STATE OF FLORIDA AUDITOR GENERAL

Financial and Federal Single Audit

Report No. 2017-190
March 2017

PALM BEACH COUNTY DISTRICT SCHOOL BOARD

For the Fiscal Year Ended
June 30, 2016

Sherrill F. Norman, CPA
Auditor General

Board Members and Superintendent

During the 2015-16 fiscal year, Dr. Robert M. Avossa served as Superintendent of the Palm Beach County Schools and the following individuals served as School Board Members:

	District No.
Mike Murgio to 04-22-16 [a]	1
Chuck Shaw, Chairman	2
Karen M. Brill	3
Erica Whitfield	4
Frank A. Barbieri, Jr., Esq., Vice Chairman	5
Marcia Andrews	6
Dr. Debra L. Robinson	7

[a] Board member resigned and position remained vacant through 6-30-16.

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 Stefanie Johnson, CPA, and the audit was supervised by Diana G. Garza, CPA.

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

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PALM BEACH COUNTY DISTRICT SCHOOL BOARD

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SUMMARY

SUMMARY OF REPORT ON FINANCIAL STATEMENTS

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

SUMMARY OF REPORT ON INTERNAL CONTROL AND COMPLIANCE

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

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

Additional Matter

Finding No. 2016-001: District financial reporting procedures need improvement to ensure consistent, proper reporting of discretely presented component units.

SUMMARY OF REPORT ON FEDERAL AWARDS

We audited the District's compliance with applicable Federal awards requirements. The Title I and Head Start programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that could have a direct and material effect on each of its major Federal programs.

AUDIT OBJECTIVES AND SCOPE

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

- Presented the District's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements or on 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, 2016. We obtained an understanding of the District's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements and Federal awards. We also examined various transactions to determine whether they were executed, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements. The results of our operational audits of the District are included in our report Nos. 2017-042 and 2017-149.

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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STATE OF FLORIDA

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

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the 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 opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

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

Emphasis of Matter

As discussed in Note 2. to the financial statements, certain component units included in the financial statements for the 2015-16 fiscal year were excluded from the financial statements for the 2014-15 fiscal year. This matter affects the comparability of amounts reported for the 2015-16 fiscal year with amounts reported for the 2014-15 fiscal year. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS**, **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 17, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Respectfully submitted,

Sherrill F. Norman

Sherrill F. Norman, CPA
Tallahassee, Florida
March 17, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

The School District of Palm Beach County, Florida's (the "District") discussion and analysis is designed to provide an objective and easy to read analysis of the District's financial activities for the fiscal year ended June 30, 2016, based on currently known facts, decisions, or conditions. It is intended to provide a broad overview using a short-term and long-term analysis of the District's activities based on information presented in the financial report and fiscal policies that have been adopted by the seven elected members of the school board (the "Board"). Specifically, this section is designed to assist the reader in focusing on significant financial issues, provide an overview of the District's financial activity, identify changes in the District's financial position (its ability to address the next and subsequent year challenges), identify any material deviations from the financial plan (the approved budget), and identify individual fund issues or concerns.

As with other sections of this financial report, the information contained within this Management Discussion and Analysis (MD&A) should be considered only a part of the greater whole. The reader of this statement should take time to read and evaluate all sections of this report, including the notes that are provided in addition to this MD&A.

FINANCIAL HIGHLIGHTS

- The net position of the District increased $0.031 billion, or 2.4 percent, from $1.280 billion to $1.311 billion. Funding per student has slowly increased since its low point in school year 2011-12, although it has still not recovered to school year 2007-08 levels. The increase is partially related to a net pension credit to expense related to Governmental Accounting Standards Board (GASB) Statement No. 68 pension accounting. Enrollment at district schools increased 1 percent, or approximately 1,670 students (while charter school enrollment increased 6.7 percent, or approximately 1,290 students).
- The District's total long-term debt decreased by $33.7 million or 1.9 percent primarily due to debt repayments of $63.5 million, plus reduction in issuance premium of $10.3 million, defeased debt transactions of $67.9 million and reduction in borrowing–swap of $0.2 million, offset by an increase in refunding debt of $63 million, increase in negative fair value of hedging derivative instruments of $16.9 million and loan proceeds of $28.3 million (discussed in Notes 10 and 11).
- Total revenues increased by $104 million or 5.5 percent, from $1.883 billion to $1.987 billion when compared to the prior year.
    - General revenue accounted for $1.428 billion, or 71.9 percent, of all revenues and increased $89.2 million or 6.7 percent. This increase is primarily attributed to property tax increase of $106.5 million (mainly due to a 10.1 percent increase in property values and $7.1 million in additional tax collections for prior years), partially offset by a $9.7 million decrease in the Florida Education Finance Program (FEFP) revenue and a $7.5 million decrease in non-recurring revenue.
    - Program specific revenue in the form of charges for services, grants and contributions accounted for $558.9 million, or 28.1 percent of all revenues and increased $14.7 million or 2.7 percent. The increase is primarily attributed to an increase in reimbursements for school lunch and breakfast programs, increase in Class Size Reduction revenue, and an increase in Afterschool Program fees.
- Total expenses increased $91.1 million from $1.865 billion to $1.956 billion. The increase in expenditures is due primarily to raises given to employees mid-year 2015 and full school

year 2016, an increase in the amount passed through to charter schools of $10.8 million, and an additional $43.2 million in interest and write-offs associated with debt refunding transactions, which were entered into to reduce future debt service payments.

- The District's governmental funds reported combined fund balances of $390.7 million.
  - The General Fund (the primary operating fund), reported on a current financial resources basis, ended the year with a fund balance of $127.3 million. Of this amount, $50 million is classified as unassigned that is available to cover unanticipated financial needs and includes the Board approved contingency, $53 million is classified as assigned, $18.3 million is classified as restricted, and $6 million is classified as nonspendable. During the current year, General Fund revenues (including other financing sources) exceeded expenditures (including other financing uses) by $10.1 million, primarily due to higher than anticipated staff vacancies and less than expected charter school enrollment and terminal leave payout.
  - Debt service funds ended the year with a fund balance of $124.3 million, which is restricted to cover debt service payments. Certificates of Participation (COPs) Debt Service Fund, a major fund, has a restricted fund balance of $118.8 million, and the remaining debt service funds which are included with the nonmajor governmental funds have a restricted fund balance of $5.5 million.
  - Capital project funds ended the year with a fund balance of $111.1 million, which is restricted or assigned to fund existing and future capital projects. The Capital Improvement Fund, a major fund, has a restricted fund balance of $40.1 million, and the remaining capital funds which are included with the nonmajor governmental funds have a $42.1 million restricted fund balance and a $28.9 million assigned fund balance.
  - Special revenue funds ended the year with a fund balance of $28 million, of which $23.8 million is restricted to child nutrition costs and $4.2 million is nonspendable inventory.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of two parts – management's discussion and analysis (this section) and the basic financial statements. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *government-wide financial statements* that provide both *short-term* and *long-term* information about the District's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations *in more detail* than the government-wide statements.
- The *governmental funds statements* tell how *basic* services like instruction and instructional support services were financed in the *short-term* as well as what remains for future spending.
- *Proprietary funds statements* offer *short-term* and *long-term* financial information about the activities the District operates *like businesses*, such as group health self-insurance and long-term claim self-insurance.
- *Fiduciary funds statements* provide information about the financial relationships in which the District acts solely as a *trustee or agent* for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data.

Figure 1
Major Features of Government-Wide and Fund Financial Statements

	Government-wide Statements	Fund Financial Statements		
		Governmental Funds	**Proprietary Funds**	**Fiduciary Funds**
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as instructional costs	Activities the District operates similar to private businesses: health internal service fund and worker's compensation, automobile and general liability claims fund	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	• Statement of net position • Statement of activities	• Balance sheet • Statement of revenues, expenditures, and changes in fund balances	• Statement of net position • Statement of revenues, expenses, and changes in fund net position • Statement of cash flows	• Statement of fiduciary net position • Statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus

Figure 1, above, summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

Government-wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes *all* of the District's assets and liabilities. All of the current year's revenue and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's *net position* and how they have changed. Net position – the difference between the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources – is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net position is an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, the reader needs to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the government-wide financial statements, all the District's activities are reported as governmental activities.

- *Governmental activities* – All of the District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and State formula aid finance most of the activities.

Additionally in the government-wide financial statements the District reports the following component units.

- The District presents 50 charter schools as separate legal entities in this report. Although legally separate organizations, the component units are included in this report because the Florida Department of Education has required school districts to report the financial information of their charter schools. Financial information for these component units is reported separately from the financial information presented for the primary government.
- The Palm Beach School Board Leasing Corporation (Corporation), although also a legally separate entity, was formed to facilitate financing of the acquisition of facilities and equipment for the District. Due to the substantive economic relationship between the District and the Corporation, the Corporation has been included as an integral part of the primary government.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's *funds*, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debts) or to show that it is properly using certain revenues (like Federal grants).

The District has three kinds of funds:

- *Governmental funds* – Most of the District's basic services are included in governmental funds, which generally focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, the District provides additional information with the governmental funds statements that explain the relationship (or differences) between them.
- *Proprietary funds* – Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide statements. There are two types of proprietary funds:
    - *Enterprise funds* account for goods and services provided to those outside the District, generally on a user-charge basis. Currently, the District has no enterprise funds.
    - *Internal service funds* report self-insurance activities charged to the District's other programs and activities.
- *Fiduciary funds* – The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that

the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong.

- The District excludes these activities from the government-wide financial statements because the District cannot use these assets to finance its operations.

Notes to Financial Statements

The notes provide disclosures and additional information that are essential to a full understanding of the financial information presented in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also provides certain required supplementary information.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Government–wide

The District's net position was $1.311 billion at June 30, 2016. The largest portion of the District's net position, $1.761 billion, reflect its investment in capital assets (i.e., land, buildings, furniture, buses 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 District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the District's net position ($237.7 million) represents resources that are subject to external restrictions on how they may be used.

Table 1

Summary of Net Position
Governmental Activities
(in thousands)

	June 30, 2016	June 30, 2015	Increase (Decrease)	Percentage Change
Current and Other Assets	$ 673,058	$ 594,008	$ 79,050	13.3%
Capital Assets (Net)	3,370,622	3,453,586	(82,964)	(2.4%)
Total Assets	4,043,680	4,047,594	(3,914)	(0.1%)
Deferred Outflows of Resources - Accumulated Decrease in Fair Value of Hedging Derivatives	91,076	74,213	16,863	22.7%
Deferred Loss on Debt Refunding	68,131	102,998	(34,867)	(33.9%)
Pensions	159,861	117,012	42,849	36.6%
Total Deferred Outflows of Resources	319,068	294,223	24,845	8.4%
Current and Other Liabilities	182,869	178,853	4,016	2.2%
Long-Term Liabilities	2,765,131	2,614,885	150,246	5.7%
Total Liabilities	2,948,000	2,793,738	154,262	5.5%
Deferred Inflows of Resources - Pensions	104,152	267,633	(163,481)	(61.1%)
Net Position:				
Net Investment in Capital Assets	1,760,930	1,816,220	(55,290)	(3.0%)
Restricted	237,692	207,159	30,533	14.7%
Unrestricted (Deficit)	(688,026)	(742,933)	54,907	7.4%
Total Net Position	$ 1,310,596	$ 1,280,446	$ 30,150	2.4%

Capital assets (net) decreased $83 million or 2.4 percent compared to prior year and primarily reflects the impact of current year depreciation exceeding capital spending.

The analyses in Table 1 and Table 2 focus on the summary of net position and summary of changes in net position for the District's governmental activities.

Table 2

Summary of Changes in Net Position
Governmental Activities
(in thousands)

	June 30, 2016	June 30, 2015	Increase (Decrease)
Revenues:			
Program Revenues:			
Charges for Services	$ 53,493	$ 47,906	$ 5,587
Operating Grants and Contributions	491,973	480,756	11,217
Capital Grants and Contributions	13,430	15,585	(2,155)
General Revenues:			
Property Taxes	1,201,557	1,095,062	106,495
Grants and Contributions Not Restricted to Specific Programs	180,622	197,265	(16,643)
Investment Earnings	3,493	2,299	1,194
Miscellaneous	41,938	43,741	(1,803)
Total Revenues	1,986,506	1,882,614	103,892
Functions/Programs Expenses			
Instruction	1,062,354	1,030,417	31,937
Instructional Support Services	170,617	168,660	1,957
Board	6,634	6,606	28
General Administration	10,089	9,033	1,056
School Administration	97,556	94,125	3,431
Facilities Acquisition and Construction	14,750	20,846	(6,096)
Fiscal Services	6,805	5,677	1,128
Food Services	81,095	77,063	4,032
Central Services	15,646	14,928	718
Student Transportation Services	48,223	45,795	2,428
Operation and Maintenance of Plant	194,129	191,642	2,487
Administrative Technology Services	7,916	7,022	894
Community Services	40,980	36,537	4,443
Unallocated Interest on Long-Term Debt	90,428	47,229	43,199
Unallocated Depreciation Expense	109,134	109,653	(519)
Total Expenses	1,956,356	1,865,233	91,123
Change in Net Position	30,150	17,381	12,769
Net Position - Beginning	1,280,446	1,911,568	(631,122)
Adjustment to Beginning Net Position (1)	-	(648,503)	648,503
Net Position - Ending	$ 1,310,596	$ 1,280,446	$ 30,150

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

The results of this year's operations for the District as a whole are reported in the statement of activities. Table 2, above, takes the information from that statement and rearranges them slightly so the reader can see the total revenues and expenses for the current year compared to fiscal year 2015.

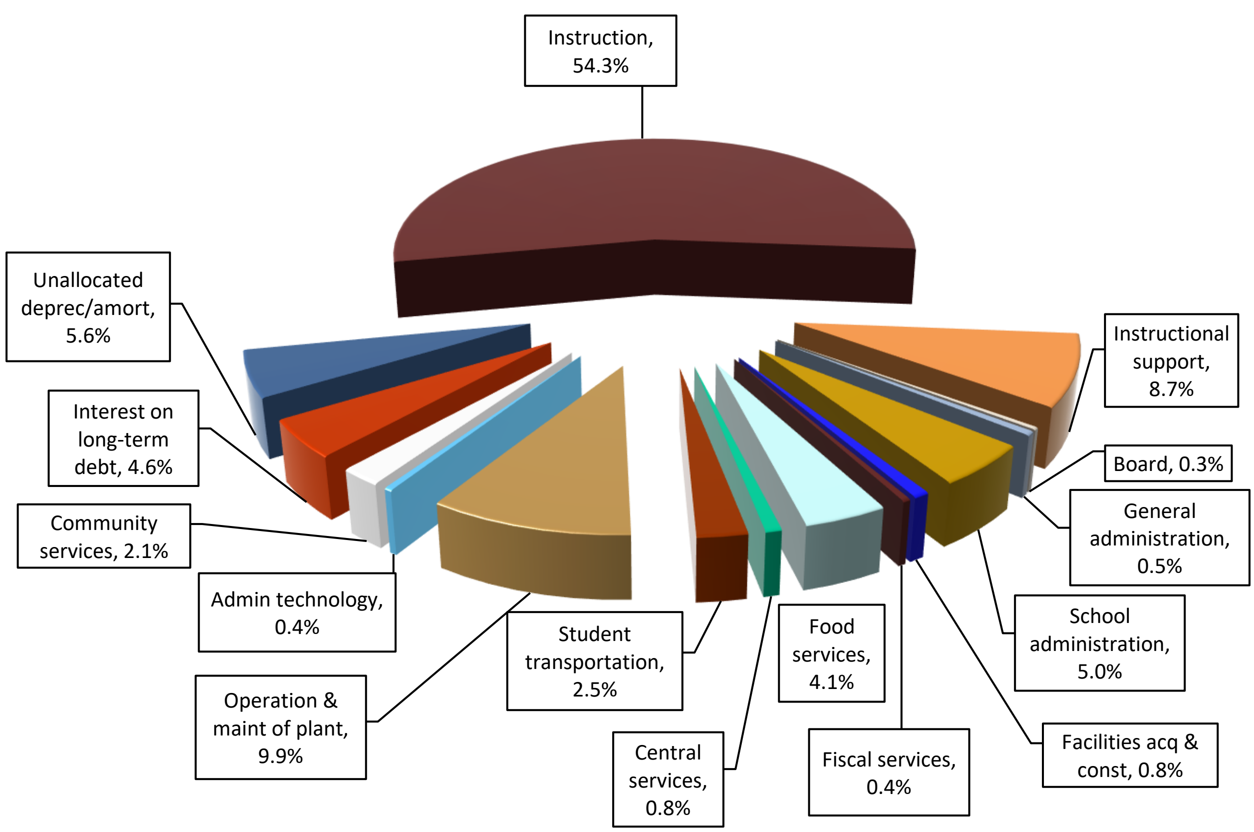
As reported in the statement of activities, the cost of all of the governmental activities this year was $1.956 billion. Some costs were paid by those who benefited from the programs ($53.5 million), or by other governments and organizations who subsidized certain programs with grants and contributions ($505.4 million). The District paid for the remaining "public benefit" portion of the governmental activities with $1.2 billion in property taxes, $180.6 million in grants and contributions not restricted to specific programs, $3.5 million in investment earnings, and $41.9 million in miscellaneous revenue.

Property taxes increased $106.5 million or 9.7 percent, which is primarily attributed to a 10.1 percent increase in property values as well as a $7.1 million higher collection of prior year taxes than in fiscal year 2015.

Grants and contributions not restricted to specific programs decreased $16.6 million or 8.4 percent, which is primarily related to a decrease of $9.7 million in FEFP revenue. FEFP revenue decreased mainly due to an increase in required local effort provided by property taxes.

The pie chart below represents total expenditures from governmental funds classified by function.

Total Government-wide Expenses by Function



FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Governmental Funds

As of June 30, 2016, the District's governmental funds reported a combined fund balance of $390.7 million, which is an increase of $64.2 million, or 19.7 percent, over the prior year.

The General Fund, which is the chief operating fund of the District and is always considered a major fund, had a fund balance of $127.3 million which is an increase of $10.1 million, or 8.6 percent. The increase is primarily due to higher than anticipated staff vacancies and less than expected charter school enrollment and terminal leave payouts. At the end of the current fiscal year, unassigned fund balance of the General Fund was $50 million.

The COPs Debt Service Fund, another major fund, reported an ending fund balance of $118.8 million, which is an increase of $27.6 million, or 30.3 percent, when compared with prior year. The District's cash, cash equivalents, and investments have increased to provide for debt service payments the District will need to make in early fiscal year 2017.

The Capital Improvement Fund, another major fund, reported an ending fund balance of $40.1 million which is an increase of $14.2 million or 54.7 percent due to the timing of revenue and capital outlay spending.

Other Governmental Funds, which represent a summarization of all the other nonmajor governmental funds, ended the year with total fund balance of $104.5 million, an increase of $12.2 million or 13.2 percent. This increase is primarily due to revenue and other financing sources exceeding current expenditures and capital outlay spending and other financing uses in the current year.

Proprietary Funds

The District's internal service funds reported a combined net position of $61.7 million. The Health Internal Service Fund ended the year with a net position of $89.1 million, which is an increase of $4.5 million or 5.3 percent over last year due to premiums exceeding claims and other expenses. The District created the Worker's Compensation, General and Auto Liabilities Claim Fund on July 1, 2013. Since proprietary funds use accrual basis accounting, this Fund has a negative net position of $27.4 million in fiscal year 2016 mainly due to recording the actuarially determined long-term claims liabilities in fiscal year 2014. The District has a plan to fund this negative position over a 15-year period; as part of this plan, net position increased $6.8 million in the current year.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the year, appropriations decreased $6.5 million from original budget to final budget. The decrease in appropriations is primarily attributed to capital maintenance projects that were not completed by the end of the year and less than anticipated annual leave payouts.

The General Fund actual expenditures were less than the budgeted appropriations by approximately $76.3 million. This is primarily due to enhanced cost containment measures put in place, such as a hiring freeze on non-instructional positions and increased scrutiny of overtime and purchases, as well as unspent funds in programs such as afterschool, International Baccalaureate, Advanced Placement, Workforce Development and State categorical programs.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

As shown in Table 3, at June 30, 2016, the District had $3.371 billion invested in a broad range of capital assets, including land, construction in progress, improvements other than buildings, buildings and improvements, furniture, fixtures and equipment, motor vehicles, audio/video materials and computer software. This amount represents a net decrease (including additions, deletions and depreciation) of $83 million from last year. The decrease is primarily due to depreciation expense of $109 million exceeding capital spending of $26.5 million. Capital spending in the current year reflects the acquisition of 125 buses, installation of new air conditioner chillers at six locations, and completion of modernization projects for Rosenwald Elementary and Gladeview Elementary.

The District's successful building program, which was funded from the proceeds of the Sales Tax Referendum that ended in 2010 and capital millage proceeds, is complete. Between fiscal year 2001 and fiscal year 2016, forty-one (41) new schools were built and fifty-eight (58) others were replaced or totally renovated. The Modernization of Rosenwald Elementary was completed in November 2015, and the Modernization of Gladeview Elementary was completed in December 2015. The District continues its effort to provide state-of-the-art facilities for all of its students. Future school renovations and replacements will be scheduled based upon the availability of funding. See Note 8 of the notes to the financial statements for more information on capital assets.

Table 3

Capital Assets at Year End
Governmental Activities
(in thousands)

	June 30, 2016	June 30, 2015	Increase (Decrease)
Land	$ 338,680	$ 338,593	$ 87
Construction in Progress	1,150	36,433	(35,283)
Improvements Other than Buildings	58,506	57,898	608
Buildings and Improvements	4,173,322	4,135,273	38,049
Furniture, Fixtures, and Equipment	127,183	126,019	1,164
Motor Vehicles	116,030	108,143	7,887
Audio/Video Materials and Computer Software	41,127	47,791	(6,664)
Less: Accumulated Depreciation	(1,485,376)	(1,396,564)	(88,812)
Total Capital Assets, Net	$ 3,370,622	$ 3,453,586	$ (82,964)

Long-Term Debt

As shown in Table 4, at the end of this fiscal year, the District had $1.776 billion in debt outstanding, which is $33.7 million lower than last fiscal year. The decrease in outstanding debt is due to debt repayments of $63.5 million, issuance premiums $10.3 million, $0.2 million borrowing-swap upfront payment due to regular amortization, the net impact of refunding transaction of $4.9 million offset in part by a $28.3 million increase in loans for 185 buses, air conditioner chillers and other equipment, and an increase in derivative instruments of $16.9 million. See Notes 11 and 12 of the notes to the financial statements for more information on long-term liabilities and derivatives.

Table 4

Long-term Debt Outstanding at Year End
Governmental Activities
(in thousands)

	June 30, 2016	June 30, 2015	Increase (Decrease)
Loans/Notes Payable	$ 31,846	$ 9,785	$ 22,061
Capital Outlay Bond Issues	13,713	17,430	(3,717)
Certificates of Participation Payable	1,541,963	1,600,393	(58,430)
Borrowing-Swap Upfront Payment	2,658	2,876	(218)
Derivative Instruments - Hedging	91,076	74,213	16,863
Plus: Issuance Premiums	95,002	105,257	(10,255)
Total	$ 1,776,258	$ 1,809,954	$ (33,696)

The District's certificates of participation are rated Aa3 by Moody's Investors Service, AA- by Standard and Poor's, and AA- by Fitch Ratings Services.

The District is subject to Board policy that limits the amount of general obligation bonds outstanding to 10 percent of the non-exempt assessed valuation. At June 30, 2016, the limit for the District was approximately $17.6 billion, providing additional debt capacity of approximately $17.6 billion.

State statute requires that no more than 75 percent of the capital millage levy be used for Certificate of Participation debt service. The District's debt policy limits the issuance of Certificates of Participation by stating that the debt service could not exceed half of the capital millage levy. In fiscal year 2009, when the capital millage levy was reduced to 1.75 mils, the debt policy was amended to allow debt service to be up to 1 mil but should be within 50 percent of the capital millage levy within 5 years. Based on the reduction of the capital millage levy and existing property values, the District's capacity to issue new Certificates of Participation debt has been dramatically reduced.

Other long-term obligations include liabilities for compensated absences, estimated claims liability, postemployment benefits, and the reporting requirement of GASB Statement No. 68 related to net pension liabilities.

FACTORS BEARING ON THE DISTRICT'S FUTURE

The School District's revenues are determined in large part by the Florida Legislature and Governor. Funding per student is set as part of the State's annual budget approval. Local school board taxing authority is also governed at the State level with the Legislature dictating the largest component of school property taxes, known as the Required Local Effort (RLE), and through statutory caps that limit the remaining components of the school levy. The fiscal year 2017 State budget provided Florida school districts with a disappointing 1 percent increase in funding per student for operating costs. The increase for Palm Beach School District is slightly higher due to categorical adjustments and local tax levies. District-wide enrollment is expected to increase approximately 1,600 students. Although the State economy continues to improve, funding for K-12 education is not expected to grow proportionally due to competition with other budget drivers including tax cuts, Medicaid and higher education.

With limited new funds allocated by the State, the primary goal of this, and future budget cycles, is to optimize existing resources. The District partnered with Educational Resource Strategies (ERS) to perform a comprehensive ten-month review of how the District allocates its resources – people, time, and money. The findings from ERS helped to shape the fiscal year 2017 budget, which redirects $14.7 million across all funds to schools and instructional teaching positions, employee raises, increased benefit costs, and strategic initiatives.

The District's 0.25 mill property tax levy for operations was approved by the voters for another 4 years in 2014, from fiscal year 2016 through fiscal year 2019. For fiscal year 2017, the 0.25 mills is expected to generate $42.9 million in revenue. The revenue is designated for art, music, and physical education instruction, choice programs, and career academies.

The capital budget remains a concern as Florida school districts continue to be seriously impacted by the Legislature's 25 percent reduction to local capital improvement taxing authority. The District has been unable to present a balanced Capital Budget that meets basic needs. Each year these needs are postponed puts the District in a deeper hole as deferred maintenance projects, unmet technology needs, and school bus replacement becomes more expensive and more critical. The Board recognized the need and placed a question on the November 2016 ballot proposing a one-penny Local Government Infrastructure Surtax (LGIS) jointly with the county and municipalities. The taxpayers of Palm Beach County approved the LGIS to be split 50 percent to the District, 30 percent to the County, and 20 percent to municipalities. The District is anticipated to receive $1.345 billion over the next 10 years. These funds will help the District repair and renovate schools, improve classroom technology, bolster campus security, and replace aging school buses.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, parents, students, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact:

Michael J. Burke, Chief Financial Officer
The School District of Palm Beach County, Florida
3328 Forest Hill Boulevard, Suite C-316
West Palm Beach, FL 33406

Visit the District's website at:
http://www.palmbeachschools.org/

View an electronic copy of the District's CAFR at:
http://www.palmbeachschools.org/accounting/

The School District of Palm Beach County, Florida
Statement of Net Position
June 30, 2016
(amounts expressed in thousands)

	Primary Government Governmental Activities	Component Units
ASSETS		
Cash, Cash Equivalents, and Investments	$ 598,575	$ 20,916
Derivative Instrument Investments	25	-
Taxes Receivable	23,701	-
Accounts, Deposits, and Interest Receivable	1,151	2,574
Due from Other Agencies	30,571	2,427
Inventories	10,208	4
Restricted Assets	2,508	2,772
Other Assets	6,319	1,990
Capital Assets:		
Land	338,680	4,866
Construction in Progress	1,150	108
Improvements Other Than Buildings	58,506	7,712
Buildings and Improvements	4,173,322	62,386
Furniture, Fixtures, and Equipment	127,183	15,451
Motor Vehicles	116,030	608
Property Under Capital Lease	-	555
Audio/Visual Materials and Software	41,127	7,280
Other Capital Leases	-	100
Less Accumulated Depreciation	(1,485,376)	(22,890)
Depreciable Capital Assets, Net	3,370,622	76,176
TOTAL ASSETS	4,043,680	106,859
DEFERRED OUTFLOWS OF RESOURCES		
Accumulated Decrease in Fair Value of Hedging Derivatives	91,076	-
Deferred Loss on Debt Refunding	68,131	-
Pensions	159,861	2,467
TOTAL DEFERRED OUTFLOWS OF RESOURCES	319,068	2,467
LIABILITIES		
Accounts and Contracts Payable	29,880	7,065
Accrued Payroll and Payroll Deductions	115,781	4,923
Retainage Payable on Contracts	119	-
Due to Other Agencies	-	493
Deposits Payable	430	13
Interest Payable	35,672	104
Unearned Revenue	987	70
Long-Term Liabilities:		
Portion Due or Payable Within One Year:		
Loans/Notes Payable	8,361	1,190
Obligations Under Capital Leases	-	1,357
Bonds Payable	2,317	191
Liability for Compensated Absences	15,983	451
Certificates of Participation Payable	75,205	-
Borrowing-Swap Upfront Payment	228	-
Estimated Claims	23,714	-

The School District of Palm Beach County, Florida
Statement of Net Position (continued)
June 30, 2016
(amounts expressed in thousands)

	Primary Government Governmental Activities	Component Units
Long-Term Liabilities (continued):		
Portion Due or Payable After One Year:		
Loans/Notes Payable	$ 23,485	$ 2,669
Obligations Under Capital Leases	-	52,082
Accrued Rent	-	452
Bonds Payable	12,858	19,839
Liability for Compensated Absences	167,097	219
Certificates of Participation Payable	1,560,298	-
Borrowing-Swap Upfront Payment	2,430	-
Derivative Instrument - Hedging	91,076	-
Estimated Claims	34,098	-
Other Postemployment Benefits Obligation	107,486	-
Net Pension Liability	640,495	7,649
TOTAL LIABILITIES	2,948,000	98,767
DEFERRED INFLOWS OF RESOURCES		
Deferred Tenant Allowance	-	16
Pensions	104,152	1,805
TOTAL DEFERRED INFLOWS OF RESOURCES	104,152	1,821
NET POSITION		
Net Investment in Capital Assets	1,760,930	1,497
Restricted for:		
State Required Carryover Programs	3,267	-
Debt Service	88,622	1,043
Capital Projects	100,537	201
Food Service	27,953	-
Other Purposes	17,313	1,079
Unrestricted (Deficit)	(688,026)	4,918
TOTAL NET POSITION	$ 1,310,596	$ 8,738

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

The School District of Palm Beach County, Florida
Statement of Activities
For the Fiscal Year Ended June 30, 2016
(amounts expressed in thousands)

		Program Revenues	
	Expenses	Charges for Services	Operating Grants and Contributions
Functions/Programs			
Primary Government			
Governmental Activities:			
Instruction	$ 1,062,354	$ 2,335	$ 314,181
Instructional Support Services	170,617	-	61,011
Board	6,634	-	-
General Administration	10,089	-	3,171
School Administration	97,556	-	5,664
Facilities Acquisition and Construction	14,750	-	-
Fiscal Services	6,805	-	80
Food Services	81,095	13,377	70,910
Central Services	15,646	-	1,043
Student Transportation Services	48,223	820	25,038
Operation of Plant	124,526	-	5,179
Maintenance of Plant	69,603	-	-
Administrative Technology Services	7,916	-	217
Community Services	40,980	36,961	5,479
Unallocated Interest on Long-Term Debt	90,428	-	-
Unallocated Depreciation Expense	108,978	-	-
Amortization Expense	156	-	-
Total Governmental Activities	$ 1,956,356	$ 53,493	$ 491,973
Component Units			
Charter Schools	$ 178,050	$ 3,582	$ 10,479

General Revenues:
Taxes:
Property Taxes, Levied for General Purposes
Property Taxes, Levied for Capital Projects
Grants and Contributions Not Restricted to Specific Programs
Investment Earnings
Miscellaneous

Total General Revenues

Change in Net Position
Net Position - Beginning
Adjustment to Beginning Net Position
Net Position - Beginning, as Restated

Net Position - Ending

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

Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position — Primary Government — Governmental Activities	Component Units
$ 3,088	$ (742,750)	$ -
-	(109,606)	-
-	(6,634)	-
-	(6,918)	-
-	(91,892)	-
3,139	(11,611)	-
-	(6,725)	-
-	3,192	-
-	(14,603)	-
-	(22,365)	-
-	(119,347)	-
-	(69,603)	-
2,691	(5,008)	-
-	1,460	-
4,512	(85,916)	-
-	(108,978)	-
-	(156)	-
$ 13,430	(1,397,460)	-
$ 3,927	(160,062)	(160,062)
	960,468	-
	241,089	-
	180,622	158,373
	3,493	505
	41,938	1,537
	1,427,610	160,415
	30,150	353
	1,280,446	-
	-	8,385
	1,280,446	8,385
	$ 1,310,596	$ 8,738

The School District of Palm Beach County, Florida
Balance Sheet – Governmental Funds
June 30, 2016
(amounts expressed in thousands)

	General Fund	COPS Debt Service Fund	Capital Improvement Fund
ASSETS			
Cash, Cash Equivalents and Investments	$ 227,679	$ 118,862	$ 36,508
Taxes Receivable	18,968	-	4,733
Accounts, Deposit, and Interest Receivable	1,144	7	-
Due from Other Agencies	6,025	-	-
Due from Other Funds	2,000	-	-
Inventories	6,040	-	-
Other Assets	-	-	-
TOTAL ASSETS	$ 261,856	$ 118,869	$ 41,241
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Liabilities:			
Accounts and Contracts Payable	$ 18,829	$ 76	$ 1,083
Accrued Payroll and Payroll Deductions	113,207	-	-
Due to Other Funds	-	-	-
Retainage Payable on Contracts	-	-	25
Deposits Payable	430	-	-
Unearned Revenue	358	-	-
Total Liabilities	132,824	76	1,108
Deferred Inflows of Resources:			
Unavailable Revenue	1,782	-	-
Total Deferred Inflows of Resources	1,782	-	-
Fund Balances:			
Nonspendable	6,040	-	-
Restricted	18,255	118,793	40,133
Committed	-	-	-
Assigned	52,955	-	-
Unassigned	50,000	-	-
Total Fund Balances	127,250	118,793	40,133
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	$ 261,856	$ 118,869	$ 41,241

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

	Other Nonmajor Governmental Funds		Total Governmental Funds
$	98,452	$	481,501
	-		23,701
	-		1,151
	22,050		28,075
	-		2,000
	4,168		10,208
	53		53
$	124,723	$	546,689
$	7,723	$	27,711
	9,205		122,412
	2,000		2,000
	94		119
	-		430
	1,069		1,427
	20,091		154,099
	103		1,885
	103		1,885
	4,168		10,208
	71,401		248,582
	37		37
	28,923		81,878
	-		50,000
	104,529		390,705
$	124,723	$	546,689

The School District of Palm Beach County, Florida
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2016
(amounts expressed in thousands)

Total Fund Balances - Governmental Funds		$ 390,705
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		
Cost of the Assets	$ 4,855,998	
Accumulated Depreciation	(1,485,376)	
Total Capital Assets, Net of Depreciation		3,370,622
Bond insurance amounts related to debt issuance are reported as expenditures in the governmental funds when first incurred, however, they are included with other assets in the governmental activities in the statement of net position.		833
Deferred outflow of resources are reported at the fair values of the corresponding hedging derivative instruments in the statement of net position.		91,076
Deferred outflow of resources are reported at net carrying amount for refunding transactions in the statement of net position.		68,131
Deferred outflows of resources related to pensions are recorded in the statement of net position.		159,861
Derivative instruments are reported on the statement of net position.		25
Expenditures for insurance and software extending over more than one accounting period not allocated between or among accounting periods, but accounted for as expenditures of the period of acquisition in the governmental funds.		5,433
An internal service fund is used by management to charge the costs of health premiums, worker's compensation, auto and general liability to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.		
Assets	$ 122,078	
Liabilities	(60,386)	
Net Position		61,692
Revenues that are unavailable or unearned in the governmental funds but are recognized as revenue in the governmental-wide financial statements.		2,325
Deferred inflows of resources related to pensions are recorded in the statement of net position.		(104,152)
Long-term liabilities are not due and payable in the current period and not reported as liabilities in the governmental funds. Long-term liabilities (net of premiums) at year-end consist of:		
Loans/Notes Payable	$ (31,846)	
Bonds Payable	(15,175)	
Certificates of Participation Payable	(1,635,503)	
Borrowing-Swap Upfront Payment	(2,658)	
Derivative Instruments - Hedging	(91,076)	
Compensated Absences	(176,150)	
Other Postemployment Benefits Payable	(107,380)	
Net Pension Liability	(640,495)	
Accrued Interest on Long-Term Debt	(35,672)	(2,735,955)
Net Position - Governmental Activities		$ 1,310,596

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

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The School District of Palm Beach County, Florida
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
For the Fiscal Year Ended June 30, 2016
(amounts expressed in thousands)

	General Fund	COPS Debt Service Fund	Capital Improvement Fund
Revenues			
Local Sources:			
Ad Valorem Taxes	$ 960,468	$ -	$ 241,089
Interest Income and Other	2,142	128	659
School Age Child Care Fees	36,961	-	-
Food Service Sales	233	-	-
Impact Fees	-	-	-
Local Grants and Other	32,278	-	-
Total Local Sources:	1,032,082	128	241,748
State Sources:			
Florida Education Finance Program	232,694	-	-
Capital Outlay and Debt Service	111	-	-
Food Service	-	-	-
Class Size Reduction	212,396	-	-
Charter School Capital Outlay	-	-	-
State Grants and Entitlements	30,878	-	-
Total State Sources:	476,079	-	-
Federal Sources:			
Federal Grants and Entitlements	3,205	-	-
National School Lunch Act	-	-	-
Total Federal Sources:	3,205	-	-
Total Revenues	1,511,366	128	241,748
Expenditures			
Current:			
Instruction	1,028,307	-	-
Instructional Support Services	115,197	-	-
Board	6,748	-	-
General Administration	7,428	-	-
School Administration	99,740	-	-
Facilities Acquisition and Construction	487	-	9,319
Fiscal Services	6,591	-	-
Food Services	104	-	-
Central Services	14,991	-	-
Student Transportation Services	48,910	-	-
Operation of Plant	126,259	-	-
Maintenance of Plant	70,455	-	-
Administrative Technology Services	7,950	-	-
Community Services	40,757	-	-
Total Current Expenditures	1,573,924	-	9,319
Capital Outlay	2,299	-	2,511
Debt Service:			
Retirement of Principal	-	53,495	-
Interest	29	64,579	-
Fiscal Charges	-	512	-
Total Expenditures	1,576,252	118,586	11,830
Excess (Deficiency) of Revenues Over Expenditures	(64,886)	(118,458)	229,918
Other Financing Sources (Uses)			
Transfers In	89,435	145,669	-
Transfers Out	(14,550)	-	(215,727)
Issuance of Long-Term and Refunded Debt	-	62,970	-
Net Premium (Discount) from Issuance of Long-Term and Refunded Debt	-	8,541	-
Payments to Refunded Debt Escrow Agent	-	(71,111)	-
Proceeds from Loss Recoveries	119	-	-
Sale of Capital Assets and Other	-	-	-
Total Other Financing Sources (Uses)	75,004	146,069	(215,727)
Net Change in Fund Balances	10,118	27,611	14,191
Fund Balances, Beginning	117,132	91,182	25,942
Fund Balances, Ending	$ 127,250	$ 118,793	$ 40,133

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

Other Nonmajor Governmental Funds	Total Governmental Funds
$ -	$ 1,201,557
276	3,205
-	36,961
13,144	13,377
7,725	7,725
5,147	37,425
26,292	1,300,250
-	232,694
7,651	7,762
1,013	1,013
-	212,396
3,088	3,088
5,823	36,701
17,575	493,654
119,200	122,405
69,897	69,897
189,097	192,302
232,964	1,986,206
57,817	1,086,124
58,497	173,694
50	6,798
3,171	10,599
24	99,764
5,669	15,475
80	6,671
81,095	81,199
1,033	16,024
423	49,333
9	126,268
-	70,455
102	8,052
924	41,681
208,894	1,792,137
20,660	25,470
9,993	63,488
4,692	69,300
11	523
244,250	1,950,918
(11,286)	35,288
23,638	258,742
(28,465)	(258,742)
28,338	91,308
-	8,541
-	(71,111)
-	119
13	13
23,524	28,870
12,238	64,158
92,291	326,547
$ 104,529	$ 390,705

The School District of Palm Beach County, Florida
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities
For the Fiscal Year Ended June 30, 2016
(amounts expressed in thousands)

Total Net Change in Fund Balances - Governmental Funds			$ 64,158
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 ($108,978) in excess of capitalized capital outlay ($26,487) in the current period.			(82,491)
Governmental funds report the effect of bond insurance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.			
	Bond Insurance Cost Amortization	$ (156)	
	Debt Refunding Amortization	(38,073)	
	Premium/Discount Amortization	18,796	(19,433)
Investment loss related to derivative instruments reported in the statement of activities that are not reported as expense in the governmental funds.			(42)
Revenues reported in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.			2,325
Revenues reported in the governmental funds that were reported as revenue in the statement of activities in the prior year under full accrual.			(2,144)
Repayment of notes/loans is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.			6,277
Notes/Loans proceeds provided current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position.			(28,338)
Repayment of bond and COPs principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.			57,212
COPs refunding proceeds ($71,511) provided current financial resources to governmental funds. COPs refunding payments ($71,111) are other financing uses in the governmental funds.			(400)
The net effect of various miscellaneous transactions involving capital assets (sales, trade-ins, and donations) is to decrease net position.			(473)
Expenses in the statements of activities that do not require the use of current financial resources are not reported in the governmental funds.			
	Prepaid Insurance & Software	$ 1,426	
	Compensated Absences	(2,047)	
	Other Post Employment Benefits	(5,454)	
	Pension Expense	29,543	
	Borrowing-SWAP	218	
	Accrued Interest on Long-Term Debt	(1,546)	22,140
Internal service funds are used by management to charge the cost of self insurance claims (including health, workers compensation, auto and general liability) to individual funds. The net income of the internal service funds are reported with governmental activities.			11,359
Change in Net Position - Governmental Activities			$ 30,150

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

The School District of Palm Beach County, Florida
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund
For the Fiscal Year Ended June 30, 2016
(amounts expressed in thousands)

	Budgeted Amounts		Actual	Variances - Positive (Negative)	
	Original	Final	(Budgetary Basis)	Original to Final	Final to Actual
REVENUES:					
Local Sources	$ 1,012,658	$ 1,032,083	$ 1,032,082	$ 19,425	$ (1)
State Sources	481,167	476,078	476,079	(5,089)	1
Federal Sources	6,167	3,205	3,205	(2,962)	-
TOTAL REVENUES	1,499,992	1,511,366	1,511,366	11,374	-
EXPENDITURES:					
Instruction	1,104,674	1,081,920	1,030,667	22,754	51,253
Instructional Support Services	119,111	121,594	115,611	(2,483)	5,983
Board	7,881	7,715	6,748	166	967
General Administration	7,177	7,481	7,428	(304)	53
School Administration	97,821	99,873	99,740	(2,052)	133
Facilities Acquisition and Construction	519	756	487	(237)	269
Fiscal Services	6,230	6,987	6,591	(757)	396
Food Services	22	106	104	(84)	2
Central Services	14,576	15,520	14,994	(944)	526
Student Transportation Services	49,055	49,794	48,910	(739)	884
Operation of Plant	126,939	127,313	126,259	(374)	1,054
Maintenance of Plant	75,703	75,554	70,455	149	5,099
Administrative Technology Services	8,718	8,678	8,171	40	507
Community Services	41,447	50,072	41,017	(8,625)	9,055
Debt Service	150	138	29	12	109
TOTAL EXPENDITURES	1,660,023	1,653,501	1,577,211	6,522	76,290
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(160,031)	(142,135)	(65,845)	17,896	76,290
OTHER FINANCING SOURCES (USES):					
Transfers In	92,933	89,435	89,435	(3,498)	-
Transfers Out	(34)	(14,550)	(14,550)	(14,516)	-
Proceeds from Loss Recoveries	-	119	119	119	-
TOTAL OTHER FINANCING SOURCES	92,899	75,004	75,004	(17,895)	-
NET CHANGE IN FUND BALANCE	$ (67,132)	$ (67,131)	9,159	$ 1	$ 76,290
FUND BALANCE, JULY 1, 2015 (GAAP BASIS)			117,132		
FUND BALANCE, JUNE 30, 2016 (BUDGETARY BASIS)			126,291		
Adjustment To Conform With GAAP:					
Elimination of Encumbrances			959		
FUND BALANCE, JUNE 30, 2016 (GAAP BASIS)			$ 127,250		

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

The School District of Palm Beach County, Florida
Statement of Net Position – Proprietary Funds
June 30, 2016
(amounts expressed in thousands)

	Governmental Activities - Internal Service Funds
ASSETS	
Current Assets:	
Cash, Cash Equivalents and Investments	$ 117,074
Due from Other Agencies	2,496
Total Current Assets	119,570
Noncurrent Assets:	
Restricted Cash	2,508
Total Noncurrent Assets	2,508
TOTAL ASSETS	122,078
LIABILITIES	
Current Liabilities:	
Accounts Payable	2,169
Accrued Payroll and Payroll Deductions	77
Portion Due or Payable Within One Year:	
Estimated Unpaid Claims	23,714
Total Current Liabilities	25,960
Noncurrent Liabilities:	
Portion Due or Payable After One Year:	
Liability for Compensated Absences	222
Estimated Unpaid Claims	34,098
Other Postemployment Benefits Obligation	106
Total Noncurrent Liabilities	34,426
TOTAL LIABILITIES	60,386
NET POSITION	
Unrestricted	$ 61,692

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

The School District of Palm Beach County, Florida
Statement of Revenues, Expenses, and Changes in Fund
Net Position – Proprietary Funds
For the Fiscal Year Ended June 30, 2016
(amounts expressed in thousands)

	Governmental Activities - Internal Service Funds
OPERATING REVENUES	
Premium Revenue	$ 207,575
Pharmacy Rebates	10,690
Other Operating Revenue	1,193
Total Operating Revenues	219,458
OPERATING EXPENSES	
Salaries	1,168
Benefits	342
Purchased Services	449
Claims and Other Expenses	206,470
Total Operating Expenses	208,429
Operating Income	11,029
NONOPERATING REVENUES	
Interest and Other Income	330
Total Nonoperating Revenues	330
Change in Net Position	11,359
Total Net Position - Beginning	50,333
Total Net Position - Ending	$ 61,692

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

The School District of Palm Beach County, Florida
Statement of Cash Flows – Proprietary Funds
For the Fiscal Year Ended June 30, 2016
(amounts expressed in thousands)

	Governmental Activities - Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Receipts from Customers and Interfund Services Provided	$ 207,575
Cash Payments for Claims and Administration	(205,982)
Cash Receipts for Pharmacy Rebates	10,690
Cash Payments for Salaries and Benefits	(1,500)
Other Receipts	1,054
Net Cash Provided by Operating Activities	11,837
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and Other Income	330
Net Cash Provided by Investing Activities	330
Net Increase in Cash and Cash Equivalents	12,167
Cash and Cash Equivalents, Beginning*	107,415
Cash and Cash Equivalents, Ending*	$ 119,582

Reconciliation of Operating Income to Net Cash Provided by Operating Activities:

Operating Income	$ 11,029
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Changes in Assets and Liabilities:	
Due from Other Agencies	(139)
Accounts Payable	(46)
Accrued Payroll and Payroll Deductions	10
Estimated Unpaid Claims	983
Total Adjustments	808
Net Cash Provided by Operating Activities	$ 11,837

*Includes Restricted Cash

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

The School District of Palm Beach County, Florida
Statement of Fiduciary Net Position – Fiduciary Funds
June 30, 2016
(amounts expressed in thousands)

	Private-Purpose Trust Fund	Agency Fund
	Florida Future Educators of America	**School Internal Funds**
ASSETS		
Cash, Cash Equivalents, and Investments	$ 267	$ 17,963
Accounts Receivable	-	1,213
TOTAL ASSETS	$ 267	$ 19,176
LIABILITIES		
Accounts Payable	$ -	$ 395
Due to Student Organizations	-	18,781
TOTAL LIABILITIES	-	$ 19,176
NET POSITION		
Held in Trust for Scholarships	267	
TOTAL NET POSITION	$ 267	

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

The School District of Palm Beach County, Florida
Statement of Changes in Fiduciary Net Position – Fiduciary Funds
For the Fiscal Year Ended June 30, 2016
(amounts expressed in thousands)

	Private-Purpose Trust Fund Florida Future Educators of America
ADDITIONS	
Donations	$ 32
Interest	1
Total Additions	33
DEDUCTIONS	
Scholarships	125
Total Deductions	125
Change in Net Position	(92)
Net Position - Beginning	359
Net Position - Ending	$ 267

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

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School District of Palm Beach County, Florida (District) have been prepared to conform with Accounting Principles Generally Accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. Pursuant to Florida Statutes, Section 1010.01, each school district is responsible for keeping records and accounts of all financial transactions in the manner prescribed by the State Board of Education. The following is a summary of the more significant of these policies.

A. Reporting Entity

The District and its governing board are organized and operated under Section 4, Article IX, of the Constitution of Florida and Chapter 1001 of Florida Statutes. The District's boundaries are coterminous with those of Palm Beach County. Management of the District is independent of county and city governments. The membership of the governing board of the District (Board) consists of seven members elected from single member districts for overlapping 4-year terms. The Superintendent is appointed by the Board to act as executive officer of the District.

For financial reporting purposes, the accompanying financial statements include all of the operations over which the District is financially accountable. The District is financially accountable for organizations that make up its legal entity, as well as legally separate organizations that meet certain criteria. In accordance with GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units* and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*, the criteria for inclusion in the reporting entity involve those cases where the District or its officials appoint a voting majority of an organization's governing body, and are either able to impose its will on the organization and there is a potential for the organization to provide specific financial benefits to or to impose specific financial burdens on the District or the nature and significance of the relationship between the District and the organization is such that exclusion would cause the District's financial statements to be incomplete.

Blended Component Unit – The Corporation's sole purpose is to provide for financing and construction of certain District school facilities. Additionally, the Corporation is legally separate from the District and the Board of the Corporation consists of the seven Board members of the District. Therefore, the financial activities of the Corporation have been blended (reported as if it were part of the District) with those of the District. The Corporation does not publish individual component unit financial statements.

Discretely Presented Component Units – The Florida Department of Education (FDOE) concluded, based on FDOE's interpretation of the GASB requirements, that school districts should report charter schools as discretely presented component units. This conclusion is based, in part, on FDOE's interpretation that exclusion of the charter schools from financial reporting would cause school district financial statements to be misleading as, pursuant to the Article IX, Section 4 of the State Constitution, charter schools are public schools and each school district has constitutional responsibility for all public schools within the school district. As a result, we have included charter school audited financial information to comply with State reporting requirements.

The 50 component unit charter schools in operation at fiscal year-end are listed below:

Academy for Positive Learning, Inc.
1200 North Dixie Highway
Lake Worth, FL 33460

Believers Academy, Inc.
5840 Corporate Way, Suite 100
West Palm Beach, FL 33407

Belle Glade Excel Charter School
555 SW 16th Street
Belle Glade, FL 33430

Ben Gamla Palm Beach
8600 Jog Road
Boynton Beach, FL 33472

Boca Raton Charter School, Inc.
269 NE 14th Street
Boca Raton, FL 33432

Bright Futures Academy Charter School, Inc.
10350 Riverside Drive
Palm Beach Gardens, FL 33410

Eagle Arts Academy, Inc.
1000 Wellington Trace
Wellington, FL 33414

Ed Venture Charter School, Inc.
113 East Coast Avenue
Hypoluxo, FL 33462

Everglades Preparatory Academy, Inc.
360 East Main Street, Building C
Pahokee, FL 33476

Florida Futures Academy - North Campus
1760 North Congress Avenue
West Palm Beach, FL 33409

Florida Virtual Academy at PBC (Online only)
9143 Philips Highway, Suite 590
Jacksonville, FL 32256

Franklin Academy B2
7882 South Military Trail
Boynton Beach, FL 33436

Franklin Academy C
5651 Hood Road
Palm Beach Gardens, FL 33418

Franklin Academy D
5651 Hood Road
Palm Beach Gardens, FL 33418

G-STAR School of the Arts, Inc.
2065 Prairie Road, Building J
West Palm Beach, FL 33406

Gardens School of Technology Arts, Inc.
9153 Roan Lane
Palm Beach Gardens, FL 33403

Glades Academy, Inc.
7368 State Road 15, Building E
Pahokee, FL 33476

Gulfstream Goodwill Transitions To
Life Academy, Inc.
3800 South Congress Avenue, Suite 12
Boynton Beach, FL 33437

Imagine Schools - Chancellor Campus
3333 High Ridge Road
Boynton Beach, FL 33426

Inlet Grove Community High School, Inc.
7071 Garden Road
Riviera Beach, FL 33404

JFK Medical Center Charter School
4696 Davis Road
Lake Worth, FL 33461

Lakeside Academy, Inc.
716 South Main Street
Belle Glade, FL 33430

Learning Path Academy, Inc.
1340 Kenwood Road
West Palm Beach, FL 33401

Montessori Academy of Early Enrichment, Inc.
6300 Lake Worth Road
Greenacres, FL 33463

Palm Beach Maritime Academy High School
1518 West Lantana Road
Lantana, FL 33462

Potential Charter School
1201 Australian Avenue
Riviera Beach, FL 33404

Renaissance Charter School at Central Palm
6696 South Military Trail
Lake Worth, FL 33463

Renaissance Charter School Palms West
12031 Southern Boulevard
Royal Palm Beach, FL 33470

Renaissance Charter School
at Wellington
3220 South State Road 7
Wellington, FL 33449

Renaissance Learning Academy, Inc.
1310 North Congress Avenue
West Palm Beach, FL 33409

Riviera Beach Maritime Academy
251 West 11th Street
Riviera Beach, FL 33404

Somerset Academy Boca East
333 SW 4th Avenue
Boca Raton, FL 33432

Somerset Academy Canyons High School
9385 Boynton Beach Boulevard
Boynton Beach, FL 33472

Mavericks High School at Palm Springs
3525 South Congress Avenue
Palm Springs, FL 33461

Palm Beach Maritime Academy
600 South East Coast Avenue
Lantana, FL 33462

Palm Beach School for Autism, Inc.
8480 West Lantana Road
Lantana, FL 33462

Quantum High School
1275 Gateway Boulevard
Boynton Beach, FL 33426

Renaissance Charter School at Cypress
8131 Okeechobee Boulevard
West Palm Beach, FL 33411

Renaissance Charter School at Summit
2001 Summit Boulevard
West Palm Beach, FL 33406

Renaissance Charter School
at West Palm Beach
1889 Palm Beach Lakes Boulevard
West Palm Beach, FL 33409

Renaissance Learning Center
5800 Corporate Way
West Palm Beach, FL 33407

Seagull Academy (SAIL)
6250 North Military Trail
West Palm Beach, FL 33407

Somerset Academy Boca Middle School
333 SW 4th Avenue
Boca Raton, FL 33432

Somerset Academy Canyons Middle School
9385 Boynton Beach Boulevard
Boynton Beach, FL 33472

South Tech Charter Academy, Inc.
1300 SW 30th Avenue
Boynton Beach, FL 33426

South Tech Preparatory Academy
1300 SW 30th Avenue
Boynton Beach, FL 33426

Touissant L'Ouverture High School for Arts and Social Justice
301 SW 14th Avenue
Delray Beach, FL 33444

University Prep Palm Beach
d/b/a University Prep Academy
2101 North Australian Avenue
West Palm Beach, FL 33407

Western Academy Charter School
650 Royal Palm Beach Boulevard, Suite 300
Royal Palm Beach, FL 33411

Worthington High School
1711 Worthington Road
West Palm Beach, FL 33409

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide Financial Statements

The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for Fiduciary Funds. The District eliminates from the statement of net position and the statement of activities most interfund receivables and payables and transfers between funds as well as the transaction associated with its internal service funds.

The government-wide statements are prepared using the economic resources measurement focus and accrual basis accounting. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. 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. Revenues which are not classified as program revenues are presented as general revenues of the District. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements

Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is reported in a separate column. Nonmajor funds are aggregated and presented in a single column. Internal service funds are aggregated and presented in a single column on the face of the proprietary funds statements. Fiduciary funds are reported by fund type.

The governmental funds are accounted for on the “flow of current financial resources” measurement focus. Governmental fund financial statements are prepared using the current financial resource measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are generally recognized when the related fund liability is incurred. The proprietary funds are accounted for on an “economic resources” measurement focus. Accordingly, the statement of revenues, expenses and changes in fund net position for the proprietary funds reports increases and decreases in total economic net worth. The private purpose trust fund is reported using the economic resources measurement focus.

GOVERNMENTAL FUNDS

Governmental Funds are those through which most District functions are financed. The acquisition, use, and balances of the District’s expendable financial resources and the related liabilities (except those accounted for in the proprietary and fiduciary funds) are accounted for through governmental funds. The measurement focus is upon determination of changes in financial resources rather than upon determination of net income. The following are the District’s major governmental funds:

General Fund

The General Fund is the primary operating fund of the District. Ad valorem tax revenues, revenues from the Florida Education Finance Program (“FEFP”) and other receipts not allocated by law or contractual agreement to other funds are accounted for in this fund. Similarly, general operating expenditures, fixed charges, and capital improvement costs that are not paid through the other funds are paid from this fund.

COPs Debt Service Fund

The COPs Debt Service Fund accounts for the repayment of the certificates of participation.

Capital Improvement Fund

The Capital Improvement Fund accounts for locally received funds, primarily ad valorem tax revenue, for the acquisition, construction or renovation of capital facilities, including land and equipment.

PROPRIETARY FUNDS

The proprietary funds are used to account for ongoing organizations and activities, which are operated where the intent is that charges made to users will cover the costs of the services or goods provided. The measurement focus is upon the determination of net income. The only type of proprietary fund that the District has are the internal service funds. A proprietary fund distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. Operating expenses for internal service funds include salaries, benefits, administrative expenses, and claims paid. All items not meeting this definition are reported as nonoperating revenues and expenses.

Internal Service Funds

The internal service funds are used to account for the financing of goods and services provided by one department to another on a cost reimbursement basis. The District has two internal service funds, one for group health and one for workers' compensation, and general and auto liabilities claims. As of July 1, 2013, the latter fund was created in order to separately report claims instead of consolidating the activity within the General Fund. As of June 30, 2016, the net position in the Internal Service Fund for workers' compensation, and general and auto liabilities claims was a deficit $27,362,000. The deficit net position of this fund will be funded over a 15-year period.

FIDUCIARY FUNDS

Fiduciary funds are used to account for assets held by the District on behalf of outside related organizations or on behalf of other funds within the District. The fiduciary funds are prepared under the economic resources measurement focus and the accrual basis of accounting.

Agency Funds

Agency funds consist of activity funds, which are established at each school to record the receipts and disbursements of various school activities administered for the general welfare of the students and completion of certain planned objectives and special programs of school groups. The District retains no equity interest in these funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Private Purpose Trust Fund

A trust fund was established in January 1993 and is used to account for a District-supported Florida Future Educators of America scholarship program. Revenues consist of employee donations and interest income. Expenditures represent scholarships for future teachers, which are awarded in accordance with the trust requirements.

BASIS OF ACCOUNTING

Basis of accounting determines when transactions are recognized in the financial records and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds use the accrual basis of accounting.

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

Modified Accrual

Under the modified accrual basis, revenues are recognized in the accounting period in which they become susceptible to accrual, i.e., both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Significant revenues susceptible to accrual include ad valorem taxes, reimbursable-type grants and interest on investments. The District considers all revenues (with the exception of the expenditure-driven grants) as available if they are collected within sixty (60) days after year-end. The expenditure-driven grants are considered available if received within 1 year from the balance sheet date. Current year property tax revenue is recognized when levied for, if available. Amounts are considered available if received by the District within sixty (60) days subsequent to fiscal year-end. Expenditures are recognized in the accounting period in which the liability is incurred. However, exceptions include the amount of unmatured principal and interest on general long-term debt, compensated absences, other postemployment benefit obligations, pension, claims and judgments and certain prepaid items which are recognized when due/paid.

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

Accrual

Under the accrual basis of accounting, revenues are recognized in the period earned and expenses are recognized in the period incurred.

Revenue Recognition

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

State Revenue Sources **–** Revenues from State sources for current operations are primarily from the Florida Education Finance Program (FEFP), administered by the Florida Department of Education (FDOE), under the provisions of Chapter 1011, Florida Statutes. This revenue is recognized when received. The District files reports on full-time equivalent (FTE) student membership with the FDOE. The FDOE accumulates information from these reports and calculates the allocation of FEFP funds to the District. After review and verification of FTE reports and supporting documentation, the FDOE may adjust subsequent fiscal period allocations of FEFP funding for prior year errors disclosed by its review. Normally, such adjustments are treated as reductions of revenue in the year the reduction is made, as amounts are not significant.

The District receives and recognizes revenue from the State to administer certain categorical educational programs. State Board of Education rules require that revenue earmarked for these 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 categorical educational programs.

The State allocates gross receipt 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.

Property Taxes **–** On an accrual basis, property tax revenue anticipated to be collected is recognized in the fiscal year for which it is levied. Delinquent taxes collected in subsequent periods are recognized as revenue during the fiscal year in which they are received. Impact fees are requested, collected, and recognized once qualifying expenditures have been made.

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.

Use of Resources **–** When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as they are needed.

C. Budgetary Policies

Revenues and expenditures are controlled by budgetary systems in accordance with various legal and administrative requirements that govern the District's operations. The budget represents a process through which policy decisions are made, implemented and controlled. The budget is adopted on a basis consistent with GAAP, except for encumbrances. The budgetary process includes encumbrances in the current year budget. The encumbrances are reported as expenditures on the budgetary basis of accounting.

Annual budgets are legally adopted for all funds except the fiduciary funds. The budget amounts for revenues and expenditures reflect all amendments to the original budget dated September 7, 2016, the date of the final amendment approved by the Board. Significant dates in the budgeting timetable follow:

1. The Palm Beach County Property Appraiser certifies to the District the taxable value of all nonexempt District property by July 1 of each year, or the Clerk of the Circuit Court is required to certify an interim tax roll.
2. Within 24 days of tax roll certification, the Board considers and approves for advertising a tentative budget.
3. Within 29 days after tax roll certification, the District advertises the tentative budget and the millage rates therein.
4. A public hearing to adopt the tentative budget and proposed millage rate is held not less than two nor more than 5 days after the budget is advertised.
5. Within 35 days of tax roll certification, the District notifies the Palm Beach County Property Appraiser of proposed millage rates.

At a final public hearing within 80 days, but not less than 65 days, after tax roll certification, the Board adopts the District budget.

The major functional level is the legal level of budgetary control. Per Board policy, management is authorized to make budget amendments at function level with Board approval. All interim budget amendments between major functional areas within each fund are submitted to the Board for approval. Federal and State grant budget amendments which require State approval prior to processing are also submitted to the Board for approval with monthly amendments.

Unreserved appropriations are cancelled at the end of the fiscal year. However, encumbered appropriations for funds do not lapse at the end of the fiscal year. Restricted, committed, and assigned fund balances at June 30, 2016, for funds under budgetary control have been re-appropriated for the fiscal year 2017 operating budget within the appropriate fund. Programs restricted for carryover include all State categorical grants required to be expended on specific programs and District approved carryover programs.

D. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded to reserve a portion of an applicable appropriation, is utilized for budgetary control purposes. Encumbrances are not the equivalent of expenditures, and accordingly, amounts assigned for encumbrances at the governmental fund level indicate that portion of the fund balance segregated for expenditure upon vendor performance.

E. Cash, Cash Equivalents, and Investments

The District maintains a Treasurer's pool for the District's cash and investments. Each fund's portion of the pool is presented on the financial statements. Investments recorded at fair value consist of direct obligations of the United States Treasury, U.S. Government Agency Securities, U.S. Government sponsored agencies, investing in U.S. Treasury Securities, AAA-rated local government investment pools, corporate notes, U.S. Government Supported Corporate Debt, and other investments allowable by the District's investment policy. The District categorizes its investments according to the fair value hierarchy established by GASB Statement No. 72. The hierarchy is based on observable and unobservable inputs used in establishing the fair value of a financial asset or liability. All money market mutual funds are AAA-rated by the various rating agencies and each fund is registered as a 2a-7 fund with the Securities and Exchange Commission (SEC) and recorded at amortized cost. Rule 2a-7 of the Investment Company Act of 1940, comprises the rules governing money market funds. For purposes of the statement of cash flows, cash equivalents are considered to be the money market funds and all highly liquid investments with a maturity of 3 months or less when purchased.

F. Inventories

Inventories are valued at cost, using the average cost method. The District's inventories include various items consisting of school supplies, paper, textbooks, fuel, commodities, etc. United States Department of Agriculture donated commodities received from the Federal government are recorded at the value established by the Federal government using the average cost method. Inventorial items are recorded as expenditures when shipped to schools and department offices (the consumption method). The nonspendable fund balance at the governmental fund level is equal to the amount of inventories at year-end to indicate the portion of the governmental fund balances that are nonspendable.

G. Prepaid Items

Expenditures for insurance and similar services extending over more than one accounting period are not allocated between or among accounting periods in the governmental funds and are instead accounted for as expenditures in the period of acquisition (Purchase Method). In the government-wide financial statements these amounts are reported as prepaid and will be charged to expense in the period used or consumed.

H. Capital Assets

Capital assets represent the cumulative amount of capital assets owned and in use by the District. Purchased assets are recorded as expenditures in the governmental fund financial statements and are capitalized at cost on the government-wide statement of net position. Gifts or contributions are recorded at acquisition value at the time received. The District's capitalization levels are $1,000 on tangible personal property, $100,000 on building improvements, $50,000 on improvements other than buildings, and $100,000 on intangible assets. Other costs incurred for repairs and maintenance is expensed as incurred. All reported capital assets except land and construction in progress are depreciated.

Depreciation is computed using the straight-line method over the following estimated useful lives:

Description	Estimated Useful Lives
Furniture, Fixtures, and Equipment	3 - 15 years
Motor Vehicles	5 - 10 years
Audio/Video Materials & Software	3 - 5 years
Buildings and Improvements	15 - 50 years
Improvements Other Than Buildings	15 years
Intangibles	5 years

I. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position has 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. One item is the accumulated decrease in fair value of hedging derivatives (see Note 11). A second item is the net carrying amount of debt refunding reported in the government-wide statement of net position. A 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 debt or new refunding debt. In addition, a third item, in accordance with GASB Statement No. 68, is the pension-related deferred outflows of resources and deferred inflows of resources, which are reported on the statement of net position (see Note 12 for additional information).

During the year ended June 30, 2016, management determined that approximately $23.2 million of deferred outflow of resources – deferred loss on debt refunding from the fiscal year ended

June 30, 2015, was miscalculated on the governmental activities financial statements. Management corrected the miscalculation during the fiscal year ended June 30, 2016, by increasing interest expense on long-term debt in the statement of activities. Management believes that this adjustment does not materially misstate either the current or prior period financial statements.

On the government-wide financial statements deferred outflows of resources activity for fiscal year ended June 30, 2016, is as follows (in thousands):

	Beginning Balance July 1, 2015	Increase	Decrease	Ending Balance June 30, 2016
Deferred Outflows of Resources:				
Accumulated Decrease in Fair Value of Hedging Derivatives	$ 74,213	$ 16,863	$ -	$ 91,076
Deferred Loss on Debt Refunding	102,998	-	34,867	68,131
Pension Related - FRS	89,297	81,488	57,082	113,703
Pension Related - HIS	27,715	35,117	16,674	46,158
Total Deferred Outflows of Resources	$ 294,223	$ 133,468	$ 108,623	$ 319,068

In addition to liabilities, the statement of net position and the governmental funds balance sheet has 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 $1.9 million in unavailable deferred revenue ($1.7 million is related to Medicaid administration claims) that qualifies as a deferred inflow of resources and it is shown in the governmental funds balance sheet under the modified accrual basis of accounting.

On the government-wide financial statements deferred inflows of resources totaled $104.2 million as shown below (in thousands):

	Beginning Balance July 1, 2015	Increase	Decrease	Ending Balance June 30, 2016
Deferred Inflows of Resources:				
Pension Related - FRS	$ 267,633	$ -	$ 171,724	$ 95,909
Pension Related - HIS	-	8,243	-	8,243
Total Deferred Inflows of Resources	$ 267,633	$ 8,243	$ 171,724	$ 104,152

J. Long-Term Liabilities

In the fund-level financial statements, governmental funds report the face amount of debt issued as well as premiums (discounts) as other financing sources (uses). Debt issuance cost and principal payments are reported as debt service expenditures. In the government-wide financial statements, long-term debt is reported as liabilities in the statement of net position. Bond premiums/discounts and bond insurance costs are amortized over the life of the bonds.

The District enters into interest rate swap agreements to modify interest rates on outstanding debt. The fair value of these instruments is reflected on the government-wide financial statements (see Notes 10 and 11).

K. Self-Insurance

The District is self-insured for health (health insurance for employees and eligible dependents) and portions of its general and automobile liability insurance and workers' compensation (insurance for various risks of loss related to torts; theft of; damage to; destruction of assets; errors and omissions; injury to employees and natural disasters). The estimated liability for self-insured risks represents an estimate of the amount to be paid on insurance claims reported and on insurance claims incurred but not reported (see Note 8).

Consistent with GAAP guidelines, in the proprietary fund financial statements, the liability for self-insured risks is recorded under the accrual basis of accounting. As of July 1, 2013, workers' compensation, and general and auto liabilities claims fund is reported as an internal service fund. The negative net position, as previously discussed, will be funded over a 15-year period.

L. Compensated Absences

Compensated absences are payments to employees for accumulated vacation and sick leave. These amounts also include the related employer's share of applicable taxes and retirement contributions. District employees may accumulate unused vacation and sick leave up to a specified amount depending on their date of hire. Vacation and sick leave are payable to employees upon termination or retirement at the current rate of pay on the date of termination or retirement.

The District uses the vesting method to calculate the compensated absences amounts. The entire compensated absence liability is reported on the government-wide financial statements. The portion related to employees in the internal service fund is recorded at the fund level. The current portion is the amount estimated to be used in the following year. An expenditure is recognized in the governmental fund as payments come due each period, for example, as a result of employee resignations and retirements. Compensated absences not recorded at the fund level represent a reconciling item between the fund level and government-wide presentations (see Note 10).

M. 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.

N. Accounting Estimates

The preparation of financial statements in conformity with GAAP required management to make estimates and assumptions that affect the reported amounts of assets/deferred outflows of resources and liabilities/deferred inflows of resources and disclosures of contingent assets/deferred outflows of resources and liabilities/deferred inflows of resources at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

O. Impact of Recently Issued Accounting Principles

Recently Issued and Adopted Accounting Pronouncements

In February 2015, the District adopted GASB Statement No. 72, *Fair Value Measurement and Application* (GASB 72), which was effective for the District beginning with its year ending June 30, 2016. GASB 72 requires the District to use valuation techniques which are appropriate under the circumstances and are either a market approach, a cost approach or income approach. GASB 72 establishes a hierarchy of inputs used to measure fair value consisting of three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs, and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. GASB 72 also contains note disclosure requirements regarding the hierarchy of valuation inputs and valuation techniques that was used for the fair value measurements. The adoption of GASB 72 is reflected in Notes 3, 10, and 11.

In June 2015, GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statement Nos. 67 and 68*, will be effective for the District beginning with its year ending June 30, 2016, except those provisions that address employers and governmental non-employer contributing entities for pensions that are not within the scope of GASB Statement No. 68, which are effective for the District beginning with its year ending June 30, 2017. This Statement will establish requirements for those pensions and pension plans that are not administered through a trust meeting specified criteria. The adoption of this statement did not impact the District's financial statements.

In June 2015, GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, will be effective for the District beginning with its year ending June 30, 2016. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP from the four categories under GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The first category of authoritative GAAP consists of GASB Statements of Governmental Accounting Standards. The second category comprises GASB Technical Bulletins and Implementation Guides, as well as guidance from the AICPA that is cleared by the GASB. The Statement also addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The adoption of this statement did not impact the District's financial statements.

In December 2015, GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, will be effective for the District beginning with its year ending June 30, 2016. This

Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals. The adoption of this statement did not impact the District's financial statements.

Recently Issued Accounting Pronouncements

In June 2015, GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, will be effective for the District beginning with its year ending June 30, 2017. This Statement will establish rules on reporting by OPEB plans that administer benefits on behalf of governments. The adoption of this statement will not impact the District's financial statements.

In June 2015, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, will be effective for the District beginning with its year ending June 30, 2018. This Statement outlines reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In August 2015, GASB Statement No. 77, *Tax Abatement Disclosures*, will be effective for the District beginning with its year ending June 30, 2017. This Statement requires state and local governments, for the first time, to disclose information about tax abatement agreements. It requires governments to disclose information about their own tax abatements separately from information about tax abatements that are entered into by other governments and reduce the reporting government's tax revenues. Management of the District is still in the process of determining what effect, if any, GASB 77 will have on the basic financial statements and related disclosures.

In December 2015, GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, will be effective for the District beginning with its year ending June 30, 2017. The objective of this Statement is to address a practice issue regarding the scope and applicability of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. This Statement amends the scope and applicability of GASB Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. The adoption of this statement will not impact the District's financial statements.

In January 2016, GASB Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*, will be effective for the District beginning with its year ending June 30, 2017. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In March 2016, GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73,* will be effective for the District beginning with its year ending June 30, 2017. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, *and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

2. CHANGE IN REPORTING ENTITY

During the 2014-15 fiscal year, the District did not include the charter schools as aggregate discretely presented component units. This change in the District's reporting entity affects the comparability of amounts reported for the 2015-16 fiscal year with amounts reported for the 2014-15 fiscal year. As a result of this change, beginning net position of the component units as a whole, totaling $8.4 million, has been added.

3. AD VALOREM TAXES

The Board is authorized by Florida Statutes to levy property taxes for District operations, capital improvements and debt service. Property taxes consist of ad valorem taxes on real and personal property within the District. The Palm Beach County Property Appraiser assesses property values and the Palm Beach County Tax Collector collects the property taxes.

Property values are assessed as of January 1 each year. The Board levies the property tax at the final budget hearing each year based on the assessed valuation of all non-exempt property. This levy finances the expenditures of the current fiscal year. Tax bills are mailed by the Palm Beach County Tax Collector on November 1 and are due no later than April 1. After this date, taxes become an enforceable lien on property. Discounts of up to 4 percent are available for early payment. The majority of ad valorem taxes are collected in November and December and remitted to the Board. Section 197.383, Florida Statutes, requires the Palm Beach County Tax Collector to distribute the taxes collected to each taxing authority at least four times during the first two months after the tax roll comes into the Tax Collector's possession, and at least once per month thereafter. Taxes are considered delinquent if not paid prior to April 1. State law provides for enforcement of collection of taxes by the sale of tax certificates on real property and for levy upon, seizure and sale of personal property after the Palm Beach County Tax Collector initiates a sequence of required procedures resulting in a court order to carry out the action.

The State Legislature prescribes the maximum non-voted millage that may be levied by the Board for each fiscal year. The total millage rate levy was 7.512 mills and the total assessed value on which the 2015 levy was based was $164.9 billion. Gross taxes levied were approximately $1.2 billion. Total revenue, net of discounts, was approximately $1.2 billion. A portion of the taxes levied for the Local Capital Improvement Capital Project Fund, designated for repairs and maintenance programs are transferred to the General Fund as provided by Chapter 1013, Florida Statutes. For fiscal year 2016, the maintenance transfer amounted to approximately $79.2 million. Additionally, approximately $7.1 million was transferred for property insurance; approximately $3.1 million was transferred for charter school capital outlay bringing the total transfer from capital project funds to approximately $89.4 million.

4. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash and Cash Equivalents

Custodial Credit Risk- Deposits – The District does not have a separate policy for custodial credit risk; however, the Investment and Cash Management Policy 6.08 states that all bank accounts must be secured by the Florida Security for Public Deposits Act, Chapter 280, Florida Statutes, which requires that all bank balances are fully insured by FDIC or fully collateralized by the State of Florida.

Florida Statutes authorize the deposit of District funds in demand deposits or time deposits of financial institutions approved by the State Treasurer and are defined as public deposits. All District public deposits are held in qualified public depositories pursuant to Chapter 280, Florida Statutes, the "Florida Security for Public Deposits Act." Under the Act, all qualified public depositories are required to pledge eligible collateral having a market value equal to or greater than the average daily or monthly balance of all public deposits times the depository's collateral pledging level. The collateral pledging level may range from 50 percent to 125 percent depending upon the depository's financial condition and the length of time that the depository has been established. All collateral must be deposited with the State Treasurer. Any losses to public depositors resulting from insolvency are covered by applicable deposit insurance, sale of securities pledged as collateral and, if necessary, assessment against other qualified public depositories of the same type as the depository in default. All bank balances of the District are fully insured or collateralized. At June 30, 2016, the carrying amount of the District's cash deposits was approximately $306.1 million and the bank balance was approximately $309.3 million. The carrying amount of the Agency Fund - School Internal Funds cash deposits was approximately $17.9 million.

The District receives interest on all collected balances in its cash accounts from the qualified public depository acting as its banking agent. Interest earnings are allocated to all funds based on the average daily balance of each fund's equity in the Treasurer's Pool.

Cash Equivalents consist of amounts invested in money markets funds, Florida Education Investment Trust Fund (FEITF) and Florida Prime. FEITF and Florida PRIME are external investment pools that are not registered with the Securities Exchange Commission (SEC), but do operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Rule 2a7 allows funds to use amortized cost to maintain a constant net asset value (NAV) of $1.00 per share. Accordingly, the District's investments in both FEITF and Florida PRIME are reported at the account balance which is amortized cost. There are no restrictions or fees to withdrawal from either of these pools.

Investments

The District's investment policy permits investments in the Florida Prime Fund, FEITF, securities of the United States Government, U.S. Government Agencies, Federal instrumentalities, interest bearing time deposit or savings accounts, repurchase agreements, commercial paper, corporate notes, bankers' acceptances, state and/or local government debt, and money market mutual funds. The District's investment advisor used the effective duration method to calculate effective duration measures for the securities held by the District. Besides measuring the sensitivity of the securities market value to changes in interest rates, the effective duration method accounts for any call (early redemption) features which a security may have.

In 2016, the District implemented GASB Statement No. 72, *Fair Value Measurement and Application*, issued in February 2015. The District categorized investments according to the fair value hierarchy established by this Statement. The hierarchy is based on valuation inputs used to measure the fair value of the asset as follows: level 1 inputs are quoted prices in active markets for identical assets; level 2 inputs are significant other observable inputs to include quoted prices for similar assets in active and non-active markets; level 3 inputs are significant unobservable inputs. Certain investments are measured at fair value using the net asset value per share (or its equivalent) practical expedient and have not been classified in the fair value hierarchy. The fair value amounts, presented in the following table, are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of net position.

As of June 30, 2016, the District had the following unrestricted cash, cash equivalents, and investments with stated maturities that were categorized as level 1 and level 2 (amounts in thousands):

Investments by Level	Balance (in thousands)	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Fair Value Measurements Using: Significant Other Observable Inputs (Level 2)	Effective Duration (years)
Commercial Paper	$ 52,067	$ -	$ 52,067	0.10
Core Fund Investments				
US Treasury - Notes	30,001	30,001	-	1.98
Federal Agency - Bond/Notes	12,631	-	12,631	1.68
Corporate Notes	6,275	-	6,275	1.37
Municipal Bonds	1,004	-	1,004	1.82
Total Investments by Fair Value Level	$ 101,978	$ 30,001	$ 71,977	
Investments Reported at Amortized Cost				
Florida Education Investment Trust Fund (FEITF)	123,124			N/A
Money Market Funds	67,328			N/A
Florida PRIME	33			0.11
Total Investments Reported at Amortized Cost	190,485			
Total Investments	292,463			
Cash Deposits	306,112			
Total Cash, Cash Equivalents, and Investments	$ 598,575			

Interest Rate Risk

Interest rate risk is the risk of losses due to potential changes in the prevailing interest rates. To limit exposure to fair value losses resulting from increases in interest rates, the District's Investment Policy limits operating funds to maturities of 2 years or less. Investments of reserves, project funds, debt proceeds and other non-operating funds (core funds) shall have a term appropriate to the need for funds and in accordance with debt covenants, but in no event shall exceed 5 years and the average duration of the funds as a whole may not exceed 3 years. The District's investment in the Federally Backed Securities (Fannie Mae, Freddie Mac (also known as Federal Home Loan Mortgage Corporation) and Farmer Mac) matures between March 2017 and June 2019. As of June 30, 2016, the District held no callable securities.

Concentration of Credit Risk

Concentration of credit risk is the risk of losses due to too high a concentration of investments in a single investment, The District's Investment Policy specifies the maximum percentage allocation to any single investment type as well as the maximum percentage holding per issuer. Up to 100 percent of the portfolio may be invested in U.S. Government securities, 80 percent may be invested in Federal instrumentalities (U.S. Government sponsored agencies) with no more than 50 percent with a single issuer and 50 percent may be invested in U.S. Government agencies with no more than 25 percent with a single issuer. Corporate notes are limited to 15 percent of the portfolio with no more than 5 percent with a single issuer.

PORTFOLIO / INVESTMENTS	FAIR VALUE (in thousands)	PERCENTAGE OF INVESTMENT BALANCE	RATING S&P / MOODY'S
Money Market Funds			
Dreyfus Treasury and Agency	$ 40,850	6.82%	AAAm/Aaa-mf
Federated Government Obligation	18,544	3.10%	AAAm/Aaa-mf
Fidelity Institutional Government Fund	7,934	1.33%	AAAm/Aaa-mf
Florida Education Investment Trust Fund (FEITF)	123,124	20.57%	AAAm
Florida PRIME	33	0.01%	AAAm
Commercial Paper			
Bank of Tokyo	24,994	4.18%	A1
Fortis	2,090	0.35%	A1
Rabobank	24,983	4.17%	A1
Investments in Fixed Income Securities			
US Treasury - Notes/Bill	30,001	5.01%	AA+/Aaa
Toyota Motor Corporation	1,217	0.20%	AA-/Aa3
Berkshire Hathaway	1,428	0.24%	AA/Aa2
IBM Corp	1,213	0.20%	AA-/Aa3
Apple	1,205	0.20%	AA+/Aa1
Chevron	1,212	0.20%	AA-/Aa2
Federally Backed Securities (Fannie Mae, Farmer Mac & Freddie Mac) - Long-Term	12,631	2.11%	AA+/Aaa
Municipal Bonds	1,004	0.17%	AA/Aa3
Total Investments	292,463	48.86%	
Plus Cash Deposits	306,112	51.14%	
Total Cash, Cash Equivalents, and Investments, Primary Government	$ 598,575	100.00%	

As of June 30, 2016, all District investments were in compliance with the District's Investment Policy or Debt Management Policy and did not exceed portfolio allocation or issuer maximums.

Credit Risk

Credit risk is the risk of losses due to credit worthiness of the issuer of security investments. The District's Investment Policy lists the authorized investment types as well as the minimum allowable credit rating for each investment type. Corporate notes purchased for investment must be issued by corporations organized and operating within the United States or by depository institutions licensed by the United States that have a long-term debt rating, at the time of purchase, at a minimum "Aa" by Moody's and a minimum long-term debt rating of "AA" by Standard & Poor's (S&P). The maximum length to maturity for corporate notes shall be 3 years from the date of purchase. As of June 30, 2016, the District held $6.3 million of corporate notes of which had an S&P rating between AA- and AA+. All investments in the Federally Backed Securities (Fannie Mae, Freddie Mac (also known as Federal Home Loan Mortgage Corporation) and Farmer Mac) had a rating between AA+ and Aaa for securities held for more than 1 year. All other rated investments were rated between A-1 and AAAm by S&P. As of June 30, 2016, the local government investment pools were rated AAAm by S&P.

Custodial Risk

Custodial credit risk is the risk of losses due to the failure of a counterparty that is in possession of investments or collateral securities. The District's investment policy requires that all securities, with the exception of certificates of deposit, be held with a third-party custodian; and all securities purchased by, and all collateral obtained by the District should be properly designated as an asset of the District. The securities must be held in an account separate and apart from the assets of the financial institution. A third-party custodian is defined as any bank depository chartered by the Federal government, the State of Florida, or any other state or territory of the United States which has a branch or principal place of business in the State of Florida as defined in Section 658.12, Florida Statutes, or by a national association organized and existing under the laws of the United States which is authorized to accept and execute trusts and which is doing business in the State of Florida. Certificates of deposit will be placed in the provider's safekeeping department for the term of the deposit. Security transactions between a broker/dealer and the custodian involving the purchase or sale of securities by transfer of money or securities are made on a "delivery vs. payment" basis, if applicable, to ensure that the custodian will have the security or money, as appropriate, in hand at the conclusion of the transaction. As of June 30, 2016, the District's investment in fixed income securities was held with a third-party custodian.

5. INVESTMENT DERIVATIVE INSTRUMENTS

The District received an upfront premium payment of $3 million for allowing the swap counterparty the right to terminate the 2003B Interest Rate Swap if the 180-day average of the BMA Index exceeds 7 percent in the future. The barrier feature was effective June 2003 and is exercisable anytime until August 2018. Once the barrier option expires the District will be left with a fixed-payer swap that matures August 2029. Therefore, for accounting and financial reporting purposes, the barrier option derivative instrument is considered an investment derivative instrument. At June 30, 2016, the fair value of the barrier option is approximately $25,000 in asset position (see Note 11). This is categorized as level 2 investment in accordance with GASB Statement No. 72.

6. DUE FROM OTHER AGENCIES

At June 30, 2016, the District had a total of approximately $30.6 million in Due from Other Agencies which consisted of the following balances (amount in thousands):

	General Fund	Other Nonmajor Governmental Funds	Internal Service Fund	Total
Federal and State Sources:				
Medicaid*	$ 2,906	$ -	$ -	$ 2,906
Grants and Entitlements	-	13,739	-	13,739
FEMA	358	6	-	364
Fuel Tax*	-	177	-	177
Local Sources:				
Erate*	897	-	-	897
Family Central	906	-	-	906
Impact Fees*	-	7,725	-	7,725
Pharmacy Rebates	-	-	2,404	2,404
Other	958	403	92	1,453
Total Due from Other Agencies	$ 6,025	$ 22,050	$ 2,496	$ 30,571

* All or partially recorded as Deferred Inflows - Unavailable Revenue at the fund level.

7. INTERFUND ACTIVITIES

Due to/from other funds consisted of the following balances at June 30, 2016 (amounts in thousands):

	Interfund Receivables	Interfund Payables
General Fund	$ 2,000	$ -
Other Nonmajor Governmental Funds	-	2,000
Total Interfund	$ 2,000	$ 2,000

The amount payable by the Other Governmental Funds to the General Fund is to cover temporary cash shortages related to timing of receipts.

Interfund transfers for the year ended June 30, 2016, were as follows (amounts in thousands):

	Transfer to:			
Transfer from:	General Fund	COPS Debt Service Fund	Other Nonmajor Governmental Funds	Total
Capital Improvement Fund	$ 81,299	$ 125,601	$ 8,827	$ 215,727
General Fund	-	-	14,550	14,550
Other Nonmajor Governmental Funds	8,136	20,068	261	28,465
Total	$ 89,435	$ 145,669	$ 23,638	$ 258,742

Transfers to the General Fund relate primarily to funding for the maintenance, renovation and/or repair of school facilities, pursuant to Section 1011.71, Florida Statutes, and for charter school capital outlay. Transfers to COPs Debt Service Fund and Other Nonmajor Governmental Funds relate to amounts transferred to make debt service payments and to fund an adult education capital project.

8. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016, is as follows (amounts in thousands):

	Beginning Balance July 1, 2015	Additions and Transfers In	Retirements and Transfers Out	Ending Balance June 30, 2016
Non-Depreciable Assets:				
Land	$ 338,593	$ 87	$ -	$ 338,680
Construction in Progress	36,433	2,789	38,072	1,150
Total Non-Depreciable Assets	375,026	2,876	38,072	339,830
Depreciable Assets:				
Improvements Other Than Buildings	57,898	608	-	58,506
Buildings and Improvements	4,135,273	38,563	514	4,173,322
Furniture, Fixtures, and Equipment	126,019	7,401	6,237	127,183
Motor Vehicles	108,143	15,090	7,203	116,030
Audio/Video Materials & Software	47,791	21	6,685	41,127
Total Depreciable Assets	4,475,124	61,683	20,639	4,516,168
Less Depreciation For:				
Improvements Other Than Buildings	(27,790)	(3,975)	-	(31,765)
Buildings and Improvements	(1,143,583)	(87,246)	(514)	(1,230,315)
Furniture, Fixtures, and Equipment	(98,954)	(8,827)	(5,977)	(101,804)
Motor Vehicles	(82,117)	(6,784)	(7,001)	(81,900)
Audio/Video Materials & Software	(44,120)	(2,146)	(6,674)	(39,592)
Total Accumulated Depreciation	(1,396,564)	(108,978)	(20,166)	(1,485,376)
Capital Assets, Net	$ 3,453,586	$ (44,419)	$ 38,545	$ 3,370,622

Depreciation expense for the year ended June 30, 2016, of approximately $109 million was not allocated to specific functions. The District's capital assets essentially serve all functions and as such the depreciation expense is included as a separate line item in the statement of activities.

9. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; administrative errors and omissions; injuries to employees, students and guests; as well as natural disasters and employee health and medical insurance. The District is self-insured for portions of its general and automobile liability insurance, workers compensation and employee health and medical insurance. Losses involving auto and general liability claims are limited (generally) by the provisions of Section 768.28, Florida Statutes. These self-insured funds are administered by a third-party. The District purchases commercial insurance for other risks including property, construction, and other miscellaneous risks.

The employee health insurance claims liability is based on an analysis performed by management, which is based on historical trends. The remaining claims liability is based on an actuarial evaluation performed by an independent actuary as of June 30, 2016, using a discounted rate factor of 4 percent. The liability consists of claims reported and payable, as well as an estimate for claims incurred but not reported. At June 30, 2016, the liability for claims consisted of approximately $13 million,

$12.8 million and $32 million for employee health, auto and general liability, and workers' compensation, respectively.

A summary of changes in the estimated liability for self-insured risks is as follows (amounts in thousands):

	Fiscal Year Ended June 30, 2015	Fiscal Year Ended June 30, 2016
Beginning Balance	$ 51,836	$ 56,829
Additions:		
Current year claims and changes in estimates	185,046	195,200
Reductions:		
Claim payments	(180,053)	(194,217)
Ending Balance	$ 56,829	$ 57,812

10. SHORT-TERM DEBT

Tax Anticipation Notes

On September 25, 2015, the District issued Tax Anticipation Notes (TANS), Series 2015, for $115 million. Note proceeds were used to pay fiscal year 2016 District operating expenditures prior to the receipt of ad valorem taxes. The notes were repaid in January 2016.

Short-term debt activity for the year ended June 30, 2016, was as follows (amounts in thousands):

	Beginning Balance July 1, 2015	Issued	Redeemed	Ending Balance June 30, 2016
Tax anticipation notes	$ -	$ 115,000	$ (115,000)	$ -

11. LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the year ended June 30, 2016, is as follows (amounts in thousands):

	Beginning Balance July 1, 2015	Additions	Reductions	Ending Balance June 30, 2016	Amounts Due Within One Year
Governmental Activities:					
Bonds, Notes, and Other Payables:					
Loans/Notes Payable	$ 9,785	$ 28,338	$ (6,277)	$ 31,846	$ 8,361
Capital Outlay Bond Issue	17,430	-	(3,717)	13,713	2,317
Certificates of Participation Payable	1,600,393	62,970	(121,400)	1,541,963	75,205
Borrowing-Swap Upfront Payment	2,876	-	(218)	2,658	228
Derivative Instruments-Hedging	74,213	16,863	-	91,076	-
	1,704,697	108,171	(131,612)	1,681,256	86,111
Plus Issuance Premiums	105,257	8,541	(18,796)	95,002	-
Total Bonds, Notes, and Other Payables	1,809,954	116,712	(150,408)	1,776,258	86,111
Other Liabilities:					
Compensated Absences	182,362	16,838	(16,120)	183,080	15,983
Self-Insurance:					
Claims and Judgments	56,829	195,200	(194,217)	57,812	23,714
Postemployment Benefits	102,032	12,277	(6,823)	107,486	-
Net Pension Liability	463,708	176,787	-	640,495	-
Total Other Liabilities	804,931	401,102	(217,160)	988,873	39,697
Total Governmental Activities Long-Term Liabilities	$ 2,614,885	$ 517,814	$ (367,568)	$ 2,765,131	$ 125,808

Loans/Notes Payable

On July 2, 2015, the District entered into loan agreement 2015 with Banc of America Public Capital Corp. for financing the acquisition of 125 buses and other equipment, a $14.2 million issue with a coupon rate of 1.242 percent. Under the terms of the loan agreement, the debt is payable over 5 years.

On November 19, 2015, the District entered into loan agreement 2015A with Banc of America Public Capital Corp. for financing the acquisition of 18 heating ventilating air conditioning systems and other equipment, a $7.2 million issue with a coupon rate of 1.274 percent. Under the terms of the loan agreement, the debt is payable over 5 years.

On March 18, 2016, the District entered into loan agreement 2016 with Banc of America Public Capital Corp. for financing the acquisition of 60 buses and other equipment, a $6.9 million issue with a coupon rate of 1.255 percent. Under the terms of the loan agreement, the debt is payable over 5 years.

A summary of loans/notes payable terms are presented as follows (amounts in thousands):

Bus & Equipment Loans	Date of Issue	Amount Issued	Remaining Interest Rates (Percent)	Final Maturity Date	Debt Outstanding July 1, 2015	Debt Issued	Debt Redeemed	Debt Outstanding June 30, 2016
2014	02/20/14	$ 14,002	1.235%	08/01/18	$ 9,785	$ -	$ 2,720	$ 7,065
2015	07/02/15	14,235	1.242%	02/01/20	-	14,236	2,837	11,399
2015A	11/19/15	7,152	1.274%	08/01/20	-	7,152	720	6,432
2016	03/18/16	6,950	1.255%	02/01/21	-	6,950	-	6,950
Total		$ 42,339			$ 9,785	$ 28,338	$ 6,277	$ 31,846

The annual future minimum loan payments are as follows (amounts in thousands):

Year Ended June 30	Principal	Interest	Total Principal and Interest
2017	$ 8,361	$ 361	$ 8,722
2018	8,454	267	8,721
2019	7,115	162	7,277
2020	5,760	81	5,841
2021	2,156	18	2,174
Total	$ 31,846	$ 889	$ 32,735

State Board of Education Capital Outlay Bond Issues

State Board of Education Capital Outlay Bond Issues (COBI) are serviced entirely by the State using a portion of the District's share of revenue derived from motor vehicle license taxes pursuant to Chapter 320, Florida Statutes, and Article XII, Section 9(d), of the Florida Constitution. The State Board of Administration determines the annual sinking fund requirements. The amounts necessary to retire bonds and interest payable are withheld from the entitlement to the District. Interest rates on the COBI bonds range from 2 percent to 5 percent. Interest is payable semiannually on January 1 and July 1. The bonds are redeemable at par.

A summary of bond terms are presented as follows (amounts in thousands):

Capital Outlay Bond Issues	Date of Issue	Amount Issued	Remaining Interest Rates (Percent)	Final Maturity Date	Debt Outstanding July 1, 2015	Debt Matured	Debt Outstanding June 30, 2016
COBI 2009-A	9/10/2009	$ 1,655	5	1/1/2019	$ 755	$ 170	$ 585
COBI 2010-A	10/14/2010	9,700	3.5 - 5	1/1/2030	7,575	435	7,140
COBI 2010-A	10/14/2010	1,790	4 - 5	1/1/2022	1,410	160	1,250
COBI 2011-A	12/7/2011	5,820	3 - 5	1/1/2023	3,415	295	3,120
COBI 2014-B	12/2/2014	4,275	2 - 5	1/1/2020	4,275	2,657	1,618
Total		$ 23,240			$ 17,430	$ 3,717	$ 13,713

The debt service requirements through maturity to the holders of the COBI bonds are as follows (amounts in thousands):

Year Ended June 30	Principal Capital Outlay Bonds	Interest	Total Principal and Interest
2017	$ 2,317	$ 610	$ 2,927
2018	1,543	494	2,037
2019	1,311	417	1,728
2020	1,177	358	1,535
2021	1,200	300	1,500
2022-2026	3,390	706	4,096
2027-2030	2,775	332	3,107
Total	$ 13,713	$ 3,217	$ 16,930

Certificates of Participation

On November 16, 1994, the District entered into a Master Lease Purchase Agreement (Master Lease) dated November 1, 1994, with the Palm Beach School Board Leasing Corporation (Corporation), a Florida not-for-profit corporation, to finance the acquisition and construction of certain facilities, and equipment for District operations. The Corporation was formed by the Board solely for the purpose of acting as the lessor for Certificates of Participation financed facilities, with the District as lessee. The Corporation issued Certificates of Participation (COP) to third-parties, evidencing undivided proportionate interest in basic lease payments to be made by the District, as lessee, pursuant to the Master Lease. Simultaneously therewith, the Board entered into ground lease agreements with the Corporation for the Facilities sites.

The District also sold Certificates of Participation Qualified Zone Academy Bonds (QZAB). The QZAB program is a financial instrument that provides a different form of subsidy from traditional tax exempt bonds. Interest on QZABs is paid by the Federal government in the form of an annual tax credit to an eligible financial institution that holds the QZAB. The QZAB issuer is responsible for repayment upon maturity. The tax credits and bonding authority are made available by the Federal government to support innovative school partnerships; enhance reform initiatives, including augmenting Federal education programs, technology and vocational equipment; and development of curriculum or better teacher training to promote market driven technology. To be eligible, a school must:

1. Be located in an Empowerment Zone or an Enterprise Community or have 35 percent or more of its students eligible for free or reduced lunch under the National School Lunch Act Program.
2. Obtain cash and/or in-kind contribution agreements from partnerships equal to at least 10 percent of the gross proceeds of the QZAB.

The District deposits funds annually into an escrow account, which when coupled with interest earnings will be sufficient to pay off the principal at maturity.

As part of the American Reinvestment and Recovery Act (ARRA), the District was authorized to issue up to $67.7 million of Qualified School Construction Bonds (QSCB) for the purpose of new construction. The District chose to modernize two schools (Galaxy Elementary and Gove Elementary) and replace two roofs (Belle Glade Elementary and Pioneer Park Elementary). The District issued the bonds as Taxable Certificates of Participation through the Build America Bonds program, also created by the ARRA legislation. The District issued taxable bonds and receives a Federal subsidy from the Treasury department equal to the difference between the taxable and tax-exempt rates. The QSCB Certificates were sold to Bank of America during a competitive sale held on November 3, 2010, and closed on November 15, 2010. The par amount was $67.7 million and the interest rate was 5.4 percent. The District will pay interest only until 2019 when deposits to the sinking fund begin. The final maturity of the bonds is August 1, 2025. The total interest that will be paid over the life of the bonds is $53.8 million. A total subsidy of $48.6 million will be recorded as revenue in the year earned. Therefore, the amount the District will pay net of the Federal subsidy is $5.1 million. In the current fiscal year, the District recorded $3.3 million subsidy as revenue and $3.7 million as interest expense resulting in a net impact of $0.4 million.

Subsequent to the sale of the QSCB certificates, the District entered into a forward delivery agreement (FDA) classified as a nonparticipating interest-earning investment contract with Barclays Bank related to the COPs 2010A QSCB. A forward delivery agreement is a type of investment in which the investor purchases eligible securities on a periodic basis from the agreement provider at a fixed rate of return. The Board expects to purchase eligible securities, which consist of direct obligations of or obligations guaranteed by the U.S. Treasury and AAA-rated senior debt obligations of Fannie Mae, Freddie Mac, the FHLB, and Federal Farm Credit System from Barclays on a semi-annual basis beginning July 19, 2019, through the final maturity date of August 1, 2025. The Agreement will generate a guaranteed fixed rate of return of 4.262 percent or $8.1 million. The interest earnings associated with this transaction will completely offset the interest due (net of the Federal subsidy) and will generate an additional $3 million to be used to repay the principal in 2025.

The Corporation leases facilities and equipment to the District under the Master Lease. The Master Lease is automatically renewable annually unless terminated, in accordance with the provisions of the Master Lease, as a result of default or the failure of the Board to appropriate funds to make lease payments in its final official budget. Failure to appropriate funds to pay lease payments under any lease will, and an event of default under any lease may, result in the termination of all leases. The remedies on default or upon an event of non-appropriation include the surrender of the COP Series 1994A, Series 1995A, Series 1996A, Series 2000A, Series 2001A, Series 2002A, Series 2002B, Series 2002C, Series 2002D, Series 2003A, Series 2003B, Series 2004A, Series 2006A, Series 2007A, Series 2007B, Series 2007E; QZAB Series 2002, QZAB Series 2004, QZAB Series 2005, and QSCB Series 2010A Facilities by the District and the Trustee's re-letting for the remaining Ground Lease term, or the voluntary sale of the COP Series 1994A, Series 1995A, Series 1996A, Series 2000A, Series 2001A, Series 2002A, Series 2002B, Series 2002C, Series 2002D, Series 2003A, Series 2003B, Series 2004A, Series 2006A, Series 2007A, Series 2007B, Series 2007E; QZAB Series 2002, QZAB Series 2004, QZAB Series 2005, and QSCB Series 2010A, Facilities by the School Board. In either case, the proceeds will be applied against the School Board's obligations under the Master Lease.

A summary of lease terms are presented as follows (amounts in thousands):

Certificates	Date of Issue	Amount Issued	Remaining Interest Rates (Percent)		Final Maturity Date	Debt Outstanding July 1, 2015	Debt Issued	Debt Matured	Debt Refunded/ Defeased	Debt Outstanding June 30, 2016	Ground Lease Term
QZAB Series 2002	06/11/2002	$ 950	-		06/11/2016	$ 950	$ -	$ 950	$ -	$ -	06/11/2016
Series 2002E (1)	09/01/2002	93,350	4%		08/01/2016	14,760	-	12,295	-	2,465	06/30/2016
Series 2003A (2)	06/26/2003	60,865	-		08/01/2015	3,680	-	3,680	-	-	08/01/2021
Series 2003B (3)	06/26/2003	124,295	1.06%	**	08/01/2029	124,295	-	-	-	124,295	08/01/2029
Series 2004A (12)	05/04/2004	103,575	-		08/01/2015	3,495	-	3,495	-	-	08/01/2029
QZAB Series 2004	04/30/2004	2,923	-		04/30/2020	2,923	-	-	-	2,923	04/29/2020
QZAB Series 2005	12/15/2005	2,150	-		12/15/2020	2,150	-	-	-	2,150	12/15/2020
Series 2006A	05/25/2006	222,015	4.25%		08/01/2016	14,035	-	6,850	-	7,185	08/01/2031
Series 2007A	02/28/2007	268,545	4% to 5%		08/01/2017	40,270	-	12,825	-	27,445	08/01/2031
Series 2007C (4)	03/22/2007	192,310	4% to 5%		08/01/2027	179,260	-	920	-	178,340	07/31/2027
Series 2007D (5)	05/03/2007	30,485	-		08/01/2015	5,000	-	5,000	-	-	06/30/2015
Series 2007E	10/31/2007	147,390	4% to 4.25		08/01/2017	15,025	-	4,795	-	10,230	08/01/2032
QSCB Series 2010A	11/15/2010	67,665	5.4%	***	08/01/2025	67,665	-	-	-	67,665	08/01/2032
Series 2011B (6)	06/29/2011	166,270	-		08/01/2015	845	-	845	-	-	08/01/2025
Series 2011A (7)	07/13/2011	112,425	4% to 5%		08/01/2032	112,425	-	-	67,905	44,520	08/01/2032
Series 2011C (8)	11/15/2011	15,355	1.74%		08/01/2018	6,540	-	370	-	6,170	08/01/2018
Series 2011D (9)	11/15/2011	25,065	2.64%		08/01/2021	24,195	-	340	-	23,855	08/01/2021
Series 2012A (10)	05/15/2012	20,085	5%		08/01/2028	20,085	-	-	-	20,085	08/01/2028
Series 2012B (11)	06/29/2012	116,555	5.46%	****	08/01/2028	107,310	-	85	-	107,225	08/01/2028
Series 2012C (12)	08/09/2012	67,145	4% to 5%		08/01/2029	67,145	-	-	-	67,145	08/01/2029
Series 2014A (13)	01/31/2014	115,560	0.87%	*	08/01/2027	115,560	-	105	-	115,455	08/01/2027
Series 2014B (14)	06/27/2014	166,010	3% to 5%		08/01/2025	166,010	-	940	-	165,070	08/01/2025
Series 2014C (15)	07/29/2014	33,280	5%		08/01/2031	33,280	-	-	-	33,280	08/01/2031
Series 2015A (16)	05/05/2015	106,315	2.52%		08/01/2022	106,315	-	-	-	106,315	08/01/2022
Series 2015B (17)	01/14/2015	145,535	5%		08/01/2031	145,535	-	-	-	145,535	08/01/2031
Series 2015D (18)	04/30/2015	221,640	5%		08/01/2032	221,640	-	-	-	221,640	08/01/2032
Series 2015C (19)	10/28/2015	106,315	5%		08/01/2032	-	62,970	-	-	62,970	08/01/2032
		$2,734,073				$ 1,600,393	$62,970	$53,495	$ 67,905	$ 1,541,963	

* 2014A - Variable rate paid to certificate holders SIFMA +46 BPS. Resets weekly, 0.87% at 6/30/2016
** 2003B - Variable rate paid to certificate holders SIFMA + 65 basis points. Resets weekly, 1.06% at 6/30/2016
*** 2010A QSCB - Average coupon rate before IRS subsidy is 5.4%. Net interest rate with IRS subsidy is 0.5629%
**** 2012B - Variable rate paid to certificate holders SIFMA +49 BPS. Resets weekly, 0.90% at 6/30/2016

Notes to Certificates of Participation Series leases on previous pages:

(1) Issued to advance refund and defease a portion of the Series 1995A and Series 1996A Certificates of Participation.
(2) Refunded and partially defeased by Series 2011D Certificates of Participation.
(3) On March 20, 2008, the District converted and remarketed the Series 2003B (with no change to principal).
(4) Issued to advance refund and defease a portion of the Series 2001A and Series 2002C Certificates of Participation. **
(5) Issued to advance refund and defease a portion of Series 1997A Certificates of Participation (which previously refunded Series 1994A Certificates of Participation). **
(6) Issued to advance refund and defease a portion of Series 2001B Certificates of Participation (which previously refunded Series 2000A Certificates of Participation). **
(7) Issued to advance refund and defease Series 2007B Certificates of Participation, refunded and partially defeased by 2015C Certificates of Participation. **
(8) Issued to advance refund and defease a portion of Series 2002A Certificates of Participation. **
(9) Issued to advance refund and defease a portion of Series 2003A Certificates of Participation. **
(10) Issued to advance refund and defease a portion of Series 2002D Certificates of Participation. **
(11) Issued to advance refund and defease remaining Series 2002D Certificates of Participation. **
(12) Issued to advance refund and defease a portion of Series 2004A Certificates of Participation. **
(13) Issued to advance refund and defease remaining Series 2002B Certificates of Participation. **
(14) Issued to advance refund and defease a portion of Series 2011B Certificates of Participation (which previously refunded Series 2000A Certificates of Participation). **
(15) Issued to advance refund and defease Series 2007A Certificates of Participation. **
(16) Issued to advance refund and defease a portion of Series 2005A Certificates of Participation (which previously refunded Series 2001A, 2002A, 2002C, and 2002D Certificates of Participation). **
(17) Issued to advance refund and defease a portion of Series 2006A Certificates of Participation. **
(18) Issued to advance refund and defease a portion of Series 2007A and 2007E Certificates of Participation. **
(19) Issued to advance refund and defease a portion of Series 2011A Certificates of Participation. **

** These refunding issues were done in order to achieve debt service savings.

The Certificates are not separate legal obligations of the Board but represent undivided proportionate interests in lease payments to be made from appropriated funds budgeted annually by the Board for such purpose from current or other funds authorized by law and regulations of the Department of Education, including the local optional millage levy. However, neither the Board, the District, the State of Florida, nor any political subdivision thereof are obligated to pay, except from Board appropriated funds, any sums due under the Master Lease from any source of taxation. The full faith and credit of the Board and the District are not pledged for payment of such sums due under the Master Lease, and such sums do not constitute an indebtedness of the Board or the District within the meaning of any constitutional or statutory provision or limitation. A trust fund was established with a Trustee to facilitate payments in accordance with the Master Lease and the Trust Agreement. Various accounts are maintained by the Trustee in accordance with the trust indenture. Interest earned on invested funds is applied toward the basic lease payments. Basic lease payments are deposited with the Trustee semi-annually on June 30 and December 30 or January 5 (for variable rate issue), and are payable to Certificate holders on August 1 and February 1.

Due to the economic substance of the issuances of Certificates of Participation as a financing arrangement on behalf of the Board, the financial activities of the Corporation have been blended in with the financial statements of the District. For accounting purposes, due to the blending of the Corporation within the District's financial statements, basic lease payments are reflected as debt service expenditures when payable to Certificate holders. During the fiscal year ended June 30, 2016, approximately $1.8 million was expended for capital outlay in the nonmajor Capital Projects Certificates of Participation Fund.

All Certificates of Participation issued are subject to arbitrage rebate. At June 30, 2016, the arbitrage liability was zero.

The debt service requirements through maturity to the holders of the Certificates of Participation, which will be serviced by the annual lease payments, are as follows (amounts in thousands):

Year ended June 30	Series 2002E	Series 2003B	Series 2006A	Series 2007A	Series 2007C	Series 2007E	Series 2011A	Series 2011C	Series 2011D
2017	$ 2,465	$ -	$ 7,185	$ 13,455	$ 1,075	$ 5,015	$ -	$ 4,585	$ 4,205
2018	-	-	-	13,990	605	5,215	-	230	4,325
2019	-	-	-	-	800	-	-	1,355	4,435
2020	-	-	-	-	1,905	-	5,630	-	4,555
2021	-	-	-	-	15,730	-	5,895	-	4,670
2022-2026	-	24,945	-	-	71,605	-	32,995	-	1,665
2027-2031	-	99,350	-	-	86,620	-	-	-	-
2032-2036	-	-	-	-	-	-	-	-	-
Total	$ 2,465	$ 124,295	$ 7,185	$ 27,445	$ 178,340	$ 10,230	$ 44,520	$ 6,170	$ 23,855

Year ended June 30	Series 2012A	Series 2012B	Series 2012C	Series 2014A	Series 2014B	Series 2014C	Series 2015A	Series 2015B	Series 2015C
2017	$ -	$ 105	$ 3,500	$ 105	$ 11,345	$ -	$ 22,165	$ -	$ -
2018	-	5,130	3,680	-	14,335	-	22,595	6,745	-
2019	-	5,380	3,825	3,045	14,945	-	18,820	7,080	-
2020	-	70	4,015	10,420	15,615	-	18,345	7,435	-
2021	-	-	4,180	10,810	16,190	-	5,475	7,805	-
2022-2026	1,795	30,350	24,050	62,135	92,640	-	18,915	45,300	-
2027-2031	18,290	66,190	23,895	28,940	-	24,875	-	57,815	25,470
2032-2036	-	-	-	-	-	8,405	-	13,355	37,500
Total	$ 20,085	$ 107,225	$ 67,145	$ 115,455	$ 165,070	$ 33,280	$ 106,315	$ 145,535	$ 62,970

Year ended June 30	Series 2015D	Series 2004 QZAB	Series 2005 QZAB	Series 2010A QSCB	Total Lease Payment	Total Interest	Total Lease Payment & Interest
2017	$ -	$ -	$ -	$ -	$ 75,205	$ 69,783	$ 144,988
2018	-	-	-	-	76,850	67,039	143,889
2019	18,915	-	-	-	78,600	63,905	142,505
2020	5,275	2,923	-	-	76,188	60,781	136,969
2021	5,535	-	2,150	-	78,440	57,571	136,011
2022-2026	32,845	-	-	67,665	506,905	228,667	735,572
2027-2031	123,305	-	-	-	554,750	87,849	642,599
2032-2036	35,765	-	-	-	95,025	4,361	99,386
Total	$ 221,640	$ 2,923	$ 2,150	$ 67,665	$1,541,963	$ 639,956	$2,181,919

State statute requires that no more than 75 percent of the capital millage levy be used for Certificate of Participation debt service. Two trends have lowered the District’s debt capacity in this area. First, property values declined between fiscal year 2009 and fiscal year 2013. Second, the Florida Legislature lowered the allowable capital millage rate from 2 mills to 1.75 mills in fiscal year 2009 and again from 1.75 to 1.50 mills in fiscal year 2010. In the course of 2 years, the Legislature reduced District debt service capacity by 25 percent. Debt service payments remain in compliance at 56.5 percent of capital millage proceeds. The District’s legal lease-purchase agreement remaining debt issuance capacity is $47.5 million; however, Board policy does not allow additional issuance until debt service falls below 50 percent of capital millage.

Defeased Debt

On October 28, 2015, the District issued Certificates of Participation (Series 2015C) in the amount of $63 million (plus a premium of $8.5 million) with net interest cost of 4.16 percent to refund Certificates of Participation Series 2011A with interest rate of 5 percent. The District made a principal payment of $67.9 million, and a call premium payment of $3.2 million in connections with the refunding transaction, both are recorded in the fund level financial statements as a payment to escrow agent. As a result of the refunding, the District will decrease its total debt service payment requirements by $9.7 million which results in an economic savings of $6.7 million, or 9.87 percent of the principal amount being refunded. The refunding meets the requirements of an in-substance defeasance and the liability for the refunded certificates was removed from the District's financial statements in the current fiscal year.

In prior fiscal years, the District defeased certain Certificates of Participation by creating separate irrevocable trust funds. New debt was issued and the proceeds were used to purchase U.S. Government Securities that were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments. These investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from the financial statements. As of June 30, 2016, the total amount of defeased debt outstanding but removed from the District's financial statements amounted to $463 million.

Certificates of Participation:

Series	Maturities	Outstanding (in thousands)	Call Date	Defeased by COPS Series
2011A	8/2030 - 8/2032	$ 67,905	8/1/2016	2015C
2006A	8/2017 - 8/2031	160,405	8/1/2016	2015B
2007A	8/2018 - 8/2031	119,605	8/1/2017	2015D
2007E	8/2018 - 8/2032	115,065	8/1/2017	2015D
Total Defeased COPS		$ 462,980		

Hedging Derivative Instrument Payments and Hedged Debt

As of June 30, 2016, aggregate debt service requirements of the District's debt (fixed-rate and variable-rate) and net receipts/payments on associated hedging derivative instruments are as follows. These amounts assume that current interest rates on variable-rate bonds and the current reference rates of hedging derivative instruments will remain the same for their term. As these rates vary, interest payments on variable-rate bonds and net receipts/payments on the hedging derivative instruments will vary. Refer to Note 11 for information on derivative instruments (amounts in thousands):

Fiscal Year Ending June 30	Principal	Interest	Hedging Derivative Instruments, Net	Total
2017	$ 210	$ 2,106	$ 13,809	$ 16,125
2018	5,130	2,077	13,577	20,784
2019	8,415	2,039	13,276	23,730
2020	10,500	2,003	13,015	25,518
2021	10,810	1,947	12,609	25,366
2022-2026	117,430	7,907	50,992	176,329
2027-2030	194,480	3,006	17,464	214,950
Total	$ 346,975	$ 21,085	$ 134,742	$ 502,802

Borrowings of Hybrid Derivative Instruments

The District sold a swaption with the 2002D certificates with a notional amount of $116,555,000. Upon entering into the swaption, the District received an up-front payment of $4,240,000 from the counterparty. The up-front payment was composed of the swaptions' intrinsic value and time value. Accordingly, the swaption is a hybrid instrument consisting of a borrowing and an embedded derivative instrument. The embedded derivative instrument – the option – was recorded at a value equal to the time value of the option only and the remaining value of the swaption was allocated to the companion instrument (borrowing). The intrinsic value of the borrowing was calculated using the net present value method and is recorded at historical cost. During the option period, interest accreted at the market rate at inception of the borrowing of 4.4 percent totaling $882,451. The 2002D swaption was executed August 1, 2012.

The original borrowing of the 2012B/2002D continues to be amortized over the remaining term. Aggregate debt service requirements of the District's borrowing amounts assume that current interest rates on variable-rate bonds is equal to the market rates at inception of the derivative instruments and will remain the same for their term. As these rates vary, interest payments on variable-rate bonds and net receipts/payments on the derivative instruments will vary. Refer to Note 12 for information on derivative instruments.

Debt service requirements for the 2012B/2002D borrowing at June 30, 2016, are as follows (amounts in thousands):

Fiscal Year Ending June 30	**Principal**	**Interest**	**Total Principal and Interest**
2017	$ 228	$ 108	$ 336
2018	229	98	327
2019	223	89	312
2020	224	79	303
2021	233	69	302
2022-2026	1,092	198	1,290
2027-2030	429	19	448
Total	$ 2,658	$ 660	$ 3,318

12. DERIVATIVE INSTRUMENTS

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2016, classified by type, and the changes in fair value of such derivatives are as follows (amounts in thousands):

	Changes in Fair Value		Fair Value at June 30, 2016			Fair Value
	Classification	Amount	Classification	Amount	Notional	Levels
Governmental Activities						
Hedging Derivatives:						
2002B/2014A Pay-fixed Interest Rate Swap	Deferred outflow of resources	$ (2,645)	Liability	$ (26,801)	$115,245	Level 2
2003B Pay-fixed Interest Rate Swap	Deferred outflow of resources	(9,043)	Liability	(34,561)	124,295	Level 2
2002D/2012B Pay-fixed Interest Rate Swap	Deferred outflow of resources	(5,175)	Liability	(29,714)	107,225	Level 2
Total Hedging Derivative Instruments		$ (16,863)		$ (91,076)		
Investment Derivatives:						
2003B-Barrier Option at 7%	Investment earnings (Loss)	$ (42)	Asset	$ 25	100,000	Level 2
Total Investment Derivative Instruments		$ (42)		$ 25		

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*, which addresses the accounting and financial reporting issues related to fair value measurements, including non-performance risk. The statement is effective for reporting periods beginning after June 15, 2015, and the District adopted GASB Statement No. 72 for the fiscal year ended 2016.

The derivatives had changes in fair value totaling a deficit $16.9 million classified as an increase of Deferred Outflow of Resources. All expected derivatives cash flows have been calculated using the zero-coupon method by an independent party. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. The income approach is then used to obtain the fair value of the derivatives using a rate of return that takes into account the relative risk of nonperformance associated with the cash flows and time value of money. The observability of inputs used to perform the measurement results in the derivatives fair values being categorized as level 2.

The barrier option is considered an investment derivative instrument. Refer to Note 4 Investment Derivative Instruments for information on investment derivative instruments. All other derivative instruments are considered hedging derivative instruments. Fair values of options may be based on an option pricing model, such as the Black-Scholes-Merton model. That model considers probabilities, volatilities, time, settlement prices, and other variables.

Objective and Terms of Derivative Instruments

The table below displays the objective and terms of the District's derivative instruments outstanding at June 30, 2016, along with the credit rating of the associated counterparty (amounts in thousands):

	Objective	Notional	Effective Date	Maturity Date	Amount of Cash Received	Terms	Counterparty	Counterparty Credit Rating
Governmental Activities								
Hedging Derivatives:								
2002B/2014A - Interest Rate Swap	Hedge changes in cash flows on the 2014A Certificates	$115,245	3/20/2002	8/1/2027	N/A	Pay 4.22%; receive 67% of USD LIBOR or SIFMA bps Swap Index	Citigroup Financials Products Inc.	Baa2,A-,A
2003B - Interest Rate Swap	Hedge changes in cash flows on the 2003B Certificates	124,295	6/26/2003	8/1/2029	N/A	Pay 3.91%; receive SIFMA bps Swap Index	UBS AG, Stamford Branch	A2,A,A
2002D/2012B - Interest Rate Swap	Hedge changes in cash flows on the 2012B Certificates	107,225	8/1/2012	8/1/2028	$ 4,240	Pay 4.71%; receive SIFMA Swap Index	Citibank N.A. New York	A2,A,A
Investment Derivatives:								
2003B - Barrier option at 7 percent	Hedge against future increase in interest rates	100,000	6/26/2003	8/1/2018	$ 3,010	See Note 1	UBS AG, Stamford Branch	A2,A,A

Note 1: Counterparty has right to terminate the 2003B Interest Rate Swap if the 180-day average of the BMA index exceeds 7 percent in the future.

Risks

Credit Risk. The District is exposed to credit risk on hedging derivative instruments that are in asset positions. To minimize its exposure to loss related to credit risk, it is the District's policy to require counterparty collateral posting provisions on all swap agreements. These terms require full collateralization of the fair value of derivative instruments in asset positions (net of the effect of applicable netting arrangements) should the counterparty's credit rating fall below AA as issued by Standard & Poor's or Aa as issued by Moody's Investors Service. Collateral posted is to be in the form of U.S. Treasury securities held by a third-party custodian. The District has never failed to access collateral when required.

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

The District has investment derivative instruments in asset position of $25,000 and no hedging derivative instruments in asset positions at June 30, 2016.

Interest rate risk. The District is exposed to interest rate risk on its interest rate swaps. On its pay-fixed, receive-variable interest rate swaps, as LIBOR or the SIFMA swap index decreases, the District's net payment on the swap increases which is offset by the variable rate paid on the hedged debt.

Termination risk. The District or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract including if either party's credit rating falls below designated levels. In addition, the District is exposed to termination risk on its 2003B interest rate swap with barrier option because the counterparty has the option to terminate the swap if the 180-day average of the BMA index exceeds 7 percent at any time beginning on the commencement date. If at the time of termination, a hedging derivative instrument is in a liability position, the District would be liable to the counterparty for a payment equal to the liability, subject to netting arrangements.

13. RETIREMENT PLANS

A. 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 in the governmental funds totaled $43.5 million for the fiscal year ended June 30, 2016.

FRS Pension Plan

<u>Plan Description</u>. 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.
- *Senior Management Service* – Members in senior management level positions.
- *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 chart shows the percentage value for each year of service credit earned:

Class, Initial Enrollment, and Retirement Age/Years of Service	Percent Value
Regular Class 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 Class 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 Class	3.00
Senior Management Service Class	2.00
Special Risk Regular Class	
Service from December 1, 1970, through September 30, 1974	2.00
Service on and after October 1, 1974	3.00

As provided in Section 121.101, Florida Statutes, if the member is initially enrolled in the FRS before July 1, 2011, and all service credit was accrued before July 1, 2011, the annual cost-of-living adjustment is 3 percent per year. If the member is initially enrolled before July 1, 2011, and has service credit on or after July 1, 2011, there is an individually calculated cost-of-living adjustment. The annual cost-of-living adjustment is a proportion of 3 percent determined by dividing the sum of the pre-July 2011 service credit by the total service credit at retirement multiplied by 3 percent. Plan members initially enrolled on or after July 1, 2011, will not have a cost-of-living adjustment after retirement.

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

	Percent of Gross Salary	
Class or Plan	**Employee**	**Employer** (1)
FRS, Regular	3.00	7.26
FRS, Elected County Officers	3.00	42.27
FRS, Senior Management Service	3.00	21.43
FRS, Special Risk Regular	3.00	22.04
Teacher's Retirement System (TRS), Plan E	6.25	11.90
DROP - Applicable to Members from All of the Above Classes	0.00	12.88
FRS, Reemployed Retiree	(2)	(2)

Notes: (1) Employer rates include 1.66 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.04 percent for administrative costs of the Investment Plan.
(2) Contribution rates are dependent upon retirement class in which reemployed.

The District's contributions to the Plan totaled $57.1 million for the fiscal year ended June 30, 2016. This excludes the HIS defined benefit pension plan contributions.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2016, the District reported a liability of $314.3 million for its proportionate share of the Plan's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015. The District's proportionate share of the net pension liability was based on the District's 2014-15 fiscal year contributions relative to the total 2014-15 fiscal year contributions of all participating members. At June 30, 2015, the District's proportionate share was 2.4332 percent, which was a decrease of 0.1022 from its proportionate share measured as of June 30, 2014.

For the fiscal year ended June 30, 2016, the District recognized pension expense of $36.5 million related to the Plan. In addition, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (amounts in thousands):

Description	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**
Differences between expected and actual experience	$ 33,179	$ 7,453
Change of assumptions	20,860	-
Net difference between projected and actual earnings on FRS pension plan investments	-	75,046
Changes in proportion and differences between District FRS contributions and proportionate share of contributions	2,582	13,410
District FRS contributions subsequent to the measurement date	57,082	-
Total	$ 113,703	$ 95,909

The deferred outflows of resources related to pensions, totaling $57.1 million, resulting from District contributions to the Plan subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (amounts in thousands):

Fiscal Year Ending June 30	**Amount**
2017	$ (27,391)
2018	(27,391)
2019	(27,391)
2020	37,124
2021	4,805
Thereafter	956
Total	$ (39,288)

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

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

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

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

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

Asset Class	**Target Allocation** (1)	**Annual Arithmetic Return**	**(Geometric) Return**	**Standard Deviation**
Cash	1.0%	3.2%	3.1%	1.7%
Fixed Income	18.0%	4.2%	4.7%	5.2%
Global Equity	53.0%	8.5%	7.2%	17.7%
Real Estate (Property)	10.0%	6.8%	6.2%	12.0%
Private Equity	6.0%	11.9%	8.2%	30.0%
Strategic Investment	12.0%	6.9%	6.1%	11.4%
Total	100.0%			
Assumed Inflation - Mean		2.6%		1.9%

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

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

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

	1% Decrease (6.65%)	Current Discount Rate (7.65%)	1% Increase (8.65%)
District's proportionate share of the net pension liability (asset)	$ 814,382	$ 314,284	$ (101,879)

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

Payables to the Pension Plan. At June 30, 2016, the District reported a payable of $16.7 million for the outstanding amount of contributions to the Plan required for the fiscal year ended June 30, 2016.

HIS Pension Plan

Plan Description. The HIS Pension Plan (HIS Plan) is a cost-sharing multiple-employer defined benefit pension plan established under Section 112.363, Florida Statutes, and may be amended by the Florida Legislature at any time. The benefit is a monthly payment to assist retirees of State-administered retirement systems in paying their health insurance costs and is administered by the Florida Department of Management Services, Division of Retirement.

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

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

The District's contributions to the HIS Plan totaled $16.7 million for the fiscal year ended June 30, 2016.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2016, the District reported a net pension liability of $326.2 million for its proportionate share of the HIS Plan's net pension liability. The current portion of the net pension liability is the District's proportionate share of benefit payments expected to be paid within 1 year, net of the District's proportionate share of the pension plan's fiduciary net position available to pay that amount. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014, and update procedures were used to determine liabilities as of July 1, 2015. The District's proportionate share of the net pension liability was based on the District's 2014-15 fiscal year contributions relative to the total 2014-15 fiscal year contributions of all participating members. At June 30, 2015, the District's proportionate share was 3.1986 percent, which was a decrease of 0.1062 from its proportionate share measured as of June 30, 2014.

For the fiscal year ended June 30, 2016, the District recognized pension expense of $7 million related to the HIS Plan. In addition, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (amounts in thousands):

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Change of assumptions	$ 25,664	$ -
Net difference between projected and actual earnings on HIS pension plan investments	177	-
Changes in proportion and differences between District HIS contributions and proportionate share of HIS contributions	3,643	8,243
District contributions subsequent to the measurement date	16,674	-
Total	$ 46,158	$ 8,243

The deferred outflows of resources related to pensions, totaling $16.7 million, resulting from District contributions to the HIS Plan subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (amounts in thousands):

Fiscal Year Ending June 30	Amount
2017	$ 3,850
2018	3,850
2019	3,850
2020	3,813
2021	3,797
Thereafter	2,081
Total	$ 21,241

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

Inflation	2.60 percent
Salary Increases	3.25 percent, average, including inflation
Municipal Bond Rate	3.80 percent

Mortality rates were based on the Generational RP-2000 with Projected Scale BB. The actuarial assumptions that determined the total pension liability for the HIS Plan were based on the results of the most recent actuarial experience study for the FRS Plan.

Discount Rate. The discount rate used to measure the total pension liability was 3.8 percent. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the HIS Plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable municipal bond index.

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

	1% Decrease (2.8%)	Current Discount Rate (3.8%)	1% Increase (4.8%)
District's proportionate share of the net pension liability	$ 371,702	$ 326,211	$ 288,278

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

Payables to the Pension Plan. At June 30, 2016, the District reported a payable of $3.5 million for the outstanding amount of contributions to the HIS Plan required for the fiscal year ended June 30, 2016.

B. FRS – Defined Contribution Pension Plan

The District contributes to the FRS Investment Plan (Investment Plan), a defined contribution pension plan for its eligible employees electing to participate in the Investment Plan. The Investment Plan is administered by the SBA, and is reported in the SBA's annual financial statements and in the State of Florida Comprehensive Annual Financial Report. Retirement benefits are based upon the value of the member's account upon retirement.

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. 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.

Allocations to the Investment Plan members' accounts during the 2015-16 fiscal year were as follows:

Class	Percent of Gross Compensation
FRS, Regular	6.30
FRS, Elected County Officers	11.34
FRS, Senior Management Service	7.67
FRS, Special Risk Regular	14.00

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. Costs of administering the Investment Plan, including the FRS Financial Guidance Program, are funded through an employer contribution of 0.04 percent of payroll and by forfeited benefits of Investment Plan members. For the fiscal year ended June 30 2016, the information for the amount of forfeitures was unavailable from the SBA; however, management believes that these amounts, if any, would be immaterial to the District.

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

The District's Investment Plan pension expense totaled $4.8 million for the fiscal year ended June 30, 2016.

Payables to the Investment Plan. At June 30, 2016, the District reported a payable of $1.1 million for the outstanding amount of contributions owed the Investment Plan required for the fiscal year ended June 30, 2016.

14. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

The District follows the guidance contained in Governmental Accounting Standards Board Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other than Pensions*

(GASB 45); for certain postemployment healthcare benefits provided by the District for the fiscal year ended June 30, 2016.

Plan Description. Pursuant to Section 112.0801, Florida Statutes, the District is required to permit participation in the health insurance program by retirees and their eligible dependents at a cost to the retiree that is no greater than the cost at which coverage is available for active employees. Retirees pay 100 percent of the blended (active and retiree combined) equivalent premium rates. The blended rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the plan on average than those of active employees. The Plan is a single employer plan.

Funding Policy. The District is financing the postemployment benefits on a pay-as-you-go basis. Expenditures for these insurance premiums are prorated between the General Fund and other funds where the personnel are located. For fiscal year 2016, 1,080 retirees received healthcare benefits. The District provided required contributions of approximately $6.8 million toward the annual OPEB cost. Retiree contributions totaled approximately $5.4 million.

Annual OPEB Cost and Net OPEB Obligation. The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the retiree health plan (amounts in thousands):

Description	Amount
Annual Required Contribution	$ 11,840
Interest on Net OPEB Obligation	4,081
Adjustment to Annual Required Contribution	(3,644)
Annual OPEB Cost (Expense)	12,277
Contribution Toward the OPEB Cost	(6,823)
Increase in Net OPEB Obligation	5,454
Net OPEB Obligation, Beginning of Year	102,032
Net OPEB Obligation, End of Year	$ 107,486

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2016, and the 2 preceding fiscal years, were as follows (amounts in thousands):

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2016	$ 12,277	56%	$ 107,486
June 30, 2015	12,006	47%	102,032
June 30, 2014	13,311	37%	95,639

Funded Status and Funding Progress. As of July 1, 2014, the actuarial accrued liability for benefits was $135.6 million, all of which was unfunded. The covered payroll (annual payroll of active participating employees) was $966.1 million, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 14 percent.

The projection of future benefit payments for an ongoing plan involves 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 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, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan 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 plan members to that point. The 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, consistent with the long-term perspective of the calculations.

The Projected Unit Cost (PUC) Method with benefits attributed from date of hire to expected retirement age was used in the actuarial valuation as of July 1, 2014. The unfunded actuarial accrued liability is amortized over the maximum acceptable period of 30 years on an open basis. It is calculated assuming a level dollar percentage. The remaining amortization period at June 30, 2016, was 30 years (open method).

The following assumptions were made:

Retirement Age – Annual retirement probabilities have been determined based on the Florida Retirement System Actuarial Valuation as of July 1, 2014.

Covered Spouses – Assumed number of eligible spouses is based on the current census information.

Per Capita Health Claim Cost – Per capita health claim costs are developed from a combination of historical claim experience and manual claim costs developed using a representative database. The per capita cost at age 60 is $11,484 and at age 70 is $6,030.

Age Based Morbidity – The assumed per capita health claim costs are adjusted to reflect expected increases related to age. The increase in per capita health claim costs related to age range from 3.19 percent to 5.06 percent under age 65 and from 0.05 percent to 3 percent over age 65.

Mortality – Life expectancies were based on mortality tables from the National Center for Health Statistics. The RP-2014 Table projected to 2030 using Scale MP-14 and applied on a gender specific basis.

Healthcare Cost Trend Rate – The expected rate of increase in healthcare insurance premiums was based on District historical experience, market-place knowledge and macro-economic theory. A rate of 8 percent for under age 65 and 7 percent over age 65 initially, reduced 0.5 percent each year until reaching the ultimate trend rate of 4.5 percent.

Retiree Contributions – Retire contributions are assumed to increase with healthcare cost trend.

Non-Claim Expenses – Non-claim expenses are based on the current amounts charged per retired employee.

Termination – The rate of withdrawal for reasons other than death and retirement has been developed from the Florida Retirement System Actuarial Valuation as of July 1, 2014. The annual termination probability is dependent on an employee's age, gender, and years of service.

Plan Participation Percentage – It is assumed that 30 percent of all future retirees and their dependents who are eligible for benefits participate in the post-employment benefit plan.

Census Data – The census data was provided as of May 2015.

Salary Increase Assumption – 3.5 percent per annum.

Discount Rate – 4 percent per annum.

Inflation Rate – 3 percent.

15. NET POSITION AND FUND BALANCE REPORTING

Fund Balance

GASB Statement No. 54 categorizes fund balance as either nonspendable or spendable. Nonspendable is defined as the portion of fund balance that includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. District nonspendable items include inventories.

Spendable is defined as a hierarchy of fund balance classifications that is available to be spent based on the element to which the District is bound to observe constraints imposed upon the use of resources:

- Restricted fund balance is constrained by external parties, and constitutional provisions or enabling legislation. District restricted balances includes: Carryover balances as a result of revenue received with constraints from Federal laws, Florida Statute, Florida School Board Rules, local ordinances or contract provisions.
- Committed fund balance can only be used for specific purposes pursuant to constraints imposed by formal action of the School Board. District committed balance includes: Funds committed by

the School Board on June 2, 2010, for future purchase and installation of equipment needed to transmit and receive programming for The Education Network (TEN).

- Assigned fund balances are amounts that are constrained by the School Board or Superintendent to be used for a specific purpose. Florida Statute 1001.51, Duties and Responsibilities of District School Superintendent, delegates certain financial authority to the Superintendent.
- Unassigned fund balance is the residual classification for the General Fund.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, it is the District's policy to use restricted assets first, followed by unrestricted assets. Committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

The District has not established a stabilization arrangement. Instead, the Board has established Board Policy 2.55, *Fund Balance for Contingency*, to set aside 3 percent of total annual operating fund appropriations and transfers from the operating fund to cover unanticipated financial needs and to avoid a budget deficit. At the end of the fiscal year, the unassigned General Fund balance was $50 million or 3.2 percent of General Fund total expenditures.

The following table shows the District's fund balance classification at June 30, 2016 (in thousands):

	Major Funds				
	General	COPS Debt Service	Capital Improvement	Other Nonmajor Governmental	Total Governmental
Fund Balances					
Nonspendable:					
Inventory:					
Textbooks	$ 4,726	$ -	$ -	$ -	$ 4,726
Child Nutrition	-	-	-	4,168	4,168
Transportation	313	-	-	-	313
Warehouse	979	-	-	-	979
Other	22	-	-	-	22
Total Nonspendable	6,040	-	-	4,168	10,208
Restricted for:					
Categorical Carryover Programs	3,267	-	-	-	3,267
IB, AP, AICE & Industry Cert Prog	11,648	-	-	-	11,648
School Improvement	1,347	-	-	-	1,347
Workforce Development	1,993	-	-	-	1,993
Child Nutrition	-	-	-	23,784	23,784
Debt Service	-	118,793	-	5,501	124,294
Capital Projects	-	-	40,133	42,116	82,249
Total Restricted	18,255	118,793	40,133	71,401	248,582
Committed to:					
The Education Network Program	-	-	-	37	37
Total Committed	-	-	-	37	37
Assigned to:					
School Operations:					
Instruction	60	-	-	-	60
Instructional Support Services	417	-	-	-	417
Operation of Plant	221	-	-	-	221
Community Services:					
After Care/Summer Camp	8,625	-	-	-	8,625
Pre-K/VPK Fee Based Activities	389	-	-	-	389
Community Schools	698	-	-	-	698
Other	261	-	-	-	261
Capital Projects	220	-	-	28,923	29,143
Misc Local Grants/Donations	1,858	-	-	-	1,858
Next Year Budget Appropriations	40,206	-	-	-	40,206
Total Assigned	52,955	-	-	28,923	81,878
Unassigned	50,000	-	-	-	50,000
Total Fund Balances	$ 127,250	$ 118,793	$ 40,133	$ 104,529	$ 390,705

16. SCHEDULE OF STATE REVENUE

The following is a schedule of the District's State revenue sources for the 2015-16 fiscal year (amounts in thousands):

Source	Amount
Florida Education Finance Program	$ 232,694
Categorical Educational Program - Class Size Reduction	212,396
Workforce Development Program	17,015
School Recognition	9,254
Motor Vehicle License Tax (Capital Outlay and Debt Service)	7,762
Voluntary Pre-K Program	4,017
Charter School Capital Outlay	3,088
Public Education Capital Outlay	2,691
School Lunch Supplement	573
School Breakfast Supplement	440
State License Tax	277
Miscellaneous	3,447
Total	$ 493,654

17. COMMITMENTS AND CONTINGENCIES

The District receives funding from the State that is based, in part, on a computation of the number of full time equivalent ("FTE") students enrolled in different types of instructional programs. The accuracy of data compiled by individual schools supporting the FTE count is subject to State audit and, if found to be in error, could result in refunds or in decreases in future funding allocations. It is the opinion of management that any amounts of revenue which may be remitted back to the State due to errors in the FTE count, if any, will not be material to the financial position of the District.

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on the overall financial position of the District.

The District is involved in various lawsuits arising in the ordinary course of operations. In the opinion of management, the District's estimated aggregate liability with respect to probable losses has been provided for in the estimated liability for insurance risks and pending claims in the accompanying financial statements, after giving consideration to the District's related insurance coverage, as well as the Florida statutory limitations of governmental liability on uninsured risks. It is the opinion of management in consultation with legal counsel that any final settlements in these matters will not result in a material adverse effect on the financial position of the District.

As part of its capital outlay program, the District has entered into various construction contracts. The District's construction commitments of $12 million and other encumbrances of $1.4 million as of June 30, 2016, are shown below (amounts in thousands):

	Encumbrances	Construction Commitments	Total
General Fund	$ 959	$ -	$ 959
Capital Improvement Fund	-	2,731	2,731
Other Governmental Funds	395	9,296	9,691
Total Commitments	$ 1,354	$ 12,027	$ 13,381

18. SUBSEQUENT EVENTS

On September 21, 2016, the District issued Tax Anticipation Notes (TANS) Series 2016. The $115 million issue has a coupon rate of 2 percent with an effective yield of 0.80 percent. The TANS are dated October 11, 2016, and are due August 31, 2017.

Schedule of Funding Progress –
Other Postemployment Benefits Plan
(amounts expressed in thousands)

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]
07/01/14	$ -	$ 135,559	$ 135,559	0.0%	$ 966,098	14.0%
07/01/12	-	130,194	130,194	0.0%	933,906	13.9%
07/01/10	-	161,375	161,375	0.0%	906,746	17.8%

Note: (1) The District's OPEB actuarial valuation used the projected unit 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)

	2015	2014	2013
District's proportion of the FRS net pension liability	2.4332%	2.5354%	2.5134%
District's proportionate share of the FRS net pension liability	$ 314,284	$ 154,697	$ 432,674
District's covered-employee payroll (2)	$ 966,098	$ 971,624	$ 933,906
District's proportionate share of the FRS net pension liability as a percentage of its covered-employee payroll	32.53%	15.92%	46.33%
FRS Plan fiduciary net position as a percentage of the total pension liability	92.00%	96.09%	88.54%

Notes: (1) The amounts presented for each fiscal year were determined as of June 30 (in thousands).
(2) Covered-employee payroll included defined benefit plan actives, investment plan members and members in DROP.

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

	2016	2015	2014
Contractually required FRS contribution	$ 57,082	$ 59,324	$ 55,536
FRS contributions in relation to the contractually required contribution	(57,082)	(59,324)	(55,536)
FRS contribution deficiency (excess)	$ -	$ -	$ -
District's covered-employee payroll (2)	$ 989,739	$ 966,098	$ 971,624
FRS contributions as a percentage of covered-employee payroll	5.77%	6.14%	5.72%

Notes: (1) The amounts presented for each fiscal year were determined as of June 30 (in thousands).
(2) Covered-employee payroll included defined benefit plan activities, investment plan members and members in DROP.

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

	2015	2014	2013
District's proportion of the HIS net pension liability	3.1986%	3.3048%	3.2469%
District's proportionate share of the HIS net pension liability	$ 326,211	$ 309,012	$ 282,686
District's covered-employee payroll	$ 966,098	$ 971,624	$ 933,906
District's proportionate share of the HIS net pension liability as a percentage of its covered-employee payroll	33.77%	31.80%	30.27%
HIS Plan fiduciary net position as a percentage of the total pension liability	0.50%	0.99%	1.78%

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

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

	2016	2015	2014
Contractually required HIS contribution	$ 16,674	$ 12,227	$ 11,321
HIS contributions in relation to the contractually required contribution	(16,674)	(12,227)	(11,321)
HIS contribution deficiency (excess)	$ -	$ -	$ -
District's covered-employee payroll	$ 989,739	$ 966,098	$ 971,624
HIS contributions as a percentage of covered-employee payroll	1.68%	1.27%	1.17%

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

Notes to Required Supplementary Information

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

Changes of Benefit Terms. No changes in benefit terms.

Changes of Assumptions. As of June 30, 2015, there were no changes in actuarial assumptions. The inflation rate assumption remained at 2.6 percent, the real payroll growth assumption remained at 0.65 percent, and the overall payroll growth rate assumption remained at 3.25 percent. The long-term expected rate of return remained at 7.65 percent.

2. Schedule of Net Pension Liability and Schedule of Contributions – Health Insurance Subsidy Pension Plan

Change of Benefit Terms. No change in benefit terms.

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

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

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures	Amount Provided to Subrecipients
United States Department of Agriculture:				
Indirect:				
Child Nutrition Cluster:				
Florida Department of Agriculture and Consumer Services:				
School Breakfast Program	10.553	15002	$ 13,636,770	$ -
National School Lunch Program	10.555	15001, 15003	52,567,501	-
Summer Food Service Program for Children	10.559	15006, 15007	2,128,050	-
Total Child Nutrition Cluster			68,332,321	-
Florida Department of Health:				
Child and Adult Care Food Program	10.558	None	1,118,951	-
Florida Department of Agriculture and Consumer Services:				
Fresh Fruit and Vegetable Program	10.582	15004	445,566	-
Total United States Department of Agriculture			69,896,838	-
United States Department of Commerce:				
Direct:				
Science, Technology, Business and/or Education Outreach	11.620	N/A	700	-
United States Department of Justice:				
Direct:				
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	N/A	949,025	-
United States General Services Administration:				
Indirect:				
Florida Department of Management Services:				
Donation of Federal Surplus Personal Property	39.003	None	21,742	-
United States Department of Education:				
Direct:				
Impact Aid	84.041	N/A	5,663	-
Fund for the Improvement of Education	84.215	N/A	373,768	-
Transition to Teaching	84.350	N/A	343,223	1,064
Arts in Education	84.351	N/A	423,792	-
High School Graduation Initiative	84.360	N/A	620,212	-
Total Direct			1,766,658	1,064
Indirect:				
Special Education Cluster:				
Special Education - Grants to States:	84.027			
Florida Department of Education		262, 263	38,004,108	3,165,625
Putnam County District School Board		None	23,074	-
University of South Florida		None	3,835	-
Total Special Education - Grants to States	84.027		38,031,017	3,165,625
Special Education - Preschool Grants:	84.173			
Florida Department of Education		266, 267	1,106,205	40,757
Total Special Education Cluster			39,137,222	3,206,382
Florida Department of Education:				
Adult Education - Basic Grants to States	84.002	191, 193	2,373,506	-
Title I Grants to Local Educational Agencies	84.010	212, 223, 226	48,154,798	1,885,377
Migrant Education - State Grant Program	84.011	217	1,727,404	-
Career and Technical Education - Basic Grants to States	84.048	161	1,875,144	51,217
Education for Homeless Children and Youth	84.196	127	97,411	-

(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures	Amount Provided to Subrecipients
United States Department of Education (continued):				
Indirect (continued):				
Florida Department of Education (continued):				
Charter Schools	84.282	298	$ 859,683	$ 859,387
Twenty-First Century Community Learning Centers	84.287	244	4,892,642	-
English Language Acquisition State Grants	84.365	102	2,725,828	-
School Improvement Grants	84.377	126	661,612	-
University of Florida:				
Investing in Innovation (i3) Fund	84.411	None	437,503	-
Improving Teacher Quality State Grants:	84.367			
Florida Department of Education		224	5,638,592	16,094
Florida Atlantic University		None	85,106	-
Total Improving Teacher Quality State Grants	84.367		5,723,698	16,094
Total Indirect			108,666,451	6,018,457
Total United States Department of Education			110,433,109	6,019,521
United States Department of Health and Human Services:				
Direct:				
Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention and School-Based Surveillance	93.079	N/A	337,605	-
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	N/A	78,594	-
Total Direct			416,199	-
Indirect:				
Florida Department of Children and Families:				
Refugee and Entrant Assistance - State Administered Programs	93.566	XK041	424,454	-
Refugee and Entrant Assistance - Discretionary Grants	93.576	XK041	282,969	-
Department of Community Services:				
Division of Head Start and Children Services:				
Head Start	93.600	04CH4702	3,502,758	-
Total Indirect			4,210,181	-
Total United States Department of Health and Human Services			4,626,380	-
United States Department of Defense:				
Direct:				
Reserve Officers Training Corps (ROTC)	None	N/A	920,235	-
Total Expenditures of Federal Awards			$ 186,848,029	$ 6,019,521

The notes below 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 Palm Beach County District School Board under programs of the Federal government for the fiscal year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position, or the cash flows of the District.

(2) Summary of Significant Accounting Policies. Expenditures are reported on the modified accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(3) Indirect Cost Rate. The District has not elected to use the 10 percent de minimis cost rate allowed under the Uniform Guidance.

(4) Noncash Assistance:

(A) National School Lunch Program - Includes $4,926,165 of donated food received during the fiscal year. Donated foods are valued at fair value as determined at the time of donation.

(B) Donation of Federal Surplus Personal Property - Represents the estimated fair value (23.3 percent of the original acquisition costs) of the donated Federal surplus personal property obtained during the fiscal year.

(5) Head Start. Expenditures include $898,384 for grant number/program year 04CH4702/01 and $2,604,374 for grant number/program year 04CH4702/03.

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Palm Beach County District School Board, as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 17, 2017, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the aggregate discretely presented component units, as described in our report on the District's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

We noted a certain additional matter that is discussed in Finding No. 2016-001 in the accompanying **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**. We also noted certain additional matters that we reported to District management in our operational audit report Nos. 2017-042 and 2017-149.

District's Response to Finding

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

Sherrill F. Norman, CPA
Tallahassee, Florida
March 17, 2017

AUDITOR GENERAL
STATE OF FLORIDA

Claude Denson Pepper Building, Suite G74
111 West Madison Street
Tallahassee, Florida 32399-1450

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

The District's basic financial statements include the operations of Renaissance Charter School at Central Palm (charter school) as part of the aggregate discretely presented component units on the accompanying basic financial statements. The charter school expended in excess of $750,000 in Federal awards for the fiscal year ended June 30, 2016. Our audit, described below, did not include the operations of the charter school because, pursuant to Section 218.39(1), Florida Statutes, the charter school engaged other auditors to perform the audit in accordance with Uniform Guidance.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

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

Respectfully submitted,

Sherrill F. Norman

Sherrill F. Norman, CPA
Tallahassee, Florida
March 17, 2017

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major Federal programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Type of auditor's report issued on compliance for major Federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No
Identification of major programs:	
CFDA Numbers:	Name of Federal Program or Cluster:
84.010	Title I Grants to Local Educational Agencies
93.600	Head Start
Dollar threshold used to distinguish between type A and type B programs:	$3,000,000
Auditee qualified as low risk auditee?	Yes

ADDITIONAL MATTER

FINANCIAL REPORTING

Finding Number	**2016-001**
Opinion Unit	Aggregate Discretely Presented Component Units
Financial Statements Account Titles	Various
Adjustment Amounts	July 1, 2015, Beginning Net Position of the Component Units: $8,385,394
Prior Year Finding	Not Applicable

Finding

District financial reporting procedures need improvement to ensure consistent, proper reporting of charter schools as discretely presented component units.

Criteria

State Board of Education (SBE) Rule 6A-1.0071, Florida Administrative Code, and related instructions from the Florida Department of Education (FDOE) prescribe the exhibits and schedules that should be prepared as part of the District's annual financial report (AFR). Section 1010.01, Florida Statutes, requires that these exhibits and schedules be prepared in accordance with generally accepted accounting principles (GAAP).

GAAP provides that the financial reporting entity consists of the primary government and its component units. GAAP further defines component units as legally separate organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading.

In October 2012 and January 2014, the FDOE provided guidance directing school districts to report charter schools as discretely presented component units (DPCUs), unless the charter schools were reported as component units of other governmental entities in accordance with GAAP. In addition, in November 2013, the FDOE General Counsel concluded that excluding the charter schools from financial reporting would cause the districts' financial statements to be misleading as, pursuant to the Article IX, Section 4 of the State Constitution, charter schools are public schools and each school district has constitutional responsibility for all public schools within the school district.

Condition

Pursuant to guidance from the FDOE, the District was responsible for reporting 47, 53, and 50 charter schools as DPCUs on the District's financial statements for the 2013-14, 2014-15, and 2015-16 fiscal years, respectively. However, for those fiscal years, the District did not report the charter schools as DPCUs on the District's Comprehensive Annual Financial Report (CAFR).

Additionally, financial information for 35 of the District's 50 charter schools was available at the time of the District's AFR publication and the District reported the financial information for the 35 charter schools in a column titled "Charter Schools" on the 2015-16 fiscal year AFR presented for audit. However, the AFR notes to financial statements indicated that charter schools no longer qualify as part of the District's Reporting Entity and should not be reported as DPCUs.

Cause

In response to our inquiries, District personnel indicated that the District assessed and concluded in fiscal year 2012-13 that charter schools do not meet the criteria to be considered component units for the following reasons:

- The District is not financially accountable for the charter schools because charter schools are legally separate organizations with independent boards and are exempt from many of the State regulations allowing them to provide unique educational opportunities for students. The role of the District is to provide limited administrative oversight and does not impose its own will but that of the State.

- The charter schools are not fiscally dependent on the District because the charter school's Board, not the School Board, approves its budget and charter schools are able to issue debt without approval by the District.
- There is no fiscal benefit or burden to the District because the District is not entitled to and cannot legally access the charter school's resources until closure of a school.
- It is not misleading to exclude charter schools from the District's reporting entity because Section 1002.33, Florida Statutes, explicitly precludes the district from being responsible for any and all liabilities of a charter school. Upon closure of a charter school, any remaining assets are usually distributed amongst other charter schools and are not significant to the District.

Notwithstanding this response, the District's inconsistent financial reporting of the charter schools is contrary to the FDOE's conclusion that charter schools are component units of their respective school districts, unless the charter schools were reported as component units of other governmental entities in accordance with GAAP.

Effect

Excluding charter schools as DPCUs from school district financial statements may cause financial statement users to misunderstand the reporting entity's financial activities and incorrectly assess the reporting entity's financial position. In addition, inconsistent financial reporting of charter schools between the various financial reports (AFR and CAFR) does not provide for comparable financial statements.

We extended our audit procedures to determine the adjustments necessary to report the financial information of the 50 charter schools in the aggregate discretely presented component unit information on the District's financial statements and related notes, and District personnel accepted these adjustments.

For the 2015-16 fiscal year, the financial information of the 50 charter schools comprises 100 percent of the information reported for the District's aggregate DPCUs.

Recommendation

The District should improve financial reporting procedures to ensure consistent, proper reporting of DPCUs on the District's financial statements.

District Response

Management disagrees with the finding. The District assessed and concluded in FY13, that charter schools do not meet the criterion to be considered component units. No facts or circumstances have changed to alter the District's position. The District's assessment was based upon extensive review of the standards in collaboration with the District's independent external auditor and multiple discussions with Governmental Accounting Standards Board (GASB) staff in FY12, FY13, and October, 2015. The District has received and continues to receive an unmodified opinion since the first year of implementation, fiscal year ended June 30, 2013, under two different independent external audit firms Ernst & Young and RSM. A change to the presentation of charter schools would potentially put the District at risk for a modification of our opinion.

Charter schools were reported by the Florida Auditor General (Report 2014-163) as component units but were not reported as component units in the District's Audited Comprehensive Annual Financial Report (CAFR) issued by Ernst & Young for the fiscal year ended June 30, 2013. In the Management Letter to the Auditor General dated March 14, 2014, the District stated that charter schools no longer qualify as component units under GASB Statement No. 61 and that they were only included in the Florida Auditor General Financial, Operational, and Federal Single Audit for fiscal year ended June 30, 2013 (Report 2014-163) to be consistent with the FDOE financial reporting requirements.

To determine whether charter schools qualify as a component unit it is necessary to assess the following:

1. If the District appoints a voting majority of the organizations governing body AND is able to impose its will on the organization or there is a potential to provide specific financial benefits or burdens on the District; OR

2. If the organizations are fiscally dependent on the District AND have a financial benefit or burden relationship; OR

3. If it would otherwise be "misleading to exclude" from the District's reporting entity.

Charter schools were established by Florida Statute to offer an alternative to traditional public schools. The role of districts is to provide limited administrative oversight. Districts act as a "pass-thru" similar to the relationship when grants are pass thru to sub recipients. Charter Schools are legally separate organizations with independent boards. Charter schools are approved to open and are terminated based on State regulations. The act of approving a charter school to operate under Florida Statute regulations does not equate to appointing the organization's governing body. The District does not impose its own will, but that of the State. Therefore, the District has concluded it is not financially accountable.

To be fiscally independent, an entity must have the authority to do ALL three:

a. Determine its budget without another government's having the authority to approve and modify that budget;

b. Levy taxes or set rates or charges without approval by another government; and

c. Issue bonded debt without approval by another government.

The charter school's Board approves its budget. Even though charter schools cannot levy taxes, it does not preclude them from being fiscally independent. The GASB issued Q&A 4.11.6 in response to a question submitted by the District which specifically addresses the requirement to levy taxes. Charter schools were created by Florida Statute and receive a per-student allocation based on the FDOE standard calculation that is passed through the District to charter schools. The District has no authority to change or alter the calculation in anyway which negates the requirement to levy taxes. Finally, charter schools are able to issue debt without approval by the District. Therefore, the District has concluded that charter schools are not fiscally dependent on the District and the District is not financially accountable.

An organization has a financial benefit or burden relationship with the primary government if any one of these conditions exists:

a. The primary government is legally entitled to or can otherwise access the organization's resources;

b. The primary government is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; OR

c. The primary government is obligated in some manner for the debt of the organization.

The District is not entitled to and cannot legally access the organizations resources until closure of a school. Florida Statute 1002.33 Charter School, explicitly precludes the District from being responsible for any and all liabilities of a charter school. Therefore, the District has concluded there is no fiscal benefit or burden.

For an entity to be considered a component unit because otherwise it would be misleading to exclude requires that ALL of the following criteria must be met (GASB 39 paragraph 5):

a. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents;

b. The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization; and

c. The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

Charter schools do serve the same constituents, as do private schools and virtual schools. If serving the same constituents were the only factor, it would mean that school districts would be required to report private schools and virtual schools as component units. Only upon closure of a charter school do unencumbered funds revert to the District. Since access is predicated upon an administrative act, restricted to regulations outlined in Florida Statute, it is clear that the District is not entitled to and cannot legally access a majority of the economic resources at will. Therefore, the District has concluded it is not misleading to exclude from the District's reporting entity.

GASB 61 clearly states only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude should be included in the financial reporting entity. Since charter schools do not meet either criterion established in GASB 61 they should be excluded as component units.

It is the obligation of management to independently review and assess new authoritative guidance along with any technical guidance issued by the FDOE. GASB 61 is not the first instance where the District, along with the District's external auditor, disagreed with an interpretation of GAAP issued by FDOE. In those circumstances, any State reporting requirements determined to be non-GAAP are reported in the unaudited Superintendent's Annual Financial Report and the audited CAFR is then adjusted to comply with GAAP. The Florida Auditor General Finding fails to articulate where the District's assessment is inconsistent with GASB standards 14, 39, and 61.

Auditor's Remarks

The District's response indicates that the Auditor General fails to articulate where the District's assessment that charter schools do not meet the criteria to qualify as component units is inconsistent with the GASB statements. The District's response also indicates that "for an entity to be considered a component unit because otherwise it would be misleading to exclude requires ALL" of the GASB Statement 39, paragraph 5, criteria be met.

Notwithstanding this response, GASB Statement 39, paragraph 6, provides that other organizations should also be evaluated as potential component units if they are closely related to the primary government. The FDOE considered the GASB requirements and concluded that excluding the charter schools from financial reporting would cause the districts' financial statements to be misleading as, pursuant to the Article IX, Section 4 of the State Constitution, charter schools are public schools and each school district has constitutional responsibility for all public schools within the school district. As the District is required to follow SBE rules and related FDOE guidance for financial reporting, and inconsistent financial reporting of charter schools does not provide for comparable financial statements, we continue to recommend that the District ensure consistent, proper reporting of DPCUs on the District's financial statements.

PRIOR AUDIT FOLLOW-UP

There were no prior audit findings requiring follow-up under 2 CFR 200.511.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

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

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

Finding Number:	*2016-001*
Planned Corrective Action:	N/A
Anticipated Completion Date:	N/A
Responsible Contact Person:	Heather Knust

Management disagrees with the finding. The District assessed and concluded in FY13, that charter schools do not meet the criterion to be considered component units. No facts or circumstances have changed to alter the District's position. The District's assessment was based upon extensive review of the standards in collaboration with the District's independent external auditor and multiple discussions with Governmental Accounting Standards Board (GASB) staff in FY12, FY13 and October, 2015. The District has received and continues to receive an unmodified opinion since the first year of implementation, fiscal year ended June 30, 2013, under two different independent external audit firms Ernst & Young and RSM. A change to the presentation of charter schools would potentially put the District at risk for a modification of our opinion.

Charter schools were reported by the Florida Auditor General (Report 2014-163) as component units but were not reported as component units in the District's audited Comprehensive Annual Financial Report (CAFR) issued by Ernst & Young for the fiscal year ended June 30, 2013. In the Management Letter to the Auditor General dated March 14, 2014 the District stated, charter schools no longer qualify as component units under GASB Statement No. 61 and that they were only included in the Florida Auditor General Financial, Operation, and Federal Single Audit for fiscal year ended June 30, 2013 (Report 2014-163) to be consistent with the Florida Department of Education financial reporting requirements.

To determine whether charter schools qualify as a component unit it is necessary to assess the following:

1. If the District appoints a voting majority of the organizations governing body AND is able to impose its will on the organization or there is a potential to provide specific financial benefits or burdens on the District; OR
2. If the organizations are fiscally dependent on the District AND have a financial benefit or burden relationship; OR
3. If it would otherwise be "misleading to exclude" from the District's reporting entity.

Charter schools were established by Florida Statute to offer an alternative to traditional public schools. The role of Districts is to provide limited administrative oversight. Districts act as a "pass-thru" similar to the relationship when grants are pass-thru to sub-recipients. Charter Schools are legally separate organizations with independent boards. Charter schools are approved to open and are terminated based on State regulations. The act of approving a charter school to operate under Florida Statute regulations does not equate to appointing the organization's governing body. The District does not impose its own will, but that of the State. Therefore, the District has concluded it is not financially accountable.

To be fiscally independent an entity must have the authority to do ALL three:

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b. Levy taxes or set rates or charges without approval by another government.
c. Issue bonded debt without approval by another government.

The charter school's Board approves its budget. Even though charter schools cannot levy taxes it does not preclude them from being fiscally independent. The GASB issued Q&A 4.11.6 in response to a question submitted by the District which specifically addresses the requirement to levy taxes. Charter schools were created by Florida Statute and receive a per student allocation based on the Florida Department of Education standard calculation that is passed through the District to charter schools. The District has no authority to change or alter the calculation in anyway which negates the requirement to levy taxes. Finally, charter schools are able to issue debt without approval by the District. Therefore, the District has concluded that charter schools are not fiscally dependent on the District and the District is not financially accountable.

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b. The primary government is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization.

c. The primary government is obligated in some manner for the debt of the organization.

The District is not entitled to and cannot legally access the organizations resources until closure of a school. Florida statute 1002.33 Charter School, explicitly precludes the District from being responsible for any and all liabilities of a charter school. Therefore, the District has concluded there is no fiscal benefit or burden.

For an entity to be considered a component unit because otherwise it would be misleading to exclude requires that ALL of the following criteria must be met (GASB 39 paragraph 5):

a. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.

b. The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.

c. The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

Charter schools do serve the same constituents, as do private schools and virtual schools. If serving the same constituents were the only factor it would mean that school districts would be required to report private schools and virtual schools as component units. Only upon closure of a charter school do unencumbered funds revert to the District. Since access is predicated upon an administrative act, restricted to regulations outlined in Florida Statute, it is clear that the District is not entitled to and cannot legally access a majority of the economic resources at will. Therefore, the District has concluded it is not misleading to exclude from the District's reporting entity.

GASB 61 clearly states only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude should be included in the financial reporting entity. Since charter schools do not meet either criterion established in GASB 61 they should be excluded as component units.

It is the obligation of management to independently review and assess new authoritative guidance along with any technical guidance issued by the Florida Department of Education (FDOE). GASB Statement 61 is not the first instance where the District, along with the District's external auditor, disagreed with an interpretation of Generally Accepted Accounting Principles (GAAP) issued by FDOE. In those circumstances, any State reporting requirements determined to be non-GAAP are reported in the unaudited Superintendent's Annual Financial Report and the audited CAFR is then adjusted to comply with GAAP. The Florida Auditor General Finding fails to articulate where the District's assessment is inconsistent with GASB standards 14, 39 and 61.