

STATE OF FLORIDA AUDITOR GENERAL

Financial and Federal Single Audit

Report No. 2018-191
March 2018

**BAY COUNTY
DISTRICT SCHOOL BOARD**

For the Fiscal Year Ended
June 30, 2017



Sherrill F. Norman, CPA
Auditor General

Board Members and Superintendent

During the 2016-17 fiscal year, William V. Husfelt III served as Superintendent of the Bay County Schools and the following individuals served as School Board Members:

	<u>District No.</u>
Jerry Register	1
Ginger Littleton, Chair from 11-22-16, Vice Chair through 11-21-16	2
Joe Wayne Walker	3
Ryan Neves, Vice Chair from 11-22-16	4
Steve Moss, Chair through 11-21-16	5

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 Kimberly Phillips, CPA, and the audit was supervised by Shelly G. Curti, CPA.

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

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SUMMARY

SUMMARY OF REPORT ON FINANCIAL STATEMENTS

Our audit disclosed that the Bay 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

We noted a certain matter involving the District's internal control over financial reporting and its operation that we consider to be a significant deficiency, as summarized below. However, the significant deficiency is not considered to be a material weakness.

Significant Deficiency

Financial Statement Finding No. 2017-001: District financial reporting procedures need improvement to ensure financial statement account balances and transactions are properly reported.

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.

SUMMARY OF REPORT ON FEDERAL AWARDS

We audited the District's compliance with applicable Federal awards requirements. The Child Nutrition Cluster and Federal Pell Grant Program 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. However, we did note noncompliance and control deficiency findings as summarized below.

Federal Awards Finding No. 2017-002: Improvements are needed in the District's process for verifying free and reduced-price meal applications.

Federal Awards Finding No. 2017-003: Contrary to Federal regulations, the District maintained excess net cash resources in the District food service program.

Federal Awards Finding No. 2017-004: The District did not always accurately and timely report Pell Grant Program enrollment data.

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 the District's major Federal programs; and

- 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.

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, 2017. 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.

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 business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Bay County District School Board, as of and for the fiscal year ended June 30, 2017, 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 Tom P. Haney Technical Center school internal funds, which represent 2 percent of the assets and 3 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 Tom P. Haney Technical Center 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 business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Bay County District School Board, as of June 30, 2017, 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.

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 29, 2018, 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 the effectiveness of the District's 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 29, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2016-17 fiscal year are as follows:

- The District's governmental activities net position increased by \$9,669,337, or 5.78 percent.
- The District's governmental activities cash and cash equivalents increased by \$13,580,218, or 20.11 percent.
- During the current year, General Fund revenues and other financing sources exceeded expenditures by \$1,138,135. This may be compared to last fiscal year's results in which General Fund revenues and other financing sources exceeded expenditures by \$2,707,433.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$24,029,640, or 11.33 percent of the General Fund expenditures compared to the previous fiscal year's unassigned fund balance of \$23,340,103, or 11.28 percent of the General Fund expenditures.

NON-FINANCIAL EVENTS

- The District began construction on a new multi-million dollar Fine Arts Center at A. Crawford Mosley High School thanks to a generous private donation that will fund a substantial portion of the project.
- Bay County maintained a District grade of B with 13 of the 39 schools improving at least one letter grade.
- Half Cent Sales Tax collections continued to increase allowing the District to complete more of the projects on the list of renovations.
- The District implemented a One-to-One Chromebook pilot program in 2 middle schools. This program issues a device to each student to be used at school and at home.

OVERVIEW OF FINANCIAL STATEMENTS

The basic financial statements consist of three components:

- government-wide financial statements;
- fund financial statements; and
- notes to financial statements.

This report also includes supplementary information intended to furnish additional details to support the basic financial statements.

Government-Wide Financial Statements

The government-wide financial statements provide both short-term and long-term information about the District's overall financial condition in a manner similar to those of a private-sector business. The statements include a statement of net position and a statement of activities that are designed to provide consolidated financial information about the governmental and business-type activities of the District presented on the accrual basis of accounting. The statement of net position provides information about the District's financial position, its assets, liabilities, and deferred inflows/outflows of resources, using an economic resources measurement focus. Assets plus deferred outflows of resources, less liabilities and deferred inflows of resources, equals net position, which is a measure of the District's financial health. The statement of activities presents information about the change in the District's net position, the results of operations, during the fiscal year. An increase or decrease in net position is an indication of whether the District's financial health is improving or deteriorating.

The government-wide statements present the District's activities in the following categories:

- Governmental activities – This represents most of the District's services, including its educational programs: basic, vocational, adult, and exceptional education. Support functions such as transportation and administration are also included. Local property taxes and the State's education finance program provide most of the resources that support these activities.
- Business-type activities – The District charges fees to cover the cost of certain services it provides. These activities account for the financial resources of the Beacon Learning Center which provides services predominately for other districts.
- Component units – The District presents 10 charter schools and the Bay Education Foundation, Inc., (Foundation). The District's Foundation and charter schools are reported as discretely presented component units. Although legally separate organizations, the component units are included in this report because they meet the criteria for inclusion provided by generally accepted accounting principles. Financial information for these component units is reported separately from the financial information presented for the primary government.

The Bay County Educational Facilities Finance Corporation (Corporation), although also a legally separate entity, was formed to facilitate financing for the acquisition of facilities and equipment for the District. Due to the substantive economic relationship between the District and the Corporation, the financial activities of the Corporation are included in the District's financial statements as an integral part of the primary government.

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

Fund Financial Statements

Fund financial statements are one of the components of the basic financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements and prudent fiscal management. Certain funds are

established by law while others are created by legal agreements, such as bond covenants. Fund financial statements provide more detailed information about the District's financial activities, focusing on its most significant or "major" funds rather than fund types. This is in contrast to the entitywide perspective contained in the government-wide statements. All of the District's funds may be classified within one of the broad categories discussed below.

Governmental Funds: Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, the governmental funds utilize a spendable financial resources measurement focus rather than the economic resources measurement focus found in the government-wide financial statements. This financial resource measurement focus allows the governmental fund financial statements to provide information on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Consequently, the governmental fund statements provide a detailed short-term view that may be used to evaluate the District's near-term financing requirements. This short-term view is useful when compared to the long-term view presented as governmental activities in the government-wide financial statements. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances provide detailed information about the District's most significant funds. The District's major funds are the General Fund, Debt Service – Other Fund, Capital Projects – Local Capital Improvement Fund, and Capital Projects – Other Fund. Data from the other governmental funds are combined into a single, aggregated presentation.

The District adopts an annual appropriated budget for its governmental funds. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with the budget.

Proprietary Funds: Proprietary funds may be established to account for activities in which a fee is charged for services. Two types of proprietary funds are maintained:

- Enterprise funds are used to report the same functions as business-type activities in the government-wide financial statements. The District uses an enterprise fund to account for financial activities of the Beacon Learning Center which provides educational services for a fee to individuals, public and private entities, and district school boards.
- Internal service funds are used to report activities that provide goods and services to support the District's other programs and functions through user charges. The District uses the internal service funds to account for its self-insurance programs. Since these services predominantly benefit governmental rather than business-type functions, the internal service funds have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail, for those enterprise funds determined to be major. The District's major enterprise fund is the Beacon Learning Center. Conversely, the internal service funds are combined into a single, aggregated column in the proprietary fund financial statements.

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

The District uses agency funds to account for resources held for student activities and groups.

Notes to Financial Statements

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

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position over time may serve as a useful indicator of a government's financial health. The following is a summary of the District's net position as of June 30, 2017, compared to net position as of June 30, 2016:

Net Position, End of Year

	Governmental Activities		Business-Type Activities		Total	
	6-30-17	6-30-16	6-30-17	6-30-16	6-30-17	6-30-16
Current and Other Assets	\$ 85,782,610	\$ 72,003,940	\$ 3,057,257	\$ 3,269,696	\$ 88,839,867	\$ 75,273,636
Capital Assets	293,629,340	301,563,252	47,571	24,431	293,676,911	301,587,683
Total Assets	379,411,950	373,567,192	3,104,828	3,294,127	382,516,778	376,861,319
Deferred Outflows of Resources	49,806,432	24,530,449	312,404	112,413	50,118,836	24,642,862
Long-Term Liabilities	234,569,504	211,292,162	1,015,391	613,910	235,584,895	211,906,072
Other Liabilities	13,006,331	8,413,920	352,161	393,855	13,358,492	8,807,775
Total Liabilities	247,575,835	219,706,082	1,367,552	1,007,765	248,943,387	220,713,847
Deferred Inflows of Resources	4,692,140	11,110,489	14,589	64,767	4,706,729	11,175,256
Net Position:						
Net Investment in Capital Assets	196,690,139	199,035,636	47,571	24,431	196,737,710	199,060,067
Restricted	22,071,616	15,548,295	-	-	22,071,616	15,548,295
Unrestricted (Deficit)	(41,811,348)	(47,302,861)	1,987,520	2,309,577	(39,823,828)	(44,993,284)
Total Net Position	\$ 176,950,407	\$ 167,281,070	\$ 2,035,091	\$ 2,334,008	\$ 178,985,498	\$ 169,615,078

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

related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets cannot be used to liquidate these liabilities.

The restricted portion of the District's net position represents resources that are subject to external restrictions on how they may be used. The deficit unrestricted net position was the result, in part, of accruing \$10,257,832 in compensated absences payable and \$119,208,584 in net pension liability.

The key elements of the changes in the District's net position for the fiscal years ended June 30, 2017, and June 30, 2016, are as follows:

Operating Results for the Fiscal Year Ended

	Governmental Activities		Business-Type Activities		Total	
	6-30-17	6-30-16	6-30-17	6-30-16	6-30-17	6-30-16
Program Revenues:						
Charges for Services	\$ 5,601,955	\$ 5,753,830	\$ 1,591,719	\$ 1,656,374	\$ 7,193,674	\$ 7,410,204
Operating Grants and Contributions	8,745,498	9,382,425	-	-	8,745,498	9,382,425
Capital Grants and Contributions	2,741,720	1,550,221	-	-	2,741,720	1,550,221
General Revenues:						
Property Taxes, Levied for Operational Purposes	82,636,552	86,564,558	-	-	82,636,552	86,564,558
Property Taxes, Levied for Capital Projects	18,797,942	18,220,196	-	-	18,797,942	18,220,196
Local Sales Taxes	21,452,247	20,131,724	-	-	21,452,247	20,131,724
Grants and Contributions Not Restricted to Specific Programs	140,839,723	130,534,793	-	-	140,839,723	130,534,793
Unrestricted Investment Earnings	503,897	403,759	20,357	13,575	524,254	417,334
Miscellaneous	2,259,622	3,011,073	-	-	2,259,622	3,011,073
Total Revenues	283,579,156	275,552,579	1,612,076	1,669,949	285,191,232	277,222,528
Functions/Program Expenses:						
Instruction	152,527,288	142,328,019	-	-	152,527,288	142,328,019
Student Support Services	9,323,348	9,252,320	-	-	9,323,348	9,252,320
Instructional Media Services	2,409,846	2,374,053	-	-	2,409,846	2,374,053
Instruction and Curriculum Development Services	5,289,399	5,133,753	-	-	5,289,399	5,133,753
Instructional Staff Training Services	3,724,044	3,647,025	-	-	3,724,044	3,647,025
Instruction-Related Technology	200,764	106,213	-	-	200,764	106,213
Board	755,531	1,118,114	-	-	755,531	1,118,114
General Administration	1,113,550	663,085	-	-	1,113,550	663,085
School Administration	14,568,657	13,579,681	-	-	14,568,657	13,579,681
Facilities Acquisition and Construction	5,231,367	6,948,035	-	-	5,231,367	6,948,035
Fiscal Services	1,740,666	1,727,536	-	-	1,740,666	1,727,536
Food Services	9,503,703	9,094,195	-	-	9,503,703	9,094,195
Central Services	3,019,050	2,941,845	-	-	3,019,050	2,941,845
Student Transportation Services	9,845,295	9,092,248	-	-	9,845,295	9,092,248
Operation of Plant	15,918,598	16,567,625	-	-	15,918,598	16,567,625
Maintenance of Plant	4,528,386	4,527,070	-	-	4,528,386	4,527,070
Administrative Technology Services	3,354,676	3,124,817	-	-	3,354,676	3,124,817
Community Services	3,334,593	3,201,883	-	-	3,334,593	3,201,883
Unallocated Interest on Long-Term Debt	3,032,997	3,331,077	-	-	3,032,997	3,331,077
Unallocated Depreciation Expense	24,758,061	25,362,742	-	-	24,758,061	25,362,742
Beacon Learning Center	-	-	1,910,993	1,507,695	1,910,993	1,507,695
Total Functions/Program Expenses	274,179,819	264,121,336	1,910,993	1,507,695	276,090,812	265,629,031
Excess (deficiency) Before Special Item	9,399,337	11,431,243	(298,917)	162,254	9,100,420	11,593,497
Special Item	270,000	-	-	-	270,000	-
Change in Net Position	9,669,337	11,431,243	(298,917)	162,254	9,370,420	11,593,497
Net Position - Beginning	167,281,070	155,849,827	2,334,008	2,171,754	169,615,078	158,021,581
Net Position - Ending	\$ 176,950,407	\$ 167,281,070	\$ 2,035,091	\$ 2,334,008	\$ 178,985,498	\$ 169,615,078

State revenues increased by \$8,727,209, or 7.67 percent, mainly due to an increase in the Florida Education Finance Program (FEFP) funding.

Instructional expenses represent 55.63 percent of total governmental expenses in the 2016-17 fiscal year. Instructional expenses increased by \$10,199,269, or 7.17 percent, from the previous fiscal year due mainly to an increase in pension expense and salary and enrollment increases.

The decrease in net position for the business-type activities resulted primarily from an increase in salary and employee benefits expense.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Governmental Funds

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. Specifically, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as it represents the portion of fund balance that has not been limited to a particular purpose by an external party, the District, or a group or individual delegated authority by the Board to assign resources for particular purposes.

The total fund balances of governmental funds increased by \$7,777,351 during the fiscal year to \$48,952,867 at June 30, 2017. Approximately 49 percent of this amount is unassigned fund balance (\$24,029,640), which is available for spending at the District's discretion. The remainder of the fund balance is nonspendable, restricted, or assigned to indicate that it is (1) not in spendable form (\$956,910), (2) restricted for particular purposes (\$22,701,461), or (3) assigned for particular purposes (\$1,264,856).

Major Governmental Funds

The General Fund is the District's chief operating fund. At the end of the current fiscal year, unassigned fund balance is \$24,029,640, while the total fund balance is \$27,754,914. As a measure of the General Fund's liquidity, it may be useful to compare the total assigned and unassigned fund balances to General Fund total revenues. The total assigned and unassigned fund balance is 12.06 percent of total General Fund revenues, while total fund balance represents 13.23 percent of total General Fund revenues.

The Debt Service – Other Fund accounts for the payment of principal and interest of the District's certificates of participation (COPs) and notes payable, and has a total fund balance of \$4,109.

The Capital Projects – Local Capital Improvement (LCI) Fund has a total fund balance of \$4,289,782, of which \$3,252,960 has been encumbered for specific LCI projects. Fund balance increased \$996,043 primarily due to a decrease in transfers out.

The Capital Projects – Other Fund has a total fund balance of \$11,809,476, all of which has been encumbered for specific projects. Fund balance increased \$4,676,425 primarily due to an increase in local sales tax revenue and a decrease in transfers out.

Proprietary Funds

The District's proprietary funds provide the same type of information reported in the government-wide financial statements, but in more detail. Unrestricted net position of the internal service funds increased by \$3,603,687 during the 2016-17 fiscal year to \$8,325,582. This increase occurred primarily due to an increase in premium revenue.

Unrestricted net position of the Beacon Learning Center Enterprise Fund totals \$1,987,520 at June 30, 2017, a decrease of \$322,057. This decrease occurred primarily from an increase in salary and employee benefits expense.

GENERAL FUND BUDGETARY HIGHLIGHTS

The District's budgets are prepared and amendments made according to Florida law. The most significant budgeted fund is the General Fund.

In the General Fund, actual revenues and other financing sources were \$3,548,047, more than the final budgeted amounts, while actual expenditures were \$16,145,381 less than the final budgeted amounts. Positive budget variances occurred in several functions, including instruction, central services, and operation of plant. The ending fund balance exceeded the estimated fund balance contained in the final amended budget by \$19,693,428 due to significant cost savings and the establishment of several reserve accounts designed to help the District offset expected revenue shortfalls.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets for its governmental and business-type activities as of June 30, 2017, amount to \$293,629,340 and \$47,571, respectively (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; and audio visual materials and computer software.

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

Long-Term Debt

At June 30, 2017, the District has total long-term debt outstanding of \$90,952,500. This amount is comprised of \$860,000 of bonds payable, \$16,303,000 of a sales tax revenue anticipation note, and \$73,789,500 of certificates of participation payable.

Additional information on the District's long-term debt can be found in Notes I.F.6 and II.H.1. through II.H.5. to the financial statements.

REQUESTS FOR INFORMATION

This report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning information provided in the MD&A or other required supplementary information, and financial statements and notes thereto, or requests for additional financial information should be addressed to the Financial Services Manager, Bay County District School Board, 1311 Balboa Avenue, Panama City, Florida 32401.

BASIC FINANCIAL STATEMENTS

Bay County District School Board Statement of Net Position June 30, 2017

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Cash and Cash Equivalents	\$ 81,112,924	\$ 3,125,114	\$ 84,238,038	\$ 18,488,605
Investments	-	-	-	5,472,497
Accounts Receivable	115	2,325	2,440	392,554
Note Receivable	-	-	-	100,000
Donations Receivable	-	-	-	2,950,000
Internal Balances	70,182	(70,182)	-	-
Due from Other Agencies	1,539,873	-	1,539,873	540,905
Prepaid Items	1,454,934	-	1,454,934	163,842
Inventories	956,910	-	956,910	7,205
Other Assets	647,672	-	647,672	23,836
Capital Assets:				
Nondepreciable Capital Assets	26,402,816	-	26,402,816	11,503,576
Depreciable Capital Assets, Net	267,226,524	47,571	267,274,095	40,824,976
TOTAL ASSETS	379,411,950	3,104,828	382,516,778	80,467,996
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Loss on Debt Refunding	3,663,444	-	3,663,444	-
Pensions	46,142,988	312,404	46,455,392	4,917,423
TOTAL DEFERRED OUTFLOWS OF RESOURCES	49,806,432	312,404	50,118,836	4,917,423
LIABILITIES				
Accrued Salaries and Benefits	-	-	-	222,948
Payroll Deductions and Withholdings	850,707	760	851,467	-
Accounts Payable	4,071,587	3,833	4,075,420	1,589,647
Construction Contracts Payable	143,153	-	143,153	-
Construction Contracts Payable - Retained Percentage	563,847	-	563,847	-
Due to Other Agencies	10,570	-	10,570	441,055
Interest Payable	-	-	-	613,536
Matured Certificates of Participation Payable	5,279,700	-	5,279,700	-
Matured Interest Payable	1,178,188	-	1,178,188	-
Unearned Revenues	82,720	347,568	430,288	473,217
Estimated Insurance Claims Payable	825,859	-	825,859	-
Long-Term Liabilities:				
Portion Due Within One Year	18,416,216	47,258	18,463,474	834,813
Portion Due After One Year	216,153,288	968,133	217,121,421	60,472,434
TOTAL LIABILITIES	247,575,835	1,367,552	248,943,387	64,647,650
DEFERRED INFLOWS OF RESOURCES				
Pensions	4,692,140	14,589	4,706,729	262,464
NET POSITION				
Net Investment in Capital Assets	196,690,139	47,571	196,737,710	4,734,108
Restricted for:				
State Required Carryover Programs	1,584,771	-	1,584,771	-
Debt Service	20,578	-	20,578	-
Capital Projects	16,246,889	-	16,246,889	-
Food Service	4,219,378	-	4,219,378	-
Other Purposes	-	-	-	7,067,015
Unrestricted	(41,811,348)	1,987,520	(39,823,828)	8,674,182
TOTAL NET POSITION	\$ 176,950,407	\$ 2,035,091	\$ 178,985,498	\$ 20,475,305

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

**Bay County District School Board
Statement of Activities
For the Fiscal Year Ended June 30, 2017**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
Instruction	\$ 152,527,288	\$ 1,507,729	\$ -	\$ -
Student Support Services	9,323,348	-	-	-
Instructional Media Services	2,409,846	-	-	-
Instruction and Curriculum Development Services	5,289,399	-	-	-
Instructional Staff Training Services	3,724,044	-	-	-
Instruction-Related Technology	200,764	-	-	-
Board	755,531	-	-	-
General Administration	1,113,550	-	-	-
School Administration	14,568,657	-	-	-
Facilities Acquisition and Construction	5,231,367	39,230	-	2,028,530
Fiscal Services	1,740,666	-	-	-
Food Services	9,503,703	1,500,533	8,745,498	-
Central Services	3,019,050	-	-	-
Student Transportation Services	9,845,295	254,801	-	-
Operation of Plant	15,918,598	-	-	-
Maintenance of Plant	4,528,386	-	-	-
Administrative Technology Services	3,354,676	-	-	-
Community Services	3,334,593	2,299,662	-	-
Unallocated Interest on Long-Term Debt	3,032,997	-	-	713,190
Unallocated Depreciation Expense*	24,758,061	-	-	-
Total Governmental Activities	274,179,819	5,601,955	8,745,498	2,741,720
Business-Type Activities:				
Beacon Learning Center	1,910,993	1,591,719	-	-
Total Primary Government	\$ 276,090,812	\$ 7,193,674	\$ 8,745,498	\$ 2,741,720
Component Units				
Charter Schools/Educational Foundation	\$ 31,529,596	\$ 1,977,173	\$ 284,039	\$ 277,847

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

Special Item

Total General Revenues and Special Item

Change in Net Position

Net Position - Beginning

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.

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Units
\$ (151,019,559)	\$ -	\$ (151,019,559)	\$ -
(9,323,348)	-	(9,323,348)	-
(2,409,846)	-	(2,409,846)	-
(5,289,399)	-	(5,289,399)	-
(3,724,044)	-	(3,724,044)	-
(200,764)	-	(200,764)	-
(755,531)	-	(755,531)	-
(1,113,550)	-	(1,113,550)	-
(14,568,657)	-	(14,568,657)	-
(3,163,607)	-	(3,163,607)	-
(1,740,666)	-	(1,740,666)	-
742,328	-	742,328	-
(3,019,050)	-	(3,019,050)	-
(9,590,494)	-	(9,590,494)	-
(15,918,598)	-	(15,918,598)	-
(4,528,386)	-	(4,528,386)	-
(3,354,676)	-	(3,354,676)	-
(1,034,931)	-	(1,034,931)	-
(2,319,807)	-	(2,319,807)	-
(24,758,061)	-	(24,758,061)	-
<u>(257,090,646)</u>	<u>-</u>	<u>(257,090,646)</u>	<u>-</u>
-	(319,274)	(319,274)	-
<u>(257,090,646)</u>	<u>(319,274)</u>	<u>(257,409,920)</u>	<u>-</u>
-	-	-	(28,990,537)
82,636,552	-	82,636,552	-
18,797,942	-	18,797,942	-
21,452,247	-	21,452,247	-
140,839,723	-	140,839,723	30,463,356
503,897	20,357	524,254	69,859
2,259,622	-	2,259,622	393,297
270,000	-	270,000	100,000
<u>266,759,983</u>	<u>20,357</u>	<u>266,780,340</u>	<u>31,026,512</u>
9,669,337	(298,917)	9,370,420	2,035,975
<u>167,281,070</u>	<u>2,334,008</u>	<u>169,615,078</u>	<u>18,439,330</u>
<u>\$ 176,950,407</u>	<u>\$ 2,035,091</u>	<u>\$ 178,985,498</u>	<u>\$ 20,475,305</u>

**Bay County District School Board
Balance Sheet – Governmental Funds
June 30, 2017**

	<u>General Fund</u>	<u>Debt Service - Other Fund</u>	<u>Capital Projects - Local Capital Improvement Fund</u>
ASSETS			
Cash and Cash Equivalents	\$ 30,365,061	\$ 6,461,997	\$ 6,417,013
Accounts Receivable	115	-	-
Due from Other Funds	2,888,474	-	12,669
Due from Other Agencies	124,842	-	-
Inventories	875,647	-	-
TOTAL ASSETS	<u>\$ 34,254,139</u>	<u>\$ 6,461,997</u>	<u>\$ 6,429,682</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Payroll Deductions and Withholdings	\$ 825,352	\$ -	\$ -
Accounts Payable	1,896,533	-	330,472
Construction Contracts Payable	-	-	143,153
Construction Contracts Payable - Retained Percentage	-	-	100,785
Due to Other Funds	3,709,608	-	1,565,490
Due to Other Agencies	-	-	-
Matured Certificates of Participation Payable	-	5,279,700	-
Matured Interest Payable	-	1,178,188	-
Unearned Revenues	67,732	-	-
Total Liabilities	<u>6,499,225</u>	<u>6,457,888</u>	<u>2,139,900</u>
Fund Balances:			
Nonspendable:			
Inventories	875,647	-	-
Restricted for:			
State Required Carryover Programs	1,584,771	-	-
Debt Service	-	4,109	-
Capital Projects	-	-	4,289,782
Food Service	-	-	-
Total Restricted Fund Balance	<u>1,584,771</u>	<u>4,109</u>	<u>4,289,782</u>
Assigned for Purchase Order Obligations	<u>1,264,856</u>	<u>-</u>	<u>-</u>
Unassigned Fund Balance	<u>24,029,640</u>	<u>-</u>	<u>-</u>
Total Fund Balances	<u>27,754,914</u>	<u>4,109</u>	<u>4,289,782</u>
TOTAL LIABILITIES AND AND FUND BALANCES	<u>\$ 34,254,139</u>	<u>\$ 6,461,997</u>	<u>\$ 6,429,682</u>

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

Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
\$ 12,028,276	\$ 5,420,917	\$ 60,693,264
-	-	115
-	260	2,901,403
270,000	1,145,031	1,539,873
-	81,263	956,910
<u>\$ 12,298,276</u>	<u>\$ 6,647,471</u>	<u>\$ 66,091,565</u>
\$ -	\$ 25,247	\$ 850,599
64,711	203,309	2,495,025
-	-	143,153
424,089	38,973	563,847
-	1,259,798	6,534,896
-	10,570	10,570
-	-	5,279,700
-	-	1,178,188
-	14,988	82,720
<u>488,800</u>	<u>1,552,885</u>	<u>17,138,698</u>
-	81,263	956,910
-	-	1,584,771
-	20,578	24,687
11,809,476	854,630	16,953,888
-	4,138,115	4,138,115
<u>11,809,476</u>	<u>5,013,323</u>	<u>22,701,461</u>
-	-	1,264,856
-	-	24,029,640
<u>11,809,476</u>	<u>5,094,586</u>	<u>48,952,867</u>
<u>\$ 12,298,276</u>	<u>\$ 6,647,471</u>	<u>\$ 66,091,565</u>

**Bay County District School Board
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2017**

Total Fund Balances - Governmental Funds \$ 48,952,867

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. 293,629,340

The deferred loss on debt refunding is not expensed in the government-wide statements, but is reported as deferred outflows of resources and amortized over the life of the debt. 3,663,444

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. 8,325,582

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:

Bonds Payable	\$ (860,000)	
Sales Tax Revenue Anticipation Note Payable	(16,303,000)	
Certificates of Participation Payable	(73,789,500)	
Compensated Absences Payable (net of \$25,354 in the Internal Service Funds)	(9,981,471)	
Net Pension Liability (net of \$515,309 in the Internal Service Funds)	(117,928,891)	
Other Postemployment Benefits Payable	<u>(41,165)</u>	(218,904,027)

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 (net of \$191,924 in the Internal Service Funds)	\$ 45,951,064	
Deferred Inflows Related to Pensions (net of \$24,277 in the Internal Service Funds)	<u>(4,667,863)</u>	<u>41,283,201</u>

Net Position - Governmental Activities **\$ 176,950,407**

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

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Bay County District School Board
Statement of Revenues, Expenditures, and Changes in
Fund Balances – Governmental Funds
For the Fiscal Year Ended June 30, 2017

	General Fund	Debt Service - Other Fund	Capital Projects - Local Capital Improvement Fund
Revenues			
Intergovernmental:			
Federal Direct	\$ 648,383	\$ -	\$ -
Federal Through State and Local	1,818,630	-	-
State	118,457,475	-	-
Local:			
Property Taxes	82,636,552	-	18,797,942
Local Sales Taxes	-	-	-
Charges for Services - Food Service	-	-	-
Miscellaneous	6,209,714	482	152,894
Total Local Revenues	<u>88,846,266</u>	<u>482</u>	<u>18,950,836</u>
Total Revenues	<u>209,770,754</u>	<u>482</u>	<u>18,950,836</u>
Expenditures			
Current - Education:			
Instruction	141,296,951	-	-
Student Support Services	7,527,762	-	-
Instructional Media Services	2,328,993	-	-
Instruction and Curriculum Development Services	2,936,528	-	-
Instructional Staff Training Services	1,443,712	-	-
Instruction-Related Technology	15,899	-	-
Board	754,780	-	-
General Administration	675,179	-	-
School Administration	14,171,946	-	-
Facilities Acquisition and Construction	584,146	-	2,221,400
Fiscal Services	1,690,050	-	-
Food Services	14	-	-
Central Services	2,892,176	-	-
Student Transportation Services	8,917,413	-	-
Operation of Plant	16,520,218	-	-
Maintenance of Plant	4,427,153	-	-
Administrative Technology Services	3,304,059	-	-
Community Services	1,984,556	-	-
Fixed Capital Outlay:			
Facilities Acquisition and Construction	-	-	5,121,352
Other Capital Outlay	584,686	-	1,369,248
Debt Service:			
Principal	-	10,785,700	-
Interest and Fiscal Charges	-	2,648,695	-
Total Expenditures	<u>212,056,221</u>	<u>13,434,395</u>	<u>8,712,000</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(2,285,467)</u>	<u>(13,433,913)</u>	<u>10,238,836</u>
Other Financing Sources (Uses)			
Transfers In	3,423,602	13,434,078	-
Sale of Capital Assets	-	-	-
Transfers Out	-	-	(9,242,793)
Total Other Financing Sources (Uses)	<u>3,423,602</u>	<u>13,434,078</u>	<u>(9,242,793)</u>
Net Change in Fund Balances	1,138,135	165	996,043
Fund Balances, Beginning	<u>26,616,779</u>	<u>3,944</u>	<u>3,293,739</u>
Fund Balances, Ending	<u>\$ 27,754,914</u>	<u>\$ 4,109</u>	<u>\$ 4,289,782</u>

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

Capital Projects - Other Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 1,299,420	\$ 1,947,803
-	23,659,033	25,477,663
52,750	3,988,731	122,498,956
-	-	101,434,494
21,452,247	-	21,452,247
-	1,500,533	1,500,533
82,839	52,440	6,498,369
<u>21,535,086</u>	<u>1,552,973</u>	<u>130,885,643</u>
<u>21,587,836</u>	<u>30,500,157</u>	<u>280,810,065</u>
-	8,004,107	149,301,058
-	1,593,120	9,120,882
-	30,237	2,359,230
-	2,251,638	5,188,166
-	2,179,099	3,622,811
-	184,866	200,765
-	751	755,531
-	438,372	1,113,551
-	93,013	14,264,959
2,425,821	-	5,231,367
-	-	1,690,050
-	9,301,224	9,301,238
-	23,427	2,915,603
-	9,363	8,926,776
-	-	16,520,218
-	-	4,427,153
-	-	3,304,059
-	1,299,420	3,283,976
8,749,749	519,044	14,390,145
82,650	1,058,983	3,095,567
120,199	656,000	11,561,899
4,673	74,342	2,727,710
<u>11,383,092</u>	<u>27,717,006</u>	<u>273,302,714</u>
<u>10,204,744</u>	<u>2,783,151</u>	<u>7,507,351</u>
-	-	16,857,680
270,000	-	270,000
<u>(5,798,319)</u>	<u>(1,816,568)</u>	<u>(16,857,680)</u>
<u>(5,528,319)</u>	<u>(1,816,568)</u>	<u>270,000</u>
4,676,425	966,583	7,777,351
7,133,051	4,128,003	41,175,516
<u>\$ 11,809,476</u>	<u>\$ 5,094,586</u>	<u>\$ 48,952,867</u>

Bay 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, 2017

Net Change in Fund Balances - Governmental Funds \$ 7,777,351

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

Capital outlays are reported in the governmental funds 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 depreciation expense in excess of capital outlays in the current fiscal year. (7,808,362)

The net effect of miscellaneous noncash transactions involving capital assets (i.e., sales, trade-ins, adjustments, and donations) is to decrease net position. (125,550)

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 amount of repayments in the current fiscal year. 11,575,116

The deferred loss on debt refunding is reported in the governmental funds in the year the debt is issued, but is deferred and amortized over the life of the debt in the government-wide statements. This is the decrease in the deferred loss from debt refunding during the current period. (305,287)

In the statement of activities, the cost of compensated absences is measured by the amounts earned during the fiscal 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 used in excess of the amount earned in the current fiscal year. (Net of \$6,775 in the Internal Service Funds.) 107,104

Other postemployment benefits costs are recorded in the statement of activities under the full accrual basis of accounting, but are not recorded in the governmental funds until paid. This is the net decrease in the other postemployment benefits liability for the current fiscal year. 3,440

Governmental funds report District pension contributions as expenditures. However, in the statement of activities, the cost of pension benefits earned net of employee contributions is reported as a pension expense.

FRS Pension Contribution (net of \$28,808 for the Internal Service Funds)	\$ 7,146,750	
HIS Pension Contribution (net of \$8,208 for the Internal Service Funds)	2,036,382	
FRS Pension Expense (net of \$42,360 for the Internal Service Funds)	(10,508,773)	
HIS Pension Expense (net of \$15,448 for the Internal Service Funds)	<u>(3,832,521)</u>	(5,158,162)

Internal service funds are used by management to charge for the cost of certain activities, such as insurance, to individual funds. The change in net position of the internal service funds is reported with governmental activities. 3,603,687

Change in Net Position - Governmental Activities **\$ 9,669,337**

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

**Bay County District School Board
Statement of Net Position – Proprietary Funds
June 30, 2017**

	Business-Type Activities - Beacon Learning Center Enterprise Fund	Governmental Activities - Internal Service Funds
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 3,125,114	\$ 20,419,660
Accounts Receivable	2,325	-
Due from Other Funds	-	3,709,334
Prepaid Items	-	1,454,934
Other Assets	-	647,672
Total Current Assets	3,127,439	26,231,600
Noncurrent Assets:		
Depreciable Capital Assets, Net	47,571	-
TOTAL ASSETS	3,175,010	26,231,600
DEFERRED OUTFLOWS OF RESOURCES		
Pensions	312,404	191,924
LIABILITIES		
Current Liabilities:		
Payroll Deductions and Withholdings	760	108
Accounts Payable	3,833	1,576,562
Due to Other Funds	70,182	5,659
Unearned Revenues	347,568	-
Estimated Insurance Claims Payable	-	4,883,947
Compensated Absences Payable	36,866	5,071
Net Pension Liability	10,392	5,337
Total Current Liabilities	469,601	6,476,684
Noncurrent Liabilities:		
Estimated Insurance Claims Payable	-	11,066,726
Compensated Absences Payable	214,141	20,283
Net Pension Liability	753,992	509,972
Total Noncurrent Liabilities	968,133	11,596,981
TOTAL LIABILITIES	1,437,734	18,073,665
DEFERRED INFLOWS OF RESOURCES		
Pensions	14,589	24,277
NET POSITION		
Investment in Capital Assets	47,571	-
Unrestricted	1,987,520	8,325,582
TOTAL NET POSITION	\$ 2,035,091	\$ 8,325,582

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

Bay County District School Board
Statement of Revenues, Expenses, and Changes in Fund
Net Position – Proprietary Funds
For the Fiscal Year Ended June 30, 2017

	Business-Type Activities - Beacon Learning Center Enterprise Fund	Governmental Activities - Internal Service Funds
OPERATING REVENUES		
Charges for Services	\$ 1,591,719	\$ -
Premium Revenues	-	28,606,171
Total Operating Revenues	1,591,719	28,606,171
OPERATING EXPENSES		
Salaries	1,014,746	491,906
Employee Benefits	422,530	199,626
Purchased Services	268,596	1,885,090
Materials and Supplies	28,267	4,301
Capital Outlay	56,038	26,562
Insurance Claims	-	19,643,010
Insurance Premiums	-	2,737,045
Other	108,399	120,795
Depreciation	12,417	-
Total Operating Expenses	1,910,993	25,108,335
Operating Income (Loss)	(319,274)	3,497,836
NONOPERATING REVENUES		
Interest	20,357	103,639
Miscellaneous Local Revenue	-	2,212
Total Nonoperating Revenues	20,357	105,851
Change in Net Position	(298,917)	3,603,687
Total Net Position - Beginning	2,334,008	4,721,895
Total Net Position - Ending	\$ 2,035,091	\$ 8,325,582

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

**Bay County District School Board
Statement of Cash Flows – Proprietary Funds
For the Fiscal Year Ended June 30, 2017**

	Business-Type Activities - Beacon Learning Center Enterprise Fund	Governmental Activities - Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Board Funds and Participants	\$ -	\$ 24,896,837
Cash Received from Services	1,549,386	-
Cash Payments to Suppliers for Goods and Services	(455,227)	(3,171,406)
Cash Payments to Employees for Services	(1,285,204)	(677,407)
Cash Payments for Insurance Claims	-	(21,025,947)
Cash Received from Other Operating Revenues	-	691,025
Net Cash Provided (Used) by Operating Activities	(191,045)	713,102
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Miscellaneous Other	-	2,212
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of Capital Assets	(35,557)	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income	20,357	103,639
Net Increase (Decrease) in Cash and Cash Equivalents	(206,245)	818,953
Cash and Cash Equivalents, Beginning	3,331,359	19,600,707
Cash and Cash Equivalents, Ending	\$ 3,125,114	\$ 20,419,660
 Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Operating Income (Loss)	\$ (319,274)	\$ 3,497,836
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation	12,417	-
Changes in Assets, Liabilities, Deferred Outflows of Resources, and Deferred Inflows of Resources:		
Accounts Receivable	(2,325)	-
Due from Other Funds	-	(3,709,334)
Prepaid Expenses	-	31,862
Other Current Assets	-	691,025
Deferred Outflows of Resources - Pensions	(199,991)	(102,702)
Payroll Deductions and Withholdings Payable	760	108
Accounts Payable	(2,157)	1,570,134
Accrued Expenses	(289)	-
Due to Other Funds	8,519	391
Unearned Revenues	(40,008)	-
Compensated Absences Payable	110,823	(6,775)
Estimated Insurance Claims Payable	-	(1,382,937)
Net Pension Liability	290,658	149,262
Deferred Inflows of Resources - Pensions	(50,178)	(25,768)
Total Adjustments	128,229	(2,784,734)
Net Cash Provided (Used) by Operating Activities	\$ (191,045)	\$ 713,102

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

Bay County District School Board
Statement of Fiduciary Assets and Liabilities– Fiduciary Funds
June 30, 2017

	<u>Agency Funds</u>
ASSETS	
Cash and Cash Equivalents	\$ 2,836,866
Accounts Receivable	56,845
Inventories	<u>76,699</u>
TOTAL ASSETS	<u>\$ 2,970,410</u>
LIABILITIES	
Accounts Payable	\$ 194,170
Internal Accounts Payable	<u>2,776,240</u>
TOTAL LIABILITIES	<u>\$ 2,970,410</u>

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

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. Governmental activities, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees charged to external customers for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Bay County School District's (District) governmental activities and for each segment of the business-type activities. Direct expenses are those that are specifically associated with a service, program, or department and are thereby clearly identifiable to a particular function. Depreciation expense associated with the District's transportation and maintenance departments and school board office are allocated to the student transportation services, operation of plant, and central services functions, while remaining depreciation expense is not readily associated with a particular function and is reported as unallocated.

B. Reporting Entity

The Bay 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 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, which is composed of five elected members. The elected Superintendent of Schools is the executive officer of the Board. Geographic boundaries of the District correspond with those of Bay 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.

Based on the application of these criteria, the following component units are included within the District's reporting entity:

Blended Component Unit. Blended component units are, in substance, part of the District's operations, even though they are legally separate entities. Thus, blended component units are

appropriately presented as funds of the District. The Bay County Educational Facilities Finance Corporation (Corporation) was formed to facilitate financing for the acquisition of facilities and equipment as further discussed in Note II.H.2. Due to the substantive economic relationship between the District and the Corporation, the financial activities of the Corporation are included in the accompanying basic financial statements. Separate financial statements for the Corporation are not published.

Discretely Presented Component Units. The component units' columns in the government-wide financial statements include the financial data from a foundation and ten charter schools. A separate column is used to emphasize that they are legally separate from the District.

The Bay Education Foundation, Inc. (Foundation), is a separate not-for-profit corporation organized and operated as a direct-support organization to receive, hold, invest, and administer property and to make expenditures to and for the benefit of the District. Because of the nature and significance of its relationship with the District, the Foundation is considered a component unit.

The charter schools are Bay Haven Charter Academy, Inc. d/b/a Bay Haven Charter Academy Elementary School, Bay Haven Charter Academy Middle School, North Bay Haven Charter Elementary School, North Bay Haven Charter Middle School, and North Bay Haven Charter Career Academy; Chautauqua Charter School, Inc.; Palm Bay Education Group, Inc., d/b/a Palm Bay Preparatory Academy and Central High School; Community Charter Academy, Inc., d/b/a University Academy; and Rising Leaders Academy, Inc.

The charter schools are not-for-profit corporations organized pursuant to Chapter 617, Florida Statutes, the Florida Not For Profit Corporation Act, and Section 1002.33, Florida Statutes. The charter schools operate under charters approved by their sponsor, the Bay County District School Board. The charter schools are considered to be component units of the District because the District is financially accountable for the charter schools as the District established the charter schools by approval of the charters, which is tantamount to the initial appointment of the charter schools, and there is the potential for the charter schools to impose specific financial burdens on the District. In addition, pursuant to the Florida Constitution, the charter schools are public schools and the District is responsible for the operation, control, and supervision of public schools within the District.

The financial data reported on the accompanying statements was derived from the Foundation's and charter schools' audited financial statements for the fiscal year ended June 30, 2017. The audit reports are filed in the District's administrative offices at 1311 Balboa Avenue, Panama City, FL 32401.

C. Basis of Presentation: Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds and internal service funds, while business-type activities incorporate data from the government's enterprise fund. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

The effects of interfund activity have been eliminated from the government-wide financial statements except for interfund services provided and used and net residual amounts between governmental and business-type activities.

D. Basis of Presentation: Fund Financial Statements

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

The District reports the following major governmental 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.
- Debt Service – Other Fund – to account for the accumulation of resources for, and the payment of, debt principal, interest, and related costs for the District's certificates of participation.
- Capital Projects – Local Capital Improvement Fund – to account for the financial resources generated by the local capital improvement tax levy to be used for educational capital outlay needs, including new construction, renovation and remodeling projects.
- Capital Projects – Other Fund – to account for the financial resources generated by the issuance of certificates of participation, sales tax revenue anticipation notes, and the discretionary sales surtax to be used for educational capital outlay needs, including new construction and renovation and remodeling projects.

The District reports the following major enterprise fund:

- Enterprise Fund – Beacon Learning Center – to account for the financial activities and account balances of the Beacon Learning Center which provides educational services for a fee to individuals, public and private entities, and district school boards.

Additionally, the District reports the following proprietary and fiduciary fund types:

- Internal Service Funds – to account for the District's self-insurance programs.
- Agency Funds – to account for resources of the school internal funds, which are used to administer moneys collected at several schools in connection with school, student athletic, class, and club activities.

During the course of operations, the District has activity between funds for various purposes. Any residual balances outstanding at fiscal year end are reported as due from/to other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise fund) are eliminated so that only the net amount is included as internal balances in the business-type activities column. Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial

statements, these amounts are reported at gross amounts as transfers in and out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized in the year for which they are levied. Revenues from grants, entitlements, and donations are recognized as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Property taxes, sales taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditures are generally recognized when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, claims and judgments, pension benefits, other postemployment benefits, and compensated absences, are only recorded when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources. Allocations of cost, such as depreciation, are not recognized in governmental funds.

The proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The agency funds have no measurement focus but utilize the accrual basis of accounting for reporting assets and liabilities.

The Foundation is accounted for under the not-for-profit basis of accounting and uses the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred.

The charter schools are accounted for as governmental organizations and follow the same accounting model as the District's governmental activities.

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term liquid investments with original maturities of 3 months or less from the date of acquisition. Investments classified as cash equivalents include amounts placed with the State Board of Administration (SBA) in Florida PRIME and the Federated Government Obligations Fund.

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, or collateralized with securities held in Florida's multiple financial institution collateral pool as required by Chapter 280, Florida Statutes.

2. Investments

Investments consist of amounts placed with the SBA for participation in the Florida PRIME investment pool created by Section 218.405, Florida Statutes, and those held by a trustee pursuant to a trust agreement entered into and restricted as part of the financing agreement for the Certificates of Participation, Series 2007, Series 2010, Series 2013, and Series 2015. The investment pool operates under investment guidelines established by Section 215.47, Florida Statutes.

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. These investments are reported at fair value, which is amortized cost.

The investments held by the trustee are reported at fair value.

Types and amounts of investments held at fiscal year end are described in a subsequent note.

3. Inventories and Prepaid Items

Inventories consist of expendable supplies held for consumption in the course of District operations. Inventories are stated at average cost, 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 cost of inventories is recorded as expenditures when used rather than purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when 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. 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.

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 are depreciated using the unweighted average composite method over the following estimated useful lives:

<u>Description</u>	<u>Estimated Useful Lives</u>
Improvements Other Than Buildings	9 - 37.5 years
Buildings and Fixed Equipment	10 - 50 years
Furniture, Fixtures, and Equipment	3 - 15 years
Motor Vehicles	5 - 10 years
Audio Visual Materials and Computer Software	4 - 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. 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.

In the governmental fund financial statements, bonds and other long-term obligations are not recognized as liabilities until due.

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

7. 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 two types of items that qualify for reporting in this category. The deferred loss on debt refunding results from the difference in the carrying value of 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 deferred outflows of resources related to pensions are discussed in a subsequent note.

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 type of item that qualifies for reporting in this category. The deferred inflows of resources related to pensions are discussed in a subsequent note.

8. Net Position Flow Assumption

The District occasionally funds outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. To calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. Consequently, it is the District’s policy to consider restricted net position to have been depleted before unrestricted net position is applied.

9. Fund Balance Flow Assumptions

The District may fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). To calculate the amounts to report as restricted, committed, 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 policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

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, 2017.

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The Board has, by approval of the annual financial report, authorized the assignment of fund balance. The Board may assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

G. 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 or business segment is self-financing or draws from the general revenues of the District.

2. State Revenue Sources

Significant revenues from State sources for current operations include 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.

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 FDOE.

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. Property values are determined by the Bay County Property Appraiser, and property taxes are collected by the Bay County Tax Collector.

The Board adopted the 2016 tax levy on September 6, 2016. 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 Bay County Tax Collector at fiscal year end but not yet remitted to the District.

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

4. Capital Outlay Surtax

In November 2010, the voters of Bay County approved a one-half cent school capital outlay surtax on sales in the County for 10 years, effective January 1, 2011, to pay construction costs of certain school facilities and related costs in accordance with Section 212.055(6), Florida Statutes.

5. 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.

6. Compensated Absences

In the government-wide and proprietary fund 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 for sick leave, and accrued as a liability as the benefits are earned by the employees for annual leave. A liability for these amounts is reported in the governmental fund financial statements only if it has matured, such as for occurrences of employee resignations and retirements. The liability for compensated absences includes salary-related benefits, where applicable.

7. Proprietary Funds Operating and Nonoperating Revenues and Expenses

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 the proprietary funds' principal ongoing operations. The principal operating revenues of the District's enterprise fund are charges for online educational resources and professional development courses. Operating expenses include salaries, benefits, materials, purchased services, capital outlay, and depreciation related to the development of these online educational resources and professional development courses. The primary operating revenues of the District's internal service funds are charges for property casualty and workers' compensation insurance, and employee health insurance premiums. Operating expenses include insurance claims, excess coverage premiums, and related operating costs. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

II. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Cash Deposits with Financial Institutions

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.

B. Investments

The District's investments at June 30, 2017, are reported as follows:

<u>Investments</u>	<u>Maturities</u>	<u>Fair Value</u>
SBA:		
Florida PRIME (1)	39 Day Average	\$ 18,878,486
Federated Government Obligations Fund (1)(2)	34 Days	<u>6,457,891</u>
Total Investments		<u>\$ 25,336,377</u>

Notes: (1) These investments are reported as cash equivalents for financial statement reporting purposes.

(2) The Federated Government Obligations Fund invests exclusively in obligations issued or guaranteed as to principal and interest by the United States Government or its agencies or instrumentalities, and repurchase agreements secured by such instruments. Shares in this fund are held as investments in the accounts governed by the trust agreements pursuant to the District's issues of Certificates of Participation, Series 2007, 2010, 2013, and 2015.

Fair Value Measurement

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; and Level 3 inputs are significant unobservable inputs. The District's investment in the Federated Government Obligations Fund is valued using Level 1 inputs.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District's investment policy limits the length of investments as follows: (1) investments of short-term funds shall have maturities of no longer than 12 months, and (2) investments of bond reserves, construction funds, and other nonoperating funds shall have a term appropriate for the need for funds and in accordance with debt covenants, but in no event shall exceed 5 years. Investments of construction funds that are proceeds of tax-exempt debt issues shall have maturities of no longer than 3 years.

Florida PRIME and Federated Government Obligations Fund use a weighted average days to maturity (WAM). A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the portfolio to interest rate changes.

For Florida PRIME, with regard to redemption gates, Section 218.409(8)(a), Florida Statutes, states, "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, 2017, there were no redemption fees, 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

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District’s investment policy limits investments to the SBA’s Florida PRIME, or any other intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Section 163.01, Florida Statutes, and provided the eligible pool is rated AAAM or AAAM-G or better by Standard & Poor’s, or the equivalent by another rating agency; negotiable direct obligations of the United States Government Securities with a maximum maturity of 5 years from the date of purchase; United States Government Agency Securities; interest-bearing time deposits or savings accounts in qualified public depositories, as defined in Section 280.02, Florida Statutes; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a rating agent and the funds must be registered and in compliance with Title 17, Section 270.2a-7, Code of Federal Regulations; investments, securities, or other interest in any open-end or closed-end management type investment company or investment trust registered under the Investment Company Act of 1940, and provided the mutual fund is rated AAAM or AAAM-G or better by Standard & Poor’s, or the equivalent by another rating agency; general obligation, revenue bonds, and certificates of participation issued by State and/or local governments, and providing that long-term investments must constitute prefunded obligations escrowed in the United States Treasury Securities, or must have long-term debt ratings in one of the 3 highest rating categories by at least one of the nationally recognized credit rating agencies, short-term ratings must be in the highest short-term rating category by at least one of the nationally recognized credit rating agencies, and the maximum length to maturity of any direct investment is 5 years from the date of purchase. Securities of the United States Government Enterprises and Instrumentalities and other investments permitted by State Statutes and not prohibited by Board policy are only eligible if recommended by the Superintendent and approved in advance by the Board.

The District’s investments in Florida PRIME and Federated Government Obligations Fund are rated AAAM by Standard & Poor’s.

C. Changes in Capital Assets

Changes in capital assets are presented in the table below:

	Beginning Balance	Reclassifications	Additions	Deletions	Ending Balance
GOVERNMENTAL ACTIVITIES					
Capital Assets Not Being Depreciated:					
Land	\$ 16,386,400	\$ -	\$ -	\$ 125,550	\$ 16,260,850
Construction in Progress	8,794,611	-	9,526,512	8,179,157	10,141,966
Total Capital Assets Not Being Depreciated	25,181,011	-	9,526,512	8,304,707	26,402,816
Capital Assets Being Depreciated:					
Improvements Other Than Buildings	12,567,611	-	2,502,181	129,474	14,940,318
Buildings and Fixed Equipment	560,438,371	-	10,532,182	2,449,529	568,521,024
Furniture, Fixtures, and Equipment	33,331,411	1,106,796	1,894,842	1,627,307	34,705,742
Motor Vehicles	13,218,782	-	1,590,959	241,691	14,568,050
Property Under Capital Lease	1,751,343	(1,106,796)	-	644,547	-
Audio Visual Materials and Computer Software	8,998,946	-	4,464	-	9,003,410
Total Capital Assets Being Depreciated	630,306,464	-	16,524,628	5,092,548	641,738,544
Less Accumulated Depreciation for:					
Improvements Other Than Buildings	6,529,643	-	633,049	129,474	7,033,218
Buildings and Fixed Equipment	304,236,930	-	21,025,852	2,449,529	322,813,253
Furniture, Fixtures, and Equipment	22,661,801	1,106,796	3,038,955	1,627,307	25,180,245
Motor Vehicles	9,871,956	-	922,284	241,691	10,552,549
Property Under Capital Lease	1,751,343	(1,106,796)	-	644,547	-
Audio Visual Materials and Computer Software	8,872,550	-	60,205	-	8,932,755
Total Accumulated Depreciation	353,924,223	-	25,680,345	5,092,548	374,512,020
Total Capital Assets Being Depreciated, Net	276,382,241	-	(9,155,717)	-	267,226,524
Governmental Activities Capital Assets, Net	\$ 301,563,252	\$ 0	\$ 370,795	\$ 8,304,707	\$ 293,629,340

	Beginning Balance	Additions	Deletions	Ending Balance
BUSINESS-TYPE ACTIVITIES				
Capital Assets Being Depreciated:				
Furniture, Fixtures, and Equipment	\$ 150,635	\$ 5,373	\$ -	\$ 156,008
Motor Vehicles	16,367	-	-	16,367
Audio Visual Materials and Computer Software	54,408	30,184	-	84,592
Total Capital Assets Being Depreciated	221,410	35,557	-	256,967
Less Accumulated Depreciation for:				
Furniture, Fixtures, and Equipment	126,204	6,380	-	132,584
Motor Vehicles	16,367	-	-	16,367
Audio Visual Materials and Computer Software	54,408	6,037	-	60,445
Total Accumulated Depreciation	196,979	12,417	-	209,396
Total Capital Assets Being Depreciated, Net	\$ 24,431	\$ 23,140	\$ 0	\$ 47,571

Depreciation expense was charged to functions as follows:

<u>Function</u>	<u>Amount</u>
GOVERNMENTAL ACTIVITIES	
Student Transportation Services	\$ 716,054
Operation of Plant	52,830
Central Services	153,400
Unallocated	24,758,061
	<hr/>
Total Depreciation Expense - Governmental Activities	\$ 25,680,345
	<hr/>
BUSINESS-TYPE ACTIVITIES	
Beacon Learning Center	\$ 12,417
	<hr/>

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).

The District's FRS and HIS pension expense totaled \$14,511,673 for the fiscal year ended June 30, 2017.

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* – Members of the FRS who do not qualify for membership in the other classes.
- *Elected County Officers* – Members who hold specified elective offices in local government.
- *Special Risk* – 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 table 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>
Regular members initially enrolled before July 1, 2011	
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
Regular members initially enrolled on or after July 1, 2011	
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
Elected County Officers	3.00
Special Risk	
Service on and after October 1, 1974	3.00

As provided in Section 121.101, Florida Statutes, if the member was 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 was 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 2016-17 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	7.52
FRS, Elected County Officers	3.00	42.47
FRS, Special Risk	3.00	22.57
DROP – Applicable to Members from All of the Above Classes	0.00	12.99
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 0.06 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 \$7,231,656 for the fiscal year ended June 30, 2017.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2017, the District reported a liability of \$72,739,769 for its proportionate share of the Plan's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. 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 2015-16 fiscal year contributions of all participating members. At June 30, 2016, the District's proportionate share was 0.288077399 percent, which was a decrease of 0.025750089 from its proportionate share measured as of June 30, 2015.

For the fiscal year ended June 30, 2017, the District recognized the Plan pension expense of \$10,633,621. 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	\$ 5,569,516	\$ 677,256
Change of assumptions	4,400,538	-
Net difference between projected and actual earnings on FRS pension plan investments	18,802,344	-
Changes in proportion and differences between District FRS contributions and proportionate share of contributions	692,992	3,494,310
District FRS contributions subsequent to the measurement date	7,231,656	-
Total	\$ 36,697,046	\$ 4,171,566

The deferred outflows of resources related to pensions resulting from District contributions to the Plan subsequent to the measurement date, totaling \$7,231,656, will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2018. 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>
2018	\$ 3,412,315
2019	3,412,315
2020	10,742,635
2021	7,060,740
2022	530,464
Thereafter	135,355
Total	\$ 25,293,824

Actuarial Assumptions. The total pension liability in the July 1, 2016, 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	7.60 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, 2016, 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:

Asset Class	Target Allocation (1)	Annual Arithmetic Return	Compound Annual (Geometric) Return	Standard Deviation
Cash	1%	3.0%	3.0%	1.7%
Fixed Income	18%	4.7%	4.6%	4.6%
Global Equity	53%	8.1%	6.8%	17.2%
Real Estate (Property)	10%	6.4%	5.8%	12.0%
Private Equity	6%	11.5%	7.8%	30.0%
Strategic Investments	12%	6.1%	5.6%	11.1%
Total	100%			
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 7.6 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. The discount rate used in the 2016 valuation was updated from 7.65 percent to 7.6 percent.

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 7.6 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 (6.6 percent) or 1 percentage point higher (8.6 percent) than the current rate:

	1% Decrease (6.6%)	Current Discount Rate (7.6%)	1% Increase (8.6%)
District's proportionate share of the net pension liability	\$ 133,918,840	\$ 72,739,769	\$ 21,816,273

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.

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, 2017, 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, 2017, 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 \$2,060,574 for the fiscal year ended June 30, 2017.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2017, the District reported a net pension liability of \$46,468,815 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 HIS Plan's fiduciary net position available to pay that amount. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. 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 2015-16 fiscal year contributions of all participating members. At June 30, 2016, the District's proportionate share was 0.398717000 percent, which was a decrease of 0.005309266 from its proportionate share measured as of June 30, 2015.

For the fiscal year ended June 30, 2017, the District recognized the HIS Plan pension expense of \$3,878,052. 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	\$ -	\$ 105,839
Change of assumptions	7,292,138	-
Net difference between projected and actual earnings on HIS pension plan investments	23,496	-
Changes in proportion and differences between District HIS contributions and proportionate share of HIS contributions	382,138	429,324
District contributions subsequent to the measurement date	2,060,574	-
Total	\$ 9,758,346	\$ 535,163

The deferred outflows of resources related to pensions resulting from District contributions to the HIS Plan subsequent to the measurement date, totaling \$2,060,574, will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2018. 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>
2018	\$ 1,308,127
2019	1,308,127
2020	1,303,653
2021	1,301,506
2022	1,074,824
Thereafter	866,372
Total	\$ 7,162,609

Actuarial Assumptions. The total pension liability in the July 1, 2016, 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	2.85 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 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 2.85 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 in the 2016 valuation was updated from 3.8 percent to 2.85 percent.

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 2.85 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 (1.85 percent) or 1 percentage point higher (3.85 percent) than the current rate:

	1% Decrease (1.85%)	Current Discount Rate (2.85%)	1% Increase (3.85%)
District's proportionate share of the net pension liability	\$ 53,310,288	\$ 46,468,815	\$ 40,790,765

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.

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, 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 0.06 percent of

payroll and by forfeited benefits of Investment Plan members. Allocations to the Investment Plan member accounts during the 2016-17 fiscal year were as follows:

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

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, 2017, 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 in which 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 \$1,183,426 for the fiscal year ended June 30, 2017.

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 are eligible to participate in the District's health and hospitalization plan for medical and prescription drug coverage. The District subsidizes the premium rates paid by retirees by allowing them to participate in the OPEB Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because retiree healthcare costs are generally greater than active employee healthcare costs. The District does not offer any explicit subsidies for retiree coverage. Retirees are assumed to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible. 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. Plan contribution requirements of the District and OPEB Plan members are established and may be amended through recommendations of the Insurance Committee and action from the Board. The District has not advance-funded or established a funding methodology for the annual OPEB costs or the net OPEB obligation, and the OPEB Plan is financed on a pay-as-you-go basis. For the 2016-17 fiscal year, 258 retirees received other postemployment benefits. The District provided required contributions of \$675,014 toward the annual OPEB cost, net of retiree contributions totaling \$2,193,383, which represents 2.44 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)	\$ 387,804
Amortization of Unfunded Actuarial Accrued Liability	269,507
Interest on Normal Cost and Amortization	<u>14,627</u>
Annual Required Contribution	671,938
Interest on Net OPEB Obligation	2,007
Adjustment to Annual Required Contribution	<u>(2,371)</u>
Annual OPEB Cost (Expense)	671,574
Contribution Toward the OPEB Cost	<u>(675,014)</u>
Decrease in Net OPEB Obligation	(3,440)
Net OPEB Obligation, Beginning of Year	<u>44,605</u>
Net OPEB Obligation, End of Year	<u>\$ 41,165</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, 2017, and the 2 preceding fiscal years, were as follows:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2014-15	\$ 557,011	97.5%	\$ 38,176
2015-16	643,235	99.0%	44,605
2016-17	671,574	100.5%	41,165

Funded Status and Funding Progress. As of July 1, 2016, the most recent valuation date, the actuarial accrued liability for benefits was \$5,402,042, and the actuarial value of assets was \$0,

resulting in an unfunded actuarial accrued liability of \$5,402,042 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$90,009,646, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 6 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, mortality, and the healthcare cost trend. 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 methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

The District's OPEB actuarial valuation as of July 1, 2016, used the entry age normal cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2017, and to estimate the District's 2016-17 fiscal year ARC. This method was selected because it produced the lowest OPEB liability and annual cost. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4.5 percent rate of return on invested assets, which is the District's long-term expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 4 percent per year, and an annual healthcare cost trend rate of 6 percent initially, reduced by less than 1 percent per year, to an ultimate rate of 5 percent over 2 years. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis over a 30-year period. The remaining amortization period at June 30, 2017, was 20 years.

F. Construction and Other Significant Commitments

Construction Contracts. The following is a schedule of major construction contract commitments at June 30, 2017:

Project	Contract Amount	Completed to Date	Balance Committed
Mosley High School:			
Architect	\$ 525,413	\$ 453,683	\$ 71,730
Contractor	5,081,810	3,379,354	1,702,456
Direct Purchase Orders	1,224,279	793,969	430,310
Tommy Oliver Stadium:			
Engineer	538,285	442,776	95,509
Contractor	6,403,825	1,356,528	5,047,297
Direct Purchase Orders	2,569,012	288,389	2,280,623
Total	\$ 16,342,624	\$ 6,714,699	\$ 9,627,925

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 fiscal year are carried forward and the next fiscal year's appropriations are likewise encumbered. At June 30, 2017, the Capital Projects – Other Fund had encumbrances totaling \$11,845,904 which exceeded total fund balance by \$36,428. These encumbrances are expected to be honored using resources in the subsequent fiscal year. If restricted capital funds are insufficient, unrestricted General Fund resources will be used to honor these encumbrances.

The following is a schedule of encumbrances at June 30, 2017:

Major Funds				
General	Capital Projects - Local Capital Improvement	Capital Projects - Other	Nonmajor Governmental Funds	Total Governmental Funds
\$ 1,264,856	\$ 3,252,960	\$ 11,845,904	\$ 995,156	\$ 17,358,876

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. Workers' compensation, automobile liability, property damage, and general liability coverage are being provided on a self-insured basis up to specified limits. The District has entered into agreements with various insurance companies to provide specific excess coverage of claim amounts above the stated amount on an individual claim basis. The District has contracted with insurance administrators to administer these self-insurance programs, including the processing, investigating, and payment of claims.

Settled claims resulting from the risks described above have not exceeded commercial insurance coverage in any of the past 3 fiscal years.

A liability in the amount of \$15,124,814 was actuarially determined to cover estimated incurred, but not reported, insurance claims payable at June 30, 2017. The loss estimates include legal and certain other expenses associated with claims settlements (allocated loss adjustment expenses). These estimates do not include provisions for unallocated loss adjustment expenses, such as fees for the claim administrators or other miscellaneous costs associated with claims settlements.

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

Fiscal Year	Beginning-of-Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-End
2015-16	\$ 14,278,053	\$ 4,150,285	\$ (3,409,013)	\$ 15,019,325
2016-17	15,019,325	3,609,784	(3,504,295)	15,124,814

The District's health insurance program is being provided on a self-insured basis up to specific limits. The District entered into an agreement with an insurance company to provide individual and aggregate excess coverage. The insurance company will reimburse 100 percent of individual claims in excess of \$150,000 and the aggregate reimbursement maximum is \$1,000,000 per policy period. The District has contracted with a service agent to administer this self-insurance program, including processing, investigation, and payment of claims.

Additionally, the District has entered into a contract with a vendor to operate a wellness center. All District full-time employees, in addition to retirees and dependents ages 6 and older, who have District health insurance may see a licensed clinician and receive sick care, access to health coaching services, and wellness programs free of charge.

Settled claims resulting from the health insurance risks described above have not exceeded commercial insurance coverage since the program's inception in January 2016.

The District reports a liability when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. This amount includes an amount for claims that have been incurred, but not reported. The District reevaluates the claims liability periodically and the claims liability totaled \$825,859 as of June 30, 2017.

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

Fiscal Year	Beginning-of-Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-End
2015-16	\$ -	\$ 7,555,592	\$ (5,241,307)	\$ 2,314,285
2016-17	2,314,285	16,033,226	(17,521,652)	825,859

H. Long-Term Liabilities

1. Note Payable

Note payable at June 30, 2017, is as follows:

Ascending Lien Sales Tax Revenue Anticipation Note, Series 2013

\$25,115,000, Borrowed 3-26-13, Under Provisions of Section 1011.14, Florida Statutes. Interest Rate of 1.5 Percent. Proceeds were Used for Various Construction and Renovation Projects Included in the List of Projects Approved by the Half Cent Sales Tax Committee. The Note is Secured by a Pledge of the District's Sales Tax Revenues. The Pledged Revenue is Committed Until Final Maturity of the Debt, or 9-15-20. For the Year Ended 6-30-17, Principal and Interest Payments on the Note were 27 Percent of Pledged Revenues. The Total Principal and Interest Remaining to be Paid with the Pledged Revenues is \$16,734,154. Principal and Interest Paid for the Current Year and Total Pledged Revenues were \$5,798,613 and \$21,452,247, Respectively.

\$ 16,303,000

Annual requirements to amortize Sales Tax Revenue debt outstanding as of June 30, 2017, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 5,148,889	\$ 4,932,000	\$ 216,889
2019	5,149,489	5,007,000	142,489
2020	5,148,968	5,082,000	66,968
2021	1,286,808	1,282,000	4,808
Total	<u>\$ 16,734,154</u>	<u>\$ 16,303,000</u>	<u>\$ 431,154</u>

2. Certificates of Participation

The District entered into a financing arrangement on November 1, 1994, which was characterized as a master lease-purchase agreement, with the Bay County Educational Facilities Finance Corporation (Corporation) whereby the District secured financing of various educational facilities in the total amount of \$23,715,000. The financing was accomplished through the issuance of Certificates of Participation, Series 1994, to be repaid from the proceeds of rents paid by the District.

On February 1, 1999, the District amended the master lease-purchase agreement, whereby the District secured additional financing of educational facilities in the amount of \$41,500,000. The financing was accomplished through the issuance of Certificates of Participation, Series 1999, to be repaid from the proceeds of rents paid by the District.

On July 1, 2004, the District amended the master lease-purchase agreement, whereby the District secured additional financing of educational facilities in the amount of \$11,310,000. The financing was accomplished through the issuance of Certificates of Participation, Series 2004, to be repaid from the proceeds of rents paid by the District.

On April 1, 2007, the District amended the master lease-purchase agreement, whereby the District secured additional financing of educational facilities in the amount of \$49,330,000. The financing was accomplished through the issuance of Certificates of Participation, Series 2007, to be repaid from the proceeds of rents paid by the District.

On July 16, 2010, the District amended the master lease-purchase agreement, whereby the District issued Refunding Certificates of Participation, Series 2010, in the amount of \$37,090,000 to refund the outstanding Certificates of Participation, Series 1999.

On July 25, 2013, the District amended the master lease-purchase agreement, whereby the District issued Refunding Certificates of Participation, Series 2013, in the amount of \$7,152,900 to refund the outstanding Certificates of Participation, Series 2004.

On March 18, 2015, the District amended the master lease-purchase agreement, whereby the District issued Refunding Certificates of Participation, Series 2015, in the amount of \$49,065,000 to refund the outstanding Certificates of Participation, Series 2007.

As a condition of these financing arrangements, the District has given a ground lease on District property to the Corporation, with a rental fee of \$10 per year. The initial term of the lease commenced on November 1, 1994, and ends on the earliest of (a) payment of the outstanding Series 2007 Certificates, Series 2010 Certificates, Series 2013 Certificates, and Series 2015 Certificates, or (b) June 30, 2034. The properties covered by the ground lease are, together with the improvements constructed thereon from the financing proceeds, leased back to the District. If the District fails to renew the lease and to provide or the rent payments through the term, the District may be required to surrender the sites included in the Ground Lease Agreement for the benefit of the securers of the certificates for a period of time specified by the arrangement which may be through June 30, 2034.

The District properties included in the ground lease under the master lease-purchase agreement include properties at Patronis Elementary School, Lucille Moore Elementary School, Robert L. Young Service Center, J.R. Arnold High School, Emerald Bay Academy, New Horizons Learning Center, Breakfast Point Academy, and Deer Point Elementary School.

The Refunding Certificates of Participation, Series 2010, include outstanding serial certificates maturing from 2017 through 2023. These payments are payable by the District, semiannually, on July 1 and January 1 at interest rate ranging from 3.5 to 4.5 percent.

The Refunding Certificates of Participation, Series 2013, include outstanding serial certificates maturing from 2017 through 2023. These payments are payable by the District, semiannually, on July 1 and January 1 at an interest rate of 2.21 percent.

The Refunding Certificates of Participation, Series 2015, include outstanding serial certificates maturing from 2017 through 2029. These payments are payable by the District, semiannually, on July 1 and January 1 at an interest rate of 2.56 percent.

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:

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 7,573,040	\$ 5,385,700	\$ 2,187,340
2019	7,567,773	5,549,400	2,018,373
2020	7,566,841	5,728,800	1,838,041
2021	7,568,254	5,925,500	1,642,754
2022	7,569,902	6,129,500	1,440,402
2023-2027	35,517,623	31,230,600	4,287,023
2028-2029	14,373,632	13,840,000	533,632
Total Minimum Lease Payments	\$ 87,737,065	\$ 73,789,500	\$ 13,947,565

3. Bonds Payable

Bonds payable at June 30, 2017, are as follows:

<u>Bond Type</u>	<u>Amount Outstanding</u>	<u>Interest Rates (Percent)</u>	<u>Annual Maturity To</u>
State School Bonds:			
Series 2009A, Refunding	\$ 40,000	5	2019
Series 2014B, Refunding	820,000	2 - 5	2020
Total Bonds Payable	\$ 860,000		

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, 2017, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
State School Bonds:			
2018	\$ 727,570	\$ 687,000	\$ 40,570
2019	98,220	92,000	6,220
2020	82,620	81,000	1,620
Total Bonds Payable	\$ 908,410	\$ 860,000	\$ 48,410

4. Defeased Debt

In a prior year, the Certificates of Participation (COPs), Series 2007, were defeased in substance by placing a portion of the proceeds of 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 July 1, 2017, the District will call the Refunding COPs, Series 2007, totaling \$44,185,000 at 100 percent.

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
GOVERNMENTAL ACTIVITIES					
Obligations Under Capital Lease	\$ 133,416	\$ -	\$ 133,416	\$ -	\$ -
Bonds Payable	1,516,000	-	656,000	860,000	687,000
Sales Tax Revenue Anticipation Note Payable	21,809,000	-	5,506,000	16,303,000	4,932,000
Certificates of Participation Payable	79,069,200	-	5,279,700	73,789,500	5,385,700
Estimated Insurance Claims Payable	15,019,325	3,609,784	3,504,295	15,124,814	4,058,088
Compensated Absences Payable	10,120,704	728,904	842,783	10,006,825	2,024,141
Net Pension Liability	81,265,627	61,831,895	24,653,322	118,444,200	1,329,287
Other Postemployment Benefits Payable	44,605	671,574	675,014	41,165	-
Total Governmental Activities	\$ 208,977,877	\$ 66,842,157	\$ 41,250,530	\$ 234,569,504	\$ 18,416,216
BUSINESS-TYPE ACTIVITIES					
Compensated Absences Payable	\$ 140,184	\$ 113,938	\$ 3,115	\$ 251,007	\$ 36,866
Net Pension Liability	473,726	483,395	192,737	764,384	10,392
Total Business-Type Activities	\$ 613,910	\$ 597,333	\$ 195,852	\$ 1,015,391	\$ 47,258

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 proprietary funds, as discussed in Note I.G.7.

I. Fund Balance Reporting

In addition to committed and assigned fund balance categories discussed in Note I.F.10., fund balances may be classified as follows:

- **Nonspendable Fund Balance.** Nonspendable fund balance is the net current financial resources that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. Generally, not in spendable form means that an item is not expected to be converted to cash.
- **Restricted Fund Balance.** Restricted fund balance is the portion of fund balance on which constraints have been placed by creditors, grantors, contributors, laws or regulations of other governments, constitutional provisions, or enabling legislation. Restricted fund balance places the most binding level of constraint on the use of fund balance.
- **Unassigned Fund Balance.** The unassigned fund balance is the portion of fund balance that is the residual classification for the General Fund. This balance represents amounts that have not been assigned to other funds and that have not been restricted, committed, or assigned for specific purposes.

J. Interfund Receivables and Payables

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

Funds	Interfund	
	Receivables	Payables
Major:		
General	\$ 2,888,474	\$ 3,709,608
Capital Projects:		
Local Capital Improvement	12,669	1,565,490
Enterprise:		
Beacon Learning Center	-	70,182
Nonmajor Governmental	260	1,259,798
Internal Service	3,709,334	5,659
Total	\$ 6,610,737	\$ 6,610,737

The interfund receivables and payables represent the payment of expenditures by one fund for another fund and will be repaid within 12 months.

K. Revenues and Expenditures/Expenses

1. Schedule of State Revenue Sources

The following is a schedule of the District's State revenue sources for the 2016-17 fiscal year:

Source	Amount
Florida Education Finance Program	\$ 80,381,564
Categorical Educational Program - Class Size Reduction	30,778,451
Workforce Development Program	2,872,440
Gross Receipts Tax (Public Education Capital Outlay)	1,758,514
Voluntary Prekindergarten Program	1,503,247
Charter School Capital Outlay	1,126,288
School Recognition	754,924
Motor Vehicle License Tax (Capital Outlay & Debt Service)	727,914
Discretionary Lottery Funds	463,493
Capital Outlay and Debt Service Distributed	253,879
Food Service Supplement	120,722
State License Tax	45,037
Miscellaneous	1,712,483
Total	\$ 122,498,956

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

2. Property Taxes

The following is a summary of millages and taxes levied on the 2016 tax roll for the 2016-17 fiscal year:

General Fund	Millages	Taxes Levied
Nonvoted School Tax:		
Required Local Effort	4.525	\$ 73,049,890
Prior Period Funding Adjustment	0.002	32,287
Basic Discretionary Local Effort	0.748	12,075,429
Capital Projects - Local Capital Improvement Fund		
Nonvoted Tax:		
Local Capital Improvements	1.200	19,372,347
Total	6.475	\$ 104,529,953

L. Interfund Transfers

The following is a summary of interfund transfers reported in the fund financial statements:

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	\$ 3,423,602	\$ -
Debt Service:		
Other	13,434,078	-
Capital Projects:		
Local Capital Improvement	-	9,242,793
Other	-	5,798,319
Nonmajor Governmental	-	1,816,568
Total	\$ 16,857,680	\$ 16,857,680

The interfund transfers are mainly to provide for debt payments and to assist in financing maintenance operations of the District. The remaining transfers between funds were operational in nature.

III. INTERNAL SERVICE FUNDS

The following is a summary of financial information as reported in the internal service funds for the 2016-17 fiscal year:

	<u>Total</u>	<u>Group Health Insurance</u>	<u>Property and Casualty Insurance</u>
Total Assets and Deferred Outflows	\$ 26,423,524	\$ 7,377,937	\$ 19,045,587
Liabilities and Net Position:			
Payroll Deductions and Withholdings	108	-	108
Accounts Payable	1,576,562	1,562,142	14,420
Due to Other Funds	5,659	-	5,659
Compensated Absences Payable	25,354	-	25,354
Estimated Insurance Claims Payable	15,950,673	825,859	15,124,814
Net Pension Liability	515,309	-	515,309
Deferred Inflows	24,277	-	24,277
Net Position:			
Unrestricted Net Assets	8,325,582	4,989,936	3,335,646
Total Liabilities, Deferred Inflows, and Net Position	<u>\$ 26,423,524</u>	<u>\$ 7,377,937</u>	<u>\$ 19,045,587</u>
Revenues:			
Premium Income	\$ 28,606,171	\$ 22,010,888	\$ 6,595,283
Interest Income	103,639	16,559	87,080
Other	2,212	-	2,212
Total Revenues	28,712,022	22,027,447	6,684,575
Total Expenses	<u>(25,108,335)</u>	<u>(19,206,627)</u>	<u>(5,901,708)</u>
Change in Net Position	<u>\$ 3,603,687</u>	<u>\$ 2,820,820</u>	<u>\$ 782,867</u>

OTHER REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule General Fund For the Fiscal Year Ended June 30, 2017

	General Fund			Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues				
Intergovernmental:				
Federal Direct	\$ 650,520	\$ 706,300	\$ 648,383	\$ (57,917)
Federal Through State and Local State	500,000	844,290	1,818,630	974,340
	119,950,201	118,386,167	118,457,475	71,308
Local:				
Property Taxes	81,530,794	81,530,794	82,636,552	1,105,758
Miscellaneous	2,769,520	5,282,656	6,209,714	927,058
Total Local Revenues	<u>84,300,314</u>	<u>86,813,450</u>	<u>88,846,266</u>	<u>2,032,816</u>
Total Revenues	<u>205,401,035</u>	<u>206,750,207</u>	<u>209,770,754</u>	<u>3,020,547</u>
Expenditures				
Current - Education:				
Instruction	152,569,435	151,628,976	141,296,951	10,332,025
Student Support Services	7,931,104	8,146,551	7,527,762	618,789
Instructional Media Services	2,854,577	2,959,720	2,328,993	630,727
Instruction and Curriculum Development Services	2,888,382	3,114,612	2,936,528	178,084
Instructional Staff Training Services	1,313,159	1,524,207	1,443,712	80,495
Instruction-Related Technology Board	2,785	17,192	15,899	1,293
General Administration	920,843	877,322	754,780	122,542
School Administration	648,851	675,566	675,179	387
Facilities Acquisition and Construction	13,281,621	14,226,970	14,171,946	55,024
Fiscal Services	565,074	596,245	584,146	12,099
Food Services	2,653,447	1,881,496	1,690,050	191,446
Central Services	-	-	14	(14)
Student Transportation Services	3,163,309	3,343,722	2,892,176	451,546
Operation of Plant	9,195,323	8,866,174	8,917,413	(51,239)
Maintenance of Plant	17,662,281	18,239,819	16,520,218	1,719,601
Administrative Technology Services	5,132,661	5,095,474	4,427,153	668,321
Community Services	3,365,648	3,460,965	3,304,059	156,906
Fixed Capital Outlay:	2,029,061	2,107,572	1,984,556	123,016
Other Capital Outlay	-	1,439,019	584,686	854,333
Total Expenditures	<u>226,177,561</u>	<u>228,201,602</u>	<u>212,056,221</u>	<u>16,145,381</u>
Deficiency of Revenues Over Expenditures	<u>(20,776,526)</u>	<u>(21,451,395)</u>	<u>(2,285,467)</u>	<u>19,165,928</u>
Other Financing Sources				
Transfers In	1,868,048	2,896,102	3,423,602	527,500
Net Change in Fund Balances	<u>(18,908,478)</u>	<u>(18,555,293)</u>	<u>1,138,135</u>	<u>19,693,428</u>
Fund Balances, Beginning	26,616,781	26,616,779	26,616,779	-
Fund Balances, Ending	<u>\$ 7,708,303</u>	<u>\$ 8,061,486</u>	<u>\$ 27,754,914</u>	<u>\$ 19,693,428</u>

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (1) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
07/01/12	\$ -	\$ 5,440,590	\$ 5,440,590	0.0%	\$ 85,435,020	6.37%
07/01/14	-	4,809,944	4,809,944	0.0%	85,033,475	5.66%
07/01/16	-	5,402,042	5,402,042	0.0%	90,009,646	6.00%

Note: (1) The District's OPEB actuarial valuation used the entry age normal cost 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)**

	2016	2015	2014	2013
District's proportion of the FRS net pension liability	0.288077399%	0.313827488%	0.317902372%	0.310217062%
District's proportionate share of the FRS net pension liability	\$ 72,739,769	\$ 40,535,029	\$ 19,396,720	\$ 53,402,163
District's covered payroll	\$ 123,114,770	\$ 122,615,413	\$ 119,580,531	\$ 115,355,362
District's proportionate share of the FRS net pension liability as a percentage of its covered payroll	59.08%	33.06%	16.22%	46.29%
FRS Plan fiduciary net position as a percentage of the total pension liability	84.88%	92.00%	96.09%	88.54%

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

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

	2017	2016	2015	2014
Contractually required FRS contribution	\$ 7,231,656	\$ 7,025,227	\$ 7,651,381	\$ 6,963,411
FRS contributions in relation to the contractually required contribution	(7,231,656)	(7,025,227)	(7,651,381)	(6,963,411)
FRS contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
District's covered payroll	\$ 124,140,536	\$ 123,114,770	\$ 122,615,413	\$ 119,580,531
FRS contributions as a percentage of covered payroll	5.83%	5.71%	6.24%	5.82%

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

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
District's proportion of the HIS net pension liability	0.398717000%	0.404026266%	0.402468985%	0.396940621%
District's proportionate share of the HIS net pension liability	\$ 46,468,815	\$ 41,204,324	\$ 37,631,832	\$ 34,558,900
District's covered payroll	\$ 123,114,770	\$ 122,615,413	\$ 119,580,531	\$ 115,355,362
District's proportionate share of the HIS net pension liability as a percentage of its covered payroll	37.74%	33.60%	31.47%	29.96%
HIS Plan fiduciary net position as a percentage of the total pension liability	0.97%	0.50%	0.99%	1.78%

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

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required HIS contribution	\$ 2,060,574	\$ 2,043,679	\$ 1,544,440	\$ 1,378,723
HIS contributions in relation to the contractually required contribution	(2,060,574)	(2,043,679)	(1,544,440)	(1,378,723)
HIS contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
District's covered payroll	\$ 124,140,536	\$ 123,114,770	\$ 122,615,413	\$ 119,580,531
HIS contributions as a percentage of covered payroll	1.66%	1.66%	1.26%	1.15%

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

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 object level (e.g., salaries, purchased services, and capital outlay) within each activity (e.g., instruction, student transportation 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.

**2. Schedule of Net Pension Liability and Schedule of Contributions –
Florida Retirement System Pension Plan**

Changes of Assumptions. The long-term expected rate of return was decreased from 7.65 percent to 7.6 percent, and the active member mortality assumption was updated.

**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 3.8 percent to 2.85 percent.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Bay County District School Board Schedule of Expenditures of Federal Awards For the Fiscal Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor/ Program or Cluster	Federal CFDA Number	Pass - Through Entity Identifying Number	Passed Through to Subrecipients	Total Expenditures
Clustered				
Child Nutrition Cluster:				
United States Department of Agriculture:				
Florida Department of Agriculture and Consumer Services:				
School Breakfast Program	10.553	17002	\$ -	\$ 1,600,184
National School Lunch Program	10.555	17001, 17003	-	6,454,055
Summer Food Service Program for Children	10.559	16006, 16007, 17006, 17007	-	180,023
Total Child Nutrition Cluster			-	8,234,262
Student Financial Assistance Cluster				
United States Department of Education:				
Federal Pell Grant Program	84.063	N/A	-	1,230,261
Special Education Cluster:				
United States Department of Education:				
Florida Department of Education:				
Special Education - Grants to States	84.027	263	-	5,951,559
Special Education - Preschool Grants	84.173	267	-	185,656
Total Special Education Cluster			-	6,137,215
Not Clustered				
United States Department of Agriculture:				
Florida Department of Health:				
Child and Adult Care Food Program	10.558	A-4504	-	390,514
United States Department of Defense:				
Marine Corps Junior Reserve Officers Training Corps	12.UNK	N/A	-	62,685
Navy Junior Reserve Officers Training Corps	12.UNK	N/A	-	65,140
Air Force Junior Reserve Officers Training Corps	12.UNK	N/A	-	143,650
Total United States Department of Defense			-	271,475
United States Department of Education:				
Impact Aid	84.041	N/A	-	376,908
Florida Department of Education:				
Adult Education - Basic Grants to States	84.002	193	-	255,103
Title I Grants to Local Educational Agencies	84.010	212, 223, 226	-	6,963,847
Career and Technical Education - Basic Grants to States	84.048	161	-	368,972
Education for Homeless Children and Youth	84.196	127	-	78,942
Charter Schools	84.282	298	167,675	167,675
English Language Acquisition State Grants	84.365	102	-	97,354
Improving Teacher Quality State Grants	84.367	224	-	965,148
Total United States Department of Education			167,675	9,273,949
United States Department of Health and Human Services:				
Chemical Addictions Recovery Effort, Inc.:				
Block Grants for Prevention and Treatment of Substance Abuse	93.959	C007	-	150,000
Total Expenditures of Federal Awards			\$ 167,675	\$ 25,687,676

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 Bay County District School Board under programs of the Federal Government for the fiscal year ended June 30, 2017. 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 reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following 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 – National School Lunch Program. Includes \$722,459 of donated food received during the fiscal year. Donated foods are valued at fair value as determined at the time of donation.
- (5) Impact Aid. Expenditures are related to grant number/program \$37,903 for S041B-2015-1234 and \$339,005 for S041B-2017-1234.



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 business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Bay County District School Board, as of and for the fiscal year ended June 30, 2017, 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 29, 2018, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the Tom P. Haney Technical Center 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 the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** as Financial Statement Finding No. 2017-001, that we consider to be a significant deficiency.

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*.

District's Response to Finding

The District's response to the finding identified in our audit is described in the accompanying **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** Financial Statement Finding No. 2017-001 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 it.

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 29, 2018



Sherrill F. Norman, CPA
Auditor General

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The President of the Senate, the Speaker of the
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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 Bay 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, 2017. The District's major Federal programs are identified in **SECTION I – SUMMARY OF AUDITOR'S RESULTS** 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, 2017.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** as Federal Awards Finding Nos. 2017-002 through 2017-004. Our opinion on each major Federal program is not modified with respect to these matters.

The District's responses to the noncompliance findings identified in our audit are described in the accompanying **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** Federal Awards Finding Nos. 2017-002 through 2017-004 and in the **CORRECTIVE ACTION PLAN**. The District's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** as Federal Awards Finding Nos. 2017-002 through 2017-004, that we consider to be significant deficiencies.

The District's responses to the internal control over compliance findings identified in our audit are described in the accompanying **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** Federal Awards Finding Nos. 2017-002 through 2017-004 and in the **CORRECTIVE ACTION PLAN**. The District's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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 29, 2018

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SECTION I – 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? Yes

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major Federal programs:

Material weakness(es) identified? No

Significant deficiency(ies) identified? Yes

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)? Yes

Identification of major Federal programs:

CFDA Numbers:	Name of Federal Program or Cluster:
10.553, 10.555, and 10.559	Child Nutrition Cluster
84.063	Federal Pell Grant Program

Dollar threshold used to distinguish between type A and type B programs: \$770,630

Auditee qualified as low risk auditee? Yes

SECTION II – FINANCIAL STATEMENT FINDING

SIGNIFICANT DEFICIENCY

Financial Reporting

Finding Number	2017-001
Opinion Units	Governmental Activities, Business-Type Activities, and Major Fund: Beacon Learning Center Enterprise Fund
Financial Statements Account Titles	Government-wide Financial Statements – Governmental Activities: Deferred Outflows of Resources – Pensions; Deferred Inflows of Resources – Pensions; Long-Term Liabilities – Portion Due after One Year; Long-Term Liabilities – Portion Due Within One Year; Beginning Net Position; and various other functional expenses. Government-wide Financial Statements – Business-Type Activities and Major Enterprise Fund: Deferred Outflows of Resources – Pensions, Deferred Inflows of Resources – Pensions, Long-Term Liabilities – Portion Due after One Year, Long-Term Liabilities – Portion Due Within One Year, Beginning Net Position, and a net debit entry to Business-Type Activities Beacon Learning Center expenses or Employee Benefits expense of the Major Enterprise Fund.
Fund Names	Beacon Learning Center Enterprise Fund
Adjustment Amounts	Government-wide, and proprietary fund financial statements audit adjustments. For example: <ul style="list-style-type: none">• Governmental Activities: Additions of \$4,022,618, \$1,329,287, and \$612,994 for Deferred Inflows of Resources – Pensions, Long-Term Liabilities – Portion Due within One Year, and Beginning Net Position, respectively; and reductions of \$1,696,055 and \$2,093,671 for Deferred Outflows of Resources – Pensions and Long-Term Liabilities – Portion Due after One Year, resulting in various offsetting net debit entries to functional expenses totaling \$5,567,283.• Business-Type Activities and Beacon Learning Center Enterprise Fund: Additions of \$312,404 to Deferred Outflows of Resources – Pensions, \$14,589 to Deferred Inflows of Resources – Pensions, \$10,392 to Long-Term Liabilities – Portion Due Within One Year, \$753,992 to Long-Term Liabilities – Portion Due after One Year, and a reduction to Beginning Net Position totaling \$426,080, resulting in offsetting net debit entry to Business-Type Activities Beacon Learning Center expenses or Employee Benefits expense of the Beacon Learning Center Enterprise Fund totaling \$40,489.
Statistically Valid Sample	Not Applicable
Prior Year Finding	Not Applicable
Finding	District financial reporting needs improvement to ensure financial statement account balances and transactions are properly reported.
Criteria	State Board of Education Rule 6A-1.0071, Florida Administrative Code, and related instructions from the Florida Department of Education 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). For example, GAAP require that contributions made subsequent to the measurement date of the collective net pension liability and before the end of the employer’s reporting period should be reported as deferred outflows of resources related to pensions.

Condition	<p>On the government-wide financial statements for governmental activities, the District over reported Deferred Outflows of Resources – Pensions and Long-Term Liabilities – Portion Due after One Year, and under reported Deferred Inflows of Resources – Pensions, Long-Term Liabilities - Portion Due within One Year, Beginning Net Position. As a result of these misstatements, various functional expenses were understated.</p> <p>On the government-wide financial statements for business-type activities and the Beacon Learning Center Enterprise Fund, the District over reported Beginning Net Position, and under reported Deferred Outflows of Resources – Pensions, Deferred Inflows of Resources – Pensions, Long-Term Liabilities - Portion Due within One Year, and Long-Term Liabilities – Portion Due after One Year. As a result of these misstatements, the Business-Type Activities Beacon Learning Center expenses or Employee Benefits expense of the Beacon Learning Center Enterprise Fund were understated.</p>
Cause	In preparing the government-wide financial statements for the 2016-17 fiscal year, District personnel did not consider the pension-related 2015-16 fiscal year audit adjustment and misunderstood the accounting treatment for pension activities. In addition, District review procedures did not detect these reporting errors.
Effect	<p>Reporting errors such as these may cause financial statement users to misunderstand District financial activities and incorrectly assess the District's financial position.</p> <p>We expanded our audit procedures to determine the adjustments necessary to ensure District financial statement amounts were properly reported, and District personnel accepted these adjustments. However, our audit procedures cannot substitute for management's responsibility for proper financial reporting.</p>
Recommendation	The District should improve procedures to ensure that pension activities and related account balances are properly reported.
District Response	During the close-out process, the District will review these errors and make every effort to not make the same mistakes.

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

U.S. DEPARTMENT OF AGRICULTURE

Finding Number	2017-002
CFDA Number	10.553, 10.555, and 10.559
Program Title	Child Nutrition Cluster (CNC)
Compliance Requirement	Eligibility and Special Tests and Provisions
Pass-Through Entity	Florida Department of Agriculture and Consumer Services (FDACS)
Federal Grant/Contract Number and Grant Year	Contract #18068 - 2017
Statistically Valid Sample	No
Finding Type	Noncompliance and Significant Deficiency
Questioned Costs	None
Prior Year Finding	Not Applicable
Finding	Improvements were needed in the District's process for verifying free and reduced-price meal applications.
Criteria	Title 7, Section 245.6, Code of Federal Regulations (CFR), provides application and other documentation requirements for a child to qualify for meals served free

or at a reduced price under the School Breakfast and National School Lunch programs. Children qualify for free or reduced-price meals based on household income and categorical eligible children are automatically eligible for free meal benefits because they, or any household member, receive benefits from, or are eligible for, certain other assistance programs. Also, Title 7, Section 245.6a, CFR, provides, in part, that the District must verify the household income of the lesser of 3,000 or 3 percent of the free and reduced-price meal applications approved as of October 1. The sample must be selected from error-prone applications defined as applications that indicate monthly income within \$100, or annual income within \$1,200, of the applicable income eligibility limit for free or reduced-price meals.

Title 7, Section 245.6a(c)(7), CFR, states that in addition to the required verification sample, the District must verify any questionable application and should, on a case-by-case basis, verify any application for cause such as an application on which a household reports zero income or when a District is aware of additional income or persons in the household. The CFR also provides that, if an application is verified for cause, all verification procedures in this section must be followed.

Title 7, Section 245.6a(a)(7), CFR, provides that the sources of verification may include written evidence as the primary source of verification and includes written confirmation of a household's circumstances, such as wage stubs, award letters, and letters from employers. If written evidence is insufficient to confirm income information on the application or current eligibility, the District may use collateral contacts or verbal confirmation by a person outside the household.

Title 7, Section 245.6a(f)(2), CFR, also provides that the documentation of income must indicate the source, amount, and frequency of all income and can be for any point in time between the month prior to application for school meal benefits and the time the household is requested to provide income documentation.

The *USDA, Eligibility Manual for School Meals: Determining and Verifying Eligibility for the School Year 2016-17 (Manual)* requires that reportable income to be included on the free and reduced-price meal application include earnings from work, public assistance, and any other income regularly received. In addition, the *Manual* provides that, if the household submits a pay stub that includes overtime, the determining official should work with the household to determine whether the overtime for the month being verified is representative of overtime received in other months. If the application being verified indicates zero income, the District must request an explanation of how living expenses are met and may request additional written documentation or collateral contacts.

Condition

For the 2016-17 fiscal year, the District had a total of 1,989 free and reduced-price meal applications and District personnel verified 60 (3 percent) of the applications. However, our examination of District records supporting 14 selected applications disclosed that the District did not document compliance with the Federal verification requirements for 6 applications. Specifically:

- Overtime wages were not included in gross household income for 2 applications based on our examination of several paystubs and the year-to-date amount of overtime earnings. Although we requested, District records were not provided to evidence that the District worked with the household to determine whether the overtime pay was income regularly received and should have been included in determining household income. If overtime income was included, the meal status for one applicant would have changed from free to paid. While the overtime income would not have changed the meal status for the other applicant, exclusion of overtime wages from gross household income listed on the

application may cause an ineligible student to receive free or reduced-price meals.

- 1 application did not include the basic allowance for housing or basic allowance for subsistence, which the household received every month according to District records, in the gross household income. Although the information would not have changed the student's meal status, excluding such information from the household income listed on the application may cause an ineligible student to receive free or reduced-price meals.
- District records supporting another application included a letter indicating that the only household member receiving income was no longer employed; therefore, zero income was reported during the verification process. However, District records did not evidence any District follow up with the recipient to explain how living expenses were met or any requests for additional written documentation or collateral contacts.
- District personnel received income documentation that, for 1 application verified for cause, supported the income for one household member listed on the application. However, income documentation was not received for another individual who reported income on the application. The verification process should not be considered complete until documentation for all household members reporting income on the application is received.
- For another application verified for cause, the District accepted the first page of a 2015 tax return as written evidence of household income. However, such documentation is not an acceptable form of income evidence since the source and frequency of the income is not identified. In addition, the application reflected income for two household members but the tax return did not specify which member of the household earned the income. As such, District records did not evidence that the District received income documentation for all members of the household notated as receiving income on the application.

Cause	Personnel responsible for verifying free and reduced-price meal applications were not fully aware of the Federal verification requirements. In addition, during the 2016-17 fiscal year, the employee responsible for review and approval of the applications verified was new to the position and also did not fully understand the verification requirements.
Effect	Without following the Federally mandated verification procedures, the District did not comply with the Federal verification requirements and may be using Federal funds to serve students who do not qualify for free or reduced-price meals.
Recommendation	The District should enhance procedures to ensure that free and reduced-price meal application verifications are performed in accordance with Federal requirements.
District Response	The District has made staffing and procedural changes that we believe will eliminate these errors.

U.S. DEPARTMENT OF AGRICULTURE

Finding Number	2017-003
CFDA Numbers	10.553, 10.555, and 10.559
Program Title	Child Nutrition Cluster (CNC)
Compliance Requirement	Special Tests and Provisions – Net Cash Resources
Pass-Through Entity	Florida Department of Agriculture and Consumer Services (FDACS)

Federal Grant/Contract Number and Grant Year	Contract #18086 – 2017
Statistically Valid Sample	Not Applicable
Finding Type	Noncompliance and Significant Deficiency
Questioned Costs	Not Applicable
Prior Year Finding	Not Applicable

Finding Contrary to Federal regulations, the District maintained excess net cash resources in the District food service program.

Criteria Title 7, Section 210.14(b), CFR, requires the District to limit the net cash resources of the District food service program to an amount that does not exceed 3 months' average expenditures or another amount established by the FDACS pursuant to Title 7, Section 210.19(a), CFR. In addition, FDACS instructions allow the District to calculate the excess net cash resources amount based on 10 or 12 months of operations. Title 7, Section 210.19(a), CFR, also provides that, should the net cash resources exceed the 3 months' average expenditures or an amount established by the FDACS, the FDACS may require the District to reduce the price charged to students for lunches, improve food quality, or take action designed to improve the food service program. Without such action, the FDACS must make adjustments to the District reimbursement rate under the National School Lunch Program (NSLP) to ensure Federal compliance.

Condition At June 30, 2017, the District had excess net cash resources of \$1,233,201 based on total net cash resources (\$4,219,377) less the average 3 months' 2016-17 fiscal year expenditures (\$2,986,176). The average expenditures were calculated on a 10-month basis that excluded Summer Food Service Program activities.

Cause District personnel indicated that the excessive net cash resources occurred due to the District accumulating money for large capital outlay purchases for updating outdated serving lines at several District schools.

Effect If the District does not bring excess net cash resources into compliance with the Federal regulations, the FDACS may require the District to reduce the price charged to students for lunches or make adjustments to the District reimbursement rate under the NSLP.

Recommendation The District should enhance procedures to ensure that net cash resources of the food service program are maintained within the level prescribed by Federal regulations.

District Response The planned capital expenditures associated with our renovations should eliminate excess cash.

U.S. DEPARTMENT OF EDUCATION

Finding Number	2017-004
CFDA Number	84.063
Program Title	Student Financial Assistance (SFA) Cluster Federal Pell Grant Program (Program)
Compliance Requirement	Special Tests and Provisions – Enrollment Reporting – National Student Loan Data System (NSLDS)
Pass-Through Entity	Not Applicable
Federal Grant/Contract Number and Grant Year	P063P163385-2017
Statistically Valid Sample	No
Finding Type	Noncompliance and Significant Deficiency

Questioned Costs	Not Applicable
Prior Year Finding	Not Applicable
Finding	The District did not always accurately and timely report Program enrollment data.
Criteria	<p>Title 34, Section 685.309(b)(2), CFR, requires the District to submit reports in accordance with deadlines established by the United States Department of Education (ED). The ED Dear Colleague Letter GEN 14-07 provides that enrollment information will be requested from schools every 60 days and schools will be required to respond to those requests using the NSLDS within 15 days of the date that the ED sends the electronic enrollment reporting roster to the school or to the school's designated third-party servicer.</p> <p>Schools have the ability to report enrollment data to the NSLDS by batch or online submission. While reporting enrollment information every 60 days will satisfy the enrollment reporting requirement, the NSLDS allows schools to report more frequently than is required by allowing schools to request enrollment information to be sent more often than every 60 days and by allowing schools to enter ad-hoc updates to a student's enrollment on the NSLDS Web site.</p>
Condition	<p>From the population of 407 students who received Program funds and were selected for our eligibility and disbursement and return of Title IV funds audit procedures, we examined District records supporting 40 selected students to determine whether the District accurately and timely reported enrollment changes using the NSLDS. We found that the District did not always timely report student enrollment and withdrawals as:</p> <ul style="list-style-type: none"> • 6 students, who withdrew from class, had not been reported as withdrawn at the time of our inquiry in January 2018. The District subsequently reported the withdrawals, which were 242 to 339 days or an average of 291 days after the students' respective withdrawal dates. • The enrollment of 4 students was reported 84 to 259 or an average of 149 days after enrollment.
Cause	The District lacked adequate procedures to ensure accurate and timely reporting of student enrollment and withdrawals.
Effect	When the NSLDS is not timely provided accurate information, the NSLDS cannot be used to monitor and evaluate the enrollment status of Program grant recipients.
Recommendation	The District should enhance procedures to ensure that enrollment status changes for Program grant recipients are accurately and timely reported using the NSLDS.
District Response	The District has implemented new procedures that should eliminate these issues.

PRIOR AUDIT FOLLOW-UP

There were no prior financial statement or Federal awards findings requiring follow-up.

SUMMARY SCHEDULE OF PRIOR AUDIT

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

CORRECTIVE ACTION PLAN



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District 1

Ginger Littleton
District 2

Joe Wayne Walker
District 3

Ryan Neves
District 4

Steve Moss
District 5

March 26, 2018
Bay County District School Board
Management's Corrective Action Plans
For the Fiscal Year Ended June 30, 2017

Finding Number: 2017-001

Planned Corrective Action:

In preparing next year's Annual Financial Report the District will review all the Auditor General's Adjusting entries made this year and make every effort to not make those mistakes again. District staff plans on going to additional training on new GASB rules and will consider hiring consultants in an effort to keep current on the ever changing rules of financial reporting.

Anticipated Completion Date: 9/11/2018
Responsible Contact Person: Jim Loyed

Federal Awards Finding Number: 2017-002

Planned Corrective Action:

The Food Service Department had an employee in the position of Free and Reduced Application Specialist who retired in the 2016-2017 school year. One year prior to this, our System Support Specialist retired as well. During a time of transition, professional standards training had taken place. Verification training, conducted by the state, has now been taken by everyone on the Food Service staff. Future Verification entries will be entered correctly and deadlines will be met. The District has made an effort to ensure that free and reduced-price meal application verifications are performed in accordance with Federal requirements.

Anticipated Completion Date: March 15, 2018
Responsible Contact Person: Sandra Davis

Federal Awards Finding Number: 2017-003

Planned Corrective Action:

The District has accumulated more cash than we anticipated. In an effort to improve our Food Service Program the District has a plan for capital improvements. Unfortunately those capital improvements are linked to other District renovation projects that have been unexpectedly delayed. These projects are now underway and the excess cash should be spent by the end of the year.

Anticipated Completion Date: June 30, 2018

Responsible Contact Person: Sandra Davis

Federal Awards 2017-004

Planned Corrective Action:

Whereas the District does not participate in the loan program of Title IV, it is required to report enrollment for all students who receive Pell grants into NSLDS (National Student Loan Data System.) The District has had procedures in place to do this since 2012. During the State audit in 2014, it was determined that the process in place was inadequate and a new process was developed and used from that time forward. The District reported initial student enrollments timely and accurately, however, updates to enrollments due to status changes, i.e. withdrawals, completions/graduations were sometimes missed by responsible personnel for various reasons. One of the major reasons on the timeliness was not knowing that NSLDS web inputs required processing the withdrawal updates twice. This was not known until December, 2016, at which time we immediately processed all the pending withdrawals that had been in limbo. Since we are a clock-hour institution with multiple enrollment dates and almost continuous withdrawal/completion/graduation dates, our procedures are to do the NSLDS updates as they occur. However, we did not have a procedure in place to review the updates that were being made nor if all enrollment status updates were made timely and accurately.

Beginning with the 17-18 school year, student withdrawal procedure was enhanced to ensure that Financial Aid would be notified of all enrollment status changes. During the audit, the process was put in place to have Financial Aid personnel label the students files with the date that NSLDS was updated with the enrollment status change and put a copy of the NSLDS web confirmation in the students file. The Financial Aid Administrator will review the student files to ensure timeliness and accuracy of the input data.

Anticipated Completion Date: 03/15/18

Responsible Contact Person: Ann Leonard



Bill Husfelt
Superintendent of Schools