,279,238
HIS contributions in relation to the contractually required contribution	(15,773,166)	(11,892,397)	(10,279,238)
HIS contribution deficiency (excess)	\$ -	\$ -	\$ -
District's covered-employee payroll (2)	\$ 950,205,116	\$ 943,941,480	\$ 891,614,637
HIS contributions as a percentage of covered-employee payroll	1.66%	1.26%	1.15%

Notes: (1) The amounts presented for each fiscal year were determined as of June 30.

(2) Covered-employee payroll includes defined benefit plan actives, investment plan members, and members in DROP.

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**1. Budgetary Basis of Accounting**

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

- Budgets are prepared, public hearings are held, and original budgets are adopted annually for all governmental fund types in accordance with procedures and time intervals prescribed by law and SBE rules.
- Appropriations are controlled at the function level (e.g., instruction, student support services, and school administration) and may be amended by resolution at any Board meeting prior to the due date for the annual financial report.
- Budgets are prepared using the same modified accrual basis as is used to account for governmental funds.
- Budgetary information is integrated into the accounting system and, to facilitate budget control, budget balances are encumbered when purchase orders are issued. Appropriations lapse at

fiscal year-end and encumbrances outstanding are honored from the subsequent year's appropriations.

- The reported budgetary data consists of the original budget as well as the final appropriated budget after amendments approved by the Board.

## **2. Schedule of Funding Progress – Other Postemployment Benefits Plan**

The July 1, 2015, actuarial accrued liability (AAL) of \$40,066,679 was significantly lower than the July 1, 2014, AAL of \$47,497,511 as a result of a change in plan provisions in the 2014-15 fiscal year which excluded subsidies of retirees once they turned 65. This had a lingering impact on the expenses for the 2015-16 fiscal year.

## **3. Schedule of Net Pension Liability and Schedule of Contributions – Health Insurance Subsidy Pension Plan**

*Changes of Assumptions.* The municipal bond rate used to determine total pension liability was decreased from 4.29 percent to 3.8 percent.

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# SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

## Orange County District School Board Schedule of Expenditures of Federal Awards For the Fiscal Year Ended June 30, 2016

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures	Amount Provided to Subrecipients
<b>United States Department of Agriculture:</b>				
Indirect:				
Florida Department of Agriculture and Consumer Services:				
Child Nutrition Cluster:				
School Breakfast Program	10.553	15002	\$ 17,619,867	\$ -
National School Lunch Program	10.555	15001, 15003	61,751,987	-
Summer Food Service Program for Children	10.559	14006, 14007, 15006, 15007	2,367,274	-
<b>Total Child Nutrition Cluster</b>			<b>81,739,128</b>	<b>-</b>
Child Nutrition Discretionary Grants Limited Availability	10.579	14011	159,752	-
Fresh Fruit and Vegetable Program	10.582	15004	445,610	-
Florida Department of Health:				
Child and Adult Care Food Program	10.558	A-4413	5,114,090	-
<b>Total United States Department of Agriculture</b>			<b>87,458,580</b>	<b>-</b>
<b>United States Department of Labor:</b>				
Indirect:				
Florida Crown Workforce Development Board d/b/a Careersource Central:				
WIA/WIOA Cluster:				
WIA/WIOA Adult Program	17.258	None	8,021	-
WIA/WIOA Youth Activities	17.259	None	255	-
<b>Total WIA/WIOA Cluster</b>			<b>8,276</b>	<b>-</b>
Florida Department of Education:				
National Farmworker Jobs Program	17.264	405	240,962	-
<b>Total United States Department of Labor</b>			<b>249,238</b>	<b>-</b>
<b>National Aeronautics and Space Administration:</b>				
Indirect:				
AERO Institute:				
Education	43.008	None	1,091	-
<b>United States Department of Education:</b>				
Direct:				
Federal Pell Grant Program	84.063	N/A	3,040,965	-
Teacher Incentive Fund	84.374	N/A	6,228,118	-
<b>Total Direct</b>			<b>9,269,083</b>	<b>-</b>
Indirect:				
Florida Department of Education:				
Special Education Cluster:				
Special Education - Grants to States	84.027	262, 263	38,892,222	1,229,036
Special Education - Preschool Grants	84.173	266, 267	916,118	-
<b>Total Special Education Cluster</b>			<b>39,808,340</b>	<b>1,229,036</b>
Adult Education - Basic Grants to States	84.002	191, 193	1,884,858	-
Title I Grants to Local Educational Agencies	84.010	212, 223, 226	60,155,391	1,586,621
Migrant Education State Grant Program	84.011	217	222,489	-
Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013	223	1,157,518	-
Career and Technical Education - Basic Grants to States	84.048	161	2,499,113	-
Education for Homeless Children and Youth	84.196	127	123,374	-
Charter Schools	84.282	298	678,177	678,177
Twenty-First Century Community Learning Centers	84.287	244	1,623,474	-
English Language Acquisition State Grants	84.365	102	2,739,874	-
Improving Teacher Quality State Grants	84.367	224	7,004,227	2,005
School Improvement Grants	84.377	126	774,954	-
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	RA111, RD311, RL111, RS611, RS711, RS811, RS911	799,761	-

(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures	Amount Provided to Subrecipients
<b>United States Department of Education (continued)</b>				
Indirect (continued):				
University of Minnesota: Education Research, Development and Dissemination	84.305	None	\$ 599	\$ -
Old Dominion University Research Foundation: ARRA - State Fiscal Stabilization Fund (SFSF) - Investing in Innovation (i3) Fund	84.411	None	95,186	-
<b>Total Indirect</b>			<u>119,567,335</u>	<u>3,495,839</u>
<b>Total United States Department of Education</b>			<u>128,836,418</u>	<u>3,495,839</u>
<b>United States Department of Health and Human Services:</b>				
Direct:				
Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention and School-Based Surveillance	93.079	N/A	56,572	-
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092	N/A	114,657	-
<b>Total Direct</b>			<u>171,229</u>	<u>-</u>
Indirect:				
Early Learning Coalition of Orange County: CCDF Cluster:				
Child Care and Development Block Grant	93.575	912	123,437	-
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	912	69,456	-
<b>Total CCDF Cluster</b>			<u>192,893</u>	<u>-</u>
Central Florida Regional Workforce Development Board d/b/a Workforce Central Florida: Temporary Assistance for Needy Families	93.558	None	2,263	-
Catholic Charities of Central Florida, Inc.: Refugee and Entrant Assistance State Administered Programs	93.566	None	455,484	-
Orange County, Florida - Family Services: Headstart	93.600	None	76,248	-
Children's Home Society of Florida: Health Care Innovation Awards (HCIA)	93.610	None	93,557	-
University of South Florida: Cooperating Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	None	72	-
<b>Total Indirect</b>			<u>820,517</u>	<u>-</u>
<b>Total United States Department of Health and Human Services</b>			<u>991,746</u>	<u>-</u>
<b>United States Department of Defense:</b>				
Direct:				
Air Force Junior Reserve Officers Training Corps	None	N/A	584,427	-
Army Junior Reserve Officers Training Corps	None	N/A	148,479	-
Marine Corps Junior Reserve Officers Training Corps	None	N/A	184,803	-
Navy Junior Reserve Officers Training Corps	None	N/A	365,920	-
<b>Total United States Department of Defense</b>			<u>1,283,629</u>	<u>-</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$ 218,820,702</u>	<u>\$ 3,495,839</u>

The accompanying notes are an integral part of this schedule.

- Notes: (1) Basis of Presentation. The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the Federal award activity of the Orange County District School Board under programs of the Federal government for the fiscal year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the District.
- (2) Summary of Significant Accounting Policies. Expenditures are reported on the modified accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- (3) Indirect Cost Rate. The District has not elected to use the 10 percent de minimis cost rate allowed under the Uniform Guidance.
- (4) Noncash Assistance:
- (A) National School Lunch Program - Includes \$6,465,962 of donated food received during the fiscal year. Donated foods are valued at fair value as determined at the time of donation.
- (B) Child and Adult Care Food Program - Includes \$367,180 of Cash in Lieu of donated foods received during the fiscal year.



Sherrill F. Norman, CPA  
Auditor General

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Orange County District School Board, as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 13, 2017, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the school internal funds and the aggregate discretely presented component units, as described in our report on the District's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

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

We noted a certain additional matter that is discussed in the accompanying **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**. We also noted certain matters that we reported to District management in our operational audit report No. 2017-132.

### **District's Response to Finding**

The District's response to the finding identified in our audit is included as District Response in Financial Statement Finding No. 2016-001 and in the **CORRECTIVE ACTION PLAN**. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Sherrill F. Norman, CPA  
Tallahassee, Florida  
March 13, 2017



Sherrill F. Norman, CPA  
Auditor General

# AUDITOR GENERAL STATE OF FLORIDA

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House of Representatives, and the  
Legislative Auditing Committee

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

### Report on Compliance for Each Major Federal Program

We have audited the Orange County District School Board's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major Federal programs for the fiscal year ended June 30, 2016. The District's major Federal programs are identified in the **SUMMARY OF AUDITOR'S RESULTS** section of the accompanying **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**.

### *Management's Responsibility*

Management is responsible for compliance with Federal statutes, regulations, and the terms and conditions of its Federal awards applicable to its Federal programs.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on compliance for each of the District's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of the District's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the fiscal year ended June 30, 2016.

### **Report on Internal Control Over Compliance**

District management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,



Sherrill F. Norman, CPA  
Tallahassee, Florida  
March 13, 2017

# **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

## **SUMMARY OF AUDITOR'S RESULTS**

### **Financial Statements**

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? No

Significant deficiency(ies) identified? None reported

Noncompliance material to financial statements noted? No

### **Federal Awards**

Internal control over major Federal programs:

Material weakness(es) identified? No

Significant deficiency(ies) identified? None reported

Type of auditor's report issued on compliance for major Federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? No

Identification of major programs:

CFDA Numbers:	Name of Federal Program or Cluster:
10.558	Child and Adult Care Food Program
84.010	Title I Grants to Local Educational Agencies
84.063	Federal Pell Grant Program

Dollar threshold used to distinguish between type A and type B programs: \$3,000,000

Auditee qualified as low risk auditee? Yes

# FINANCIAL STATEMENT FINDING

## ADDITIONAL MATTER

### FINANCIAL REPORTING

<b>Finding Number</b>	<b>2016-001</b>
<b>Opinion Unit</b>	Aggregate Discretely Presented Component Units
<b>Financial Statements Account Title(s)</b>	Various
<b>Fund Name</b>	N/A
<b>Adjustment Amounts</b>	July 1, 2015, Beginning Net Position of the Component Units: \$17,022,115
<b>Prior Year Finding</b>	Auditor General Report No. 2014-147, Finding No. 1
<b>Finding</b>	As similarly noted in our report No. 2014-147, the District's financial reporting procedures need improvement to ensure consistent, proper reporting of charter schools as discretely presented component units.
<b>Criteria</b>	<p>State Board of Education (SBE) Rule 6A-1.0071, Florida Administrative Code, and related instructions from the Florida Department of Education (FDOE) prescribe the exhibits and schedules that should be prepared as part of the District's annual financial report (AFR). Section 1010.01, Florida Statutes, requires that these exhibits and schedules be prepared in accordance with generally accepted accounting principles (GAAP).</p> <p>GAAP provides that the financial reporting entity consists of the primary government and its component units. GAAP further defines component units as legally separate organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading.</p> <p>In October 2012 and January 2014, the FDOE provided guidance directing school districts to report charter schools as discretely presented component units (DPCUs), unless the charter schools were reported as component units of other governmental entities in accordance with GAAP. The FDOE concluded that school districts are financially accountable to charter schools because school districts provide charter schools with financial support and that excluding the charter schools from financial reporting would cause the district's financial statements to be misleading.</p>
<b>Condition</b>	<p>Pursuant to guidance from the FDOE, the District was responsible for reporting 29, 32, and 33 charter schools as DPCUs on the District's financial statements for the 2013-14, 2014-15, and 2015-16 fiscal years, respectively. However, for the 2013-14 and 2014-15 fiscal years, the District did not report the charter schools as DPCUs on the District's AFR or Comprehensive Annual Financial Report (CAFR). Additionally, although the District appropriately reported the District's 33 charter schools as DPCUs on the 2015-16 fiscal year AFR presented for audit, the District did not report the charter schools as DPCUs on the District's 2015-16 fiscal year CAFR.</p> <p>For the 2015-16 fiscal year, the financial activities of these 33 charter schools comprise 98 percent of assets, 99 percent of liabilities, 98 percent of revenues, 98 percent of expenses, and 95 percent of the net position for the financial activities reported for aggregate DPCUs.</p>

<b>Cause</b>	<p>In response to our inquiries, District personnel indicated that inclusion of the charter schools as DPCUs is unnecessary because the District is not financially accountable for the charter schools because the District does not:</p> <ul style="list-style-type: none"> <li>• Appoint the voting majority of the charter school’s board of directors as they are chosen by the charter school.</li> <li>• Have the unilateral ability to create a charter school, and the SBE has overturned the District’s denial of charter applications on several occasions.</li> <li>• Have the unilateral ability to abolish a charter school.</li> <li>• Have control over the charter schools’ educational or financial programs and cannot impose its will on a charter school.</li> </ul> <p>Notwithstanding this response, the District’s inconsistent financial reporting of the charter schools is contrary to the FDOE’s conclusion that charter schools are component units of their respective school districts, unless the charter schools were reported as component units of other governmental entities in accordance with GAAP.</p>
<b>Effect</b>	<p>Excluding charter schools as DPCUs from school district financial statements may cause financial statement users to misunderstand the reporting entity’s financial activities and incorrectly assess the reporting entity’s financial position. In addition, inconsistent financial reporting of charter schools from year to year does not provide for comparable financial statements.</p>
<b>Recommendation</b>	<p>The District should improve financial reporting procedures to ensure consistent, proper reporting of DPCUs on the District’s financial statements.</p>
<b>District Response</b>	<p>In our opinion, after thoroughly reviewing GASB Statements 14, 39, and 61; the GASB Codification of Governmental Accounting and Financial Reporting Standards; and the GASB Comprehensive Implementation Guide; the District’s charter schools do not meet the criteria for inclusion in the District’s financial statements. Therefore, the District excluded the charter schools from its Annual Financial Report (AFR) and Comprehensive Annual Financial Report (CAFR) for the fiscal years 2013-14 and 2014-15.</p> <p>In the fiscal year 2015-16 AFR, the District agreed to include the charter schools as discretely presented component units for the sole purpose of following the Florida Department of Education’s financial reporting guidelines. The fiscal year 2015-16 CAFR excluded charter schools based on GASB 61 guidance. This guidance supports our conclusion that charter schools do not qualify as component units of the District. The District’s CAFRs are consistent for fiscal years 2013-14, 2014-15, and 2015-16. The District did not intend for the fiscal year 2015-16 AFR to be consistent with the fiscal year 2015-16 CAFR as the AFR was adjusted to comply with FDOE’s reporting guidelines that reflects an interpretation that the District does not agree with regarding GASB Statement 61.</p>
<b>Estimated Corrective Action Date</b>	<p>Not applicable</p>
<b>District Contact and Telephone Number</b>	<p>Catherine Nguyen 407-317-3200 X 2004126</p>
<b>Auditor’s Remarks</b>	<p>The District’s response indicates that “the District did not intend for the fiscal year 2015-16 AFR to be consistent with the fiscal year 2015-16 CAFR as the AFR was adjusted to comply with FDOE’s reporting guidelines that reflects an interpretation that the District does not agree with regarding GASB Statement 61.” Notwithstanding this response, inconsistent financial reporting of charter schools from year to year does not provide for comparable financial statements and is contrary to the FDOE’s conclusion that excluding the charter schools from school district financial reporting would cause the District’s financial statements to be misleading. Consequently, we continue to recommend that the District ensure consistent, proper reporting of DPCUs on the District’s financial statements.</p>

## ***PRIOR AUDIT FOLLOW-UP***

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There were no prior audit findings requiring follow-up under 2 CFR 200.511; however, as noted in Finding No. 2016-001, we noted a similar operational audit financial reporting finding in our report No. 2014-147, Finding No. 1.

## ***SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS***

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The District did not have prior audit findings required to be reported under 2 CFR 200.511.

## ***CORRECTIVE ACTION PLAN***

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**Orange County District School Board  
Management's Corrective Action Plan  
For the Fiscal Year Ended June 30, 2016**

Finding Number: 2016-001  
Planned Corrective Action: See District Response in the finding.  
Anticipated Completion Date: Not applicable  
Responsible Contact Person: Catherine Nguyen