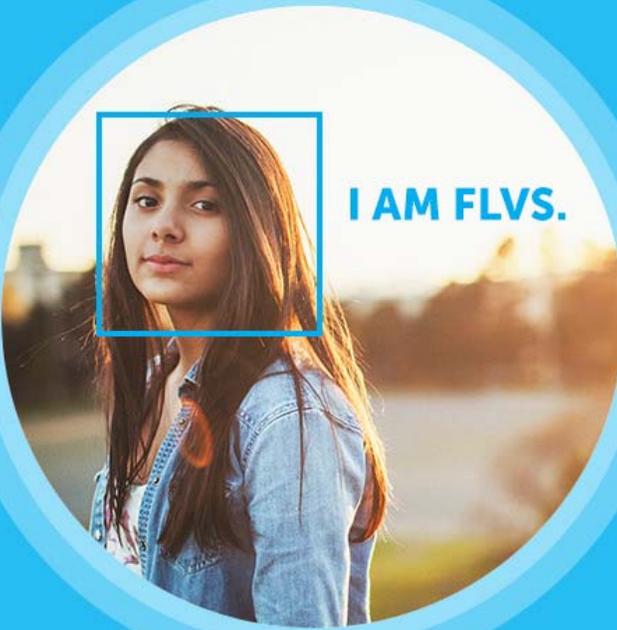


Annual Financial Report

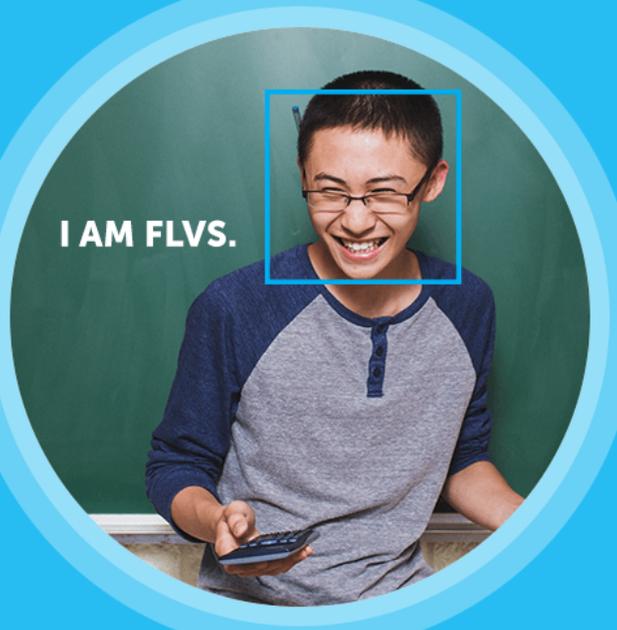
For the Fiscal Year Ended June 30, 2016



FLORIDA VIRTUAL
SCHOOL

A circular portrait of a young woman with long brown hair, wearing a denim jacket, looking slightly to the side. The background is a soft-focus outdoor scene with a sunset or sunrise.

I AM FLVS.

A circular portrait of a young man with glasses, wearing a grey and blue baseball-style shirt, smiling broadly while holding a calculator. The background is a green chalkboard.

I AM FLVS.

THE FLORIDA VIRTUAL SCHOOL
Table of Contents

| | |
|---|----|
| Independent Auditor's Report | 1 |
| Management's Discussion and Analysis | 3 |
| Basic Financial Statements | |
| Statement of Net Position | 9 |
| Statement of Activities | 10 |
| Balance Sheet-Governmental Funds | 11 |
| Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position | 12 |
| Statement of Revenues, Expenditures and Changes in Fund Balances- Governmental Funds | 13 |
| Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities | 14 |
| Statement of Net Position – Proprietary Funds | 15 |
| Statement of Revenues, Expenses and Changes in Fund Net Position- Proprietary Funds | 16 |
| Statement of Cash Flows – Proprietary Funds | 17 |
| Notes to the Financial Statements | 18 |
| Required Supplemental Information | |
| Budgetary Comparison Schedule-General Fund | 38 |
| Schedule of Funding Progress-Other Post Employment Benefits Plan | 39 |
| Schedule of Proportionate Share of Net Pension Liability – FRS | 40 |
| Schedule of Contributions – FRS | 41 |
| Schedule of Proportionate Share of Net Pension Liability – HIS | 42 |
| Schedule of Contributions – HIS | 43 |
| Notes to the Pension Plans Schedules | 44 |

THE FLORIDA VIRTUAL SCHOOL
Table of Contents

Other Reports

| | |
|---|----|
| Schedule of Expenditures of Federal Awards | 45 |
| Notes to the Schedule of Expenditures of Federal Awards | 46 |
| Schedule of Findings and Questioned Costs | 47 |
| 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 <i>Governmental Auditing Standards</i> | 49 |
| Independent Auditor’s Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance | 51 |
| Independent Auditor’s Management Letter | 54 |
| Independent Accountant’s Report | 56 |



MOORE STEPHENS
LOVELACE, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Chairman and Members of
The Florida Virtual School
Orlando, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of The Florida Virtual School (the "School") as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School'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 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 of 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 School'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 School'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.

Chairman and Members of
The Florida Virtual School

INDEPENDENT AUDITOR'S REPORT
(Concluded)

Opinions

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the School as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof, for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the budgetary comparison for the general fund, the Schedule of Funding Progress – Other Postemployment Benefits Plan, and Pension Plan Schedules and Notes, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2017, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. 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 School's internal control over financial reporting and compliance.



MOORE STEPHENS LOVELACE, P.A.
Certified Public Accountants

Orlando, Florida
January 25, 2017

**THE FLORIDA VIRTUAL SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2016**

The management of The Florida Virtual School (the "School") has prepared the following discussion and analysis to (a) assist the reader in focusing on significant financial issues; (b) provide an overview and analysis of the School's financial activities; (c) identify changes in the School's financial position; (d) identify material deviations from the approved budget; and (e) highlight significant issues in individual funds for the fiscal year ended June 30, 2016.

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

FINANCIAL HIGHLIGHTS

- During the current year, General Fund revenues increased \$6,177,319. This increase is due to increased FTE of approximately 1,377 in the FLVS part-time and full-time programs.
- The unassigned fund balance in the General Fund, representing the net current financial resources available for general appropriation by the Board, totals \$39,943,451 at June 30, 2016, or 22 percent of total General Fund revenues.

OVERVIEW OF THE FINANCIAL STATEMENTS

The School's basic financial statements are comprised of three components:

- Government-wide financial statements.
- Fund financial statements.
- Notes to the financial statements.

In addition, this report also contains other supplementary information which includes management's discussion and analysis.

Government-Wide Financial Statements

The government-wide financial statements (or school-wide financial statements) provide both short-term and long-term information about the School's overall financial condition in a manner similar to a private-sector business. The statements include a statement of net position and a statement of activities that are designed to provide consolidated financial information about the activities of the primary government presented on the accrual basis of accounting. The statement of net position presents information about the School's financial position, its assets and liabilities and deferred inflows and outflows of resources, using an economic resources measurement focus. The difference between the assets, deferred outflows, liabilities, and deferred inflows is the net position, which is a measure of the financial health of the School. The statement of activities presents information about the change in the School's net position, the results of operations during the fiscal year.

**THE FLORIDA VIRTUAL SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2016**

The government-wide statements present the School's activities in two categories:

- Governmental activities – This represents most of the School's services including its educational programs. Support functions such as curriculum, technology and administration are also included. The State's education finance program provides most of the resources that support these activities.
- Business-type activities – This consists of the School's FLVS global division and the Florida franchises, which includes functions that are intended to recover all of their costs through user fees and charges for services and provide for curriculum development.

Fund Financial Statements

Fund financial statements are one of the components of the basic financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements and prudent fiscal management. Fund financial statements provide more detailed information about the School's financial activities, focusing on its most significant or "major" funds rather than fund types. This is in contrast to the entity-wide perspective contained in the government-wide statements.

All of the funds of the School can be divided into two categories:

- Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, the governmental funds utilize a spendable financial resources measurement focus rather than the economic resources measurement focus found in the government-wide financial statements. The financial resources measurement focus allows the governmental fund statements to provide information on near-term inflows and outflows of spendable resources as well as balances of spendable resources available at the end of the fiscal year.

The governmental fund statements provide a detailed short-term view that may be used to evaluate the School's near-term financing requirements. This short-term view is useful when compared to the long-term view presented as governmental activities in the government-wide financial statements. To facilitate this comparison, both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation of governmental funds to governmental activities.

The School adopts an annual appropriations budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with this budget.

- Proprietary Funds – Proprietary funds may be established to account for activities in which a fee is charged for services. The School uses the proprietary fund to account for its FLVS global, Florida franchises, course development, and self-insurance.

**THE FLORIDA VIRTUAL SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2016**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. The following is a summary of the School's net position as of June 30, 2015 and June 30, 2016:

| | Net Position, End of Year | | | | | |
|--|---------------------------|------------------------|---------------------|---------------------|---------------------|-----------------------|
| | Governmental | | Business-Type | | Total | |
| | Activities | | Activities | | | |
| | 6-30-16 | 6-30-15 | 6-30-16 | 6-30-15 | 6-30-16 | 6-30-15 |
| Current Assets | \$ 82,790,770 | \$ 79,261,861 | \$ 10,665,420 | \$ 11,930,454 | \$ 93,456,190 | \$ 91,192,315 |
| Capital Assets | 3,137,650 | 3,919,934 | 1,503,980 | 2,073,115 | 4,641,630 | 5,993,049 |
| Total Assets | 85,928,420 | 83,181,795 | 12,169,400 | 14,003,569 | 98,097,820 | 97,185,364 |
| Pension related deferred outflows | 12,860,863 | 8,726,453 | 676,888 | 557,008 | 13,537,751 | 9,283,461 |
| Other Liabilities | 17,838,766 | 25,565,354 | 903,938 | 1,582,464 | 18,742,704 | 27,147,818 |
| Long-Term Liabilities | 75,512,938 | 58,283,095 | 4,562,376 | 3,321,579 | 80,075,314 | 61,604,674 |
| Total Liabilities | 93,351,704 | 83,848,449 | 5,466,314 | 4,904,043 | 98,818,018 | 88,752,492 |
| Pension related deferred inflows | 10,122,625 | 23,632,909 | 532,770 | 1,508,483 | 10,655,395 | 25,141,392 |
| Net Position: | | | | | | |
| Invested in Capital Assets | 3,137,650 | 3,919,934 | 1,503,980 | 2,073,115 | 4,641,630 | 5,993,049 |
| Restricted for State Categoricals | 3,592,358 | 3,657,733 | - | - | 3,592,358 | 3,657,733 |
| Unrestricted | (11,415,054) | (23,150,777) | 5,343,224 | 6,074,936 | (6,071,830) | (17,075,841) |
| Total Net Position | \$ (4,685,046) | \$ (15,573,110) | \$ 6,847,204 | \$ 8,148,051 | \$ 2,162,158 | \$ (7,425,059) |

In the case of the School's total governmental and business-type activities, assets and deferred outflows exceed liabilities and deferred inflows by \$2,162,158 at the end of the fiscal year.

The deficit unrestricted net position of (\$6,071,830) is a direct result of the long term pension liability in the amount of \$57,301,749. The pension liability represents the School's proportionate share of the net pension liability of the Florida Retirement System (FRS) plan and the Retiree Health Insurance Subsidy (HIS) plan. Though this long term liability is now required to be reported on the School's financial statements due to the new GASB requirement, it is important to note that the School pays the full amount of its State required retirement contribution each year, which includes an assessment to fund the State's actuarially unfunded liability.

**THE FLORIDA VIRTUAL SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2016**

The following is a summary of the School's changes in net position for the fiscal years ended June 30, 2015 and June 30, 2016, as follows:

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|----------------------------|------------------------|-----------------------------|---------------------|---------------------|-----------------------|
| | 6-30-16 | 6-30-15 | 6-30-16 | 6-30-15 | 6-30-16 | 6-30-15 |
| Program Revenues: | | | | | | |
| Charges for Services | \$ - | \$ 283,865 | \$ 21,885,237 | \$ 14,240,117 | \$ 21,885,237 | \$ 14,523,982 |
| General Revenues: | | | | | | |
| Grants and Contributions Not Restricted to Specific Programs | 171,572,553 | 162,953,872 | - | - | 171,572,553 | 162,953,872 |
| Virtual Learning Labs | 8,199,362 | 8,512,951 | - | - | 8,199,362 | 8,512,951 |
| Miscellaneous Local | 4,780,817 | 7,063,189 | 1,395 | 127,559 | 4,782,212 | 7,190,748 |
| Unrestricted Investment Earnings | 198,782 | 66,764 | 6,527 | 4,988 | 205,309 | 71,752 |
| Total Revenues | 184,751,514 | 178,880,641 | 21,893,159 | 14,372,664 | 206,644,673 | 193,253,305 |
| Functions/Program Expenses: | | | | | | |
| Instruction | 136,824,238 | 124,233,027 | - | - | 136,824,238 | 124,233,027 |
| Pupil Personnel Services | 4,306,223 | 3,633,908 | - | - | 4,306,223 | 3,633,908 |
| Instruction and Curriculum Development Svcs | 630,724 | 683,836 | - | - | 630,724 | 683,836 |
| Instructional Staff Training Services | 2,689,932 | 2,819,843 | - | - | 2,689,932 | 2,819,843 |
| Instructional Related Technology | 7,430,050 | 7,181,805 | - | - | 7,430,050 | 7,181,805 |
| Board | 1,055,070 | 1,134,783 | - | - | 1,055,070 | 1,134,783 |
| General Administration | 2,671,010 | 2,523,920 | - | - | 2,671,010 | 2,523,920 |
| School Administration | 6,127,469 | 5,081,665 | - | - | 6,127,469 | 5,081,665 |
| Fiscal Services | 2,199,518 | 1,973,886 | - | - | 2,199,518 | 1,973,886 |
| Central Services | 9,816,669 | 8,445,821 | - | - | 9,816,669 | 8,445,821 |
| Operation of Plant | 1,894,061 | 1,321,763 | - | - | 1,894,061 | 1,321,763 |
| Administrative Technology Services | 6,300,012 | 8,683,430 | - | - | 6,300,012 | 8,683,430 |
| FLVS Global/Franchises Expenses | - | - | 15,112,480 | 10,919,127 | 15,112,480 | 10,919,127 |
| Total Expenses | 181,944,976 | 167,717,687 | 15,112,480 | 10,919,127 | 197,057,456 | 178,636,814 |
| Excess (deficiency) of revenue over (under) expenses | 2,806,538 | 11,162,954 | 6,780,679 | 3,453,537 | 9,587,217 | 14,616,491 |
| Other financial sources (uses): | | | | | | |
| Transfers In | 8,081,526 | - | - | 7,402,464 | 8,081,526 | 7,402,464 |
| Transfers Out | - | - | (8,081,526) | (7,402,464) | (8,081,526) | (7,402,464) |
| Total other financial sources (uses) | 8,081,526 | - | (8,081,526) | - | - | - |
| Change in net position | 10,888,064 | 11,162,954 | (1,300,847) | 3,453,537 | 9,587,217 | 14,616,491 |
| Net Position, beginning | (15,573,110) | (26,736,064) | 8,148,051 | 4,694,514 | (7,425,059) | (22,041,550) |
| Net Position, ending | \$ (4,685,046) | \$ (15,573,110) | \$ 6,847,204 | \$ 8,148,051 | \$ 2,162,158 | \$ (7,425,059) |

The largest revenue source is the State of Florida (82 percent). Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula.

**THE FLORIDA VIRTUAL SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2016**

Included in the FEFP funds is revenue the School receives for both part-time and full-time programs. The FEFP formula utilizes student enrollment data, and is designed to maintain equity in funding across all Florida school districts. The Florida Virtual School is a unique member of the FEFP in that revenues are only earned for students that successfully complete a course.

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

Governmental Funds

The General Fund is the chief operating fund of the School. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$39,943,451. The total unassigned fund balance represents 22 percent of total General Fund revenues, which increased over last year's unassigned fund balance of \$37,205,181 or 21 percent of total General Fund revenues. The School does not have the ability to draw cash in the event of an emergency from other funds, such as capital, or to borrow funds from outside sources so it is necessary to maintain a higher than standard fund balance.

General Fund Budgetary Highlights

The actual General Fund revenues were higher than the adjusted budgeted revenues by \$2,574,667 due to the increase in state and local revenues. The actual General Fund expenditures were less than the adjusted budgeted appropriations by \$19,538,765 due to several unfilled job opportunities as well as various other budgetary accounts that were not fully expended. Included in the unexpended balance are outstanding purchasing commitments of \$2,035,395, restricted categorical programs of \$3,592,358, and re-budgeted programs of \$5,065,929.

CAPITAL ASSET ADMINISTRATION

Capital Assets

The School's investment in capital assets as of June 30, 2016, amounts to \$4,641,630 (net of accumulated depreciation). This investment in capital assets includes furniture, fixtures and equipment; computer software, and courses. The total decrease in the School's investment in capital assets (net of accumulated depreciation) for the current fiscal year was \$1,351,419.

OTHER MATTERS

For fiscal year 2017, the Board of Trustees adopted a budget for the General Fund appropriations of approximately \$185,346,873. Revenues for fiscal year 2017 is expected to be approximately \$180,179,080. To ensure adequate fund balance is available for financial emergencies, the School has reserved approximately 8% of state and virtual learning lab revenues.

**THE FLORIDA VIRTUAL SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2016**

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the School's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the John Pavelchak, Chief Financial Officer, The Florida Virtual School, 2145 MetroCenter Blvd, Suite 100, Orlando, Florida, 32835, 407-513-3320, jpavelchak@flvs.net.

Basic Financial Statements

Annual Financial Report 2016



FLORIDA VIRTUAL
SCHOOL

The Florida Virtual School
Statement of Net Position
June 30, 2016

| | Primary Government | | Total |
|---|----------------------------|-----------------------------|---------------------|
| | Governmental Activities | Business-type Activities | |
| ASSETS | | | |
| Cash | \$ 32,081,684 | \$ 5,834,557 | \$ 37,916,241 |
| Investments | 41,250,964 | - | 41,250,964 |
| Accounts Receivable, net | 9,156,558 | 4,830,863 | 13,987,421 |
| Due from Other Agencies | 301,564 | - | 301,564 |
| Capital Assets: | | | |
| Depreciable, net | 3,137,650 | 1,503,980 | 4,641,630 |
| Total Assets | <u>85,928,420</u> | <u>12,169,400</u> | <u>98,097,820</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Pension related deferred outflows | <u>12,860,863</u> | <u>676,888</u> | <u>13,537,751</u> |
| LIABILITIES | | | |
| Wages and Benefits Payable | 7,214,987 | 327,709 | 7,542,696 |
| Accounts Payable | 9,422,600 | 354,977 | 9,777,577 |
| Due to Other Agencies | 1,201,179 | - | 1,201,179 |
| Unearned Revenue | - | 221,252 | 221,252 |
| Long-Term Liabilities: | | | |
| Portion Due and Payable Within One Year: | | | |
| Liability for Compensated Absences | 1,886,306 | 91,899 | 1,978,205 |
| Estimated Insurance Claims Payable | 1,238,985 | - | 1,238,985 |
| Portion Due and Payable After One Year: | | | |
| Liability for Compensated Absences | 9,352,688 | 546,481 | 9,899,169 |
| Liability for Other Post Employment Benefits | 9,174,346 | 482,860 | 9,657,206 |
| Liability for Florida Retirement Pension & Health Subsidy | 53,860,613 | 3,441,136 | 57,301,749 |
| Total Liabilities | <u>93,351,704</u> | <u>5,466,314</u> | <u>98,818,018</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Pension related deferred inflows | <u>10,122,625</u> | <u>532,770</u> | <u>10,655,395</u> |
| NET POSITION | | | |
| Investment in Capital Assets | 3,137,650 | 1,503,980 | 4,641,630 |
| Restricted for State Categoricals | 3,592,358 | - | 3,592,358 |
| Unrestricted | <u>(11,415,054)</u> | <u>5,343,224</u> | <u>(6,071,830)</u> |
| Total Net Position | <u>\$ (4,685,046)</u> | <u>\$ 6,847,204</u> | <u>\$ 2,162,158</u> |

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

**The Florida Virtual School
Statement of Activities
For the Fiscal Year Ended June 30, 2016**

| FUNCTIONS/ PROGRAMS | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position | | | |
|--|-----------------------|----------------------|------------------------------------|---|-------------------------|--------------------------|-------------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government | | Total |
| | | | | | Governmental Activities | Business-type Activities | |
| Governmental Activities: | | | | | | | |
| Instruction | \$ 136,824,238 | \$ - | \$ - | \$ - | \$ (136,824,238) | \$ - | \$ (136,824,238) |
| Pupil Personnel Services | 4,306,223 | - | - | - | (4,306,223) | - | (4,306,223) |
| Instruction and Curriculum Development Services | 630,724 | - | - | - | (630,724) | - | (630,724) |
| Instructional Staff Training Services | 2,689,932 | - | - | - | (2,689,932) | - | (2,689,932) |
| Instructional Related Technology | 7,430,050 | - | - | - | (7,430,050) | - | (7,430,050) |
| Board | 1,055,070 | - | - | - | (1,055,070) | - | (1,055,070) |
| General Administration | 2,671,010 | - | - | - | (2,671,010) | - | (2,671,010) |
| School Administration | 6,127,469 | - | - | - | (6,127,469) | - | (6,127,469) |
| Fiscal Services | 2,199,518 | - | - | - | (2,199,518) | - | (2,199,518) |
| Central Services | 9,816,669 | - | - | - | (9,816,669) | - | (9,816,669) |
| Operation of Plant | 1,894,061 | - | - | - | (1,894,061) | - | (1,894,061) |
| Administrative Technology Services | 6,300,012 | - | - | - | (6,300,012) | - | (6,300,012) |
| Total Governmental Activities | 181,944,976 | - | - | - | (181,944,976) | - | (181,944,976) |
| Business-type Activities: | | | | | | | |
| FLVS Global & Franchises | 15,112,480 | 21,885,237 | - | - | - | 6,772,757 | 6,772,757 |
| Total Primary Government | \$ 197,057,456 | \$ 21,885,237 | \$ - | \$ - | \$ (181,944,976) | \$ 6,772,757 | \$ (175,172,219) |
| General Revenues: | | | | | | | |
| Grants and Contributions not Restricted to Specific Programs | | | | | 171,572,553 | - | 171,572,553 |
| Virtual Learning Labs | | | | | 8,199,362 | - | 8,199,362 |
| Miscellaneous Local | | | | | 4,780,817 | 1,395 | 4,782,212 |
| Unrestricted Investment Earnings | | | | | 198,782 | 6,527 | 205,309 |
| Transfers In (Out) | | | | | 8,081,526 | (8,081,526) | - |
| Total General Revenues | | | | | 192,833,040 | (8,073,604) | 184,759,436 |
| Change in Net Position | | | | | 10,888,064 | (1,300,847) | 9,587,217 |
| Net Position July 1, 2015 | | | | | (15,573,110) | 8,148,051 | (7,425,059) |
| Net Position, June 30, 2016 | | | | | \$ (4,685,046) | \$ 6,847,204 | \$ 2,162,158 |

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

**The Florida Virtual School
Balance Sheet
Governmental Funds
June 30, 2016**

| | General Fund | Special Revenue Fund | Total Governmental Funds |
|---|----------------------|---------------------------------|---|
| ASSETS | | | |
| Cash | \$ 23,811,980 | \$ - | \$ 23,811,980 |
| Investments | 34,236,709 | - | 34,236,709 |
| Accounts Receivable, net | 8,173,181 | - | 8,173,181 |
| Due from Other Funds | 48,738 | - | 48,738 |
| Due from Other Agencies | - | 301,564 | 301,564 |
| Total Assets | \$ 66,270,608 | \$ 301,564 | \$ 66,572,172 |
| LIABILITIES AND FUND BALANCE | | | |
| Liabilities: | | | |
| Salaries, Benefits, and Payroll Taxes Payable | \$ 6,902,100 | \$ 20,561 | \$ 6,922,661 |
| Accounts Payable | 7,530,196 | 232,265 | 7,762,461 |
| Due to Other Funds | - | 48,738 | 48,738 |
| Due to Other Agencies | 1,201,179 | - | 1,201,179 |
| Total Liabilities | 15,633,475 | 301,564 | 15,935,039 |
| Fund Balances: | | | |
| Spendable: | | | |
| Restricted for State Categoricals | 3,592,358 | - | 3,592,358 |
| Assigned for Encumbrances | 2,035,395 | - | 2,035,395 |
| Assigned for Re-budget | 5,065,929 | - | 5,065,929 |
| Unassigned | 39,943,451 | - | 39,943,451 |
| Total Fund Balance | 50,637,133 | - | 50,637,133 |
| Total Liabilities and Fund Balance | \$ 66,270,608 | \$ 301,564 | \$ 66,572,172 |

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

**The Florida Virtual School
Reconciliation of the Governmental Funds
Balance Sheet to the Statement of Net Position
June 30, 2016**

Total Fund Balances - Governmental Funds \$ 50,637,133

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

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. 3,137,650

Internal service funds are used by management to charge the costs of its self-insurance program and course development. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.

| | | |
|---|-------------|------------|
| Total Assets - Internal Service Fund | 17,116,475 | |
| Less: Total Liabilities - Internal Service Fund | (3,191,450) | |
| Less: Depreciable Assets Reported Above | (849,139) | |
| | | 13,075,886 |

Some liabilities, including net pension obligations, are not due and payable in the current period and, therefore, are not reported in the funds.

Net pension liability (53,860,613)

Deferred outflows and inflows or resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.

Deferred outflows of resources related to pensions of \$12,860,863 = \$6,600,263 deferred outflows assumptions and experience + \$6,260,600 deferred outflows contributions subsequent to measurement date, 6/30/2015 12,860,863

Deferred inflows of resources related to pensions (from pension schedule). (10,122,625)

Compensated Absences are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.

(11,238,994)

Other Post Employment Benefits are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.

(9,174,346)

Net Position - Governmental Activities

\$ (4,685,046)

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

**The Florida Virtual School
Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
For the Fiscal Year Ended June 30, 2016**

| | General Fund | Special Revenue Fund | Total Governmental Funds |
|---|----------------------|-------------------------|--------------------------------|
| REVENUES | | | |
| Federal Through State Sources: | | | |
| Other Federal Through State Sources | \$ - | \$ 1,699,249 | \$ 1,699,249 |
| Total Federal Through State | - | 1,699,249 | 1,699,249 |
| State Sources: | | | |
| Florida Education Finance Program | 166,652,887 | - | 166,652,887 |
| Reading Program | 1,431,614 | - | 1,431,614 |
| School Recognition Program | 157,635 | - | 157,635 |
| Other State Sources | 1,631,168 | - | 1,631,168 |
| Total State Sources | 169,873,304 | - | 169,873,304 |
| Local Sources: | | | |
| Other Local Sources | 13,155,150 | - | 13,155,150 |
| Total Local Sources | 13,155,150 | - | 13,155,150 |
| Total Revenues | 183,028,454 | 1,699,249 | 184,727,703 |
| EXPENDITURES | | | |
| Current: | | | |
| Instruction | 132,027,679 | 1,505,420 | 133,533,099 |
| Pupil Personnel Services | 4,216,097 | 28,272 | 4,244,369 |
| Instruction and Curriculum Development Services | 557,266 | 91,912 | 649,178 |
| Instructional Staff Training Services | 2,608,481 | 34,122 | 2,642,603 |
| Instruction Related Technology | 7,317,450 | - | 7,317,450 |
| School Board | 1,047,885 | - | 1,047,885 |
| General Administration | 2,576,677 | 36,544 | 2,613,221 |
| School Administration | 5,943,088 | - | 5,943,088 |
| Fiscal Services | 2,166,193 | - | 2,166,193 |
| Central Services | 9,742,408 | 2,979 | 9,745,387 |
| Operation of Plant | 1,896,112 | - | 1,896,112 |
| Administrative Technology Services | 5,883,138 | - | 5,883,138 |
| Capital Outlay: | | | |
| Other Capital Outlay | 1,283,638 | - | 1,283,638 |
| Total Expenditures | 177,266,112 | 1,699,249 | 178,965,361 |
| Excess of Revenues Over Expenditures | 5,762,342 | - | 5,762,342 |
| OTHER FINANCIAL SOURCES (USES) | | | |
| Transfers In | 1,768,680 | - | 1,768,680 |
| Total Other Financial Sources | 1,768,680 | - | 1,768,680 |
| Net Change in Fund Balance | 7,531,022 | - | 7,531,022 |
| Fund Balance, July 1, 2015 | 43,106,111 | - | 43,106,111 |
| Fund Balance, June 30, 2016 | \$ 50,637,133 | \$ - | \$ 50,637,133 |

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

**The Florida Virtual School
Reconciliation of the Governmental Funds Statement of Revenues,
Expenditures, and Changes in Fund Balances
to the Statement of Activities
For the Fiscal Year Ended June 30, 2016**

| | | |
|--|--------------------|-----------------------|
| Net Change in Fund Balances - Governmental Funds | \$ | 7,531,022 |
| Amounts reported for <i>governmental activities</i> in the statement of activities are different because: | | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation/amortization expense. This is the amount of capital outlay, \$2,416,011 less than depreciation/amortization expense, (\$3,198,295) in the current period. | | |
| | | (782,284) |
| Internal service funds are used by management to charge the cost of certain activities, such as insurance and course development to individual funds. The net revenue of internal service funds is reported with governmental activities less depreciable assets reported above. | | |
| Net Revenue | 4,380,542 | |
| Less: Depreciable Assets Reported Above | <u>(849,139)</u> | 3,531,403 |
| Governmental funds report district pension contributions as expenditures. However, in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as an expense. | | |
| District pension contributions | 6,260,599 | |
| Cost of benefits earned net of employee contributions (pension expense from the pension schedule) | <u>(3,234,264)</u> | 3,026,335 |
| In the statement of activities, the cost of compensated absences is measured by the amounts earned during the year, while in the governmental funds expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences earned in excess of the amount paid in the current period. | | |
| | | (1,540,025) |
| Other Post Employment Benefits (OPEB) costs are recorded in government funds under the pay-as-you-go method, but under the full accrual method for government-wide statements. | | |
| | | <u>(878,387)</u> |
| Change in Net Position - Governmental Activities | \$ | <u>10,888,064</u> |

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

**The Florida Virtual School
Statement of Net Position
Proprietary Funds
June 30, 2016**

| | Business-type Activities FLVS Enterprise Funds ^(a) | Business-type Activities Franchises | Business-type Activities Total | Governmental Activities Internal Service Fund |
|---|--|--|---|--|
| ASSETS | | | | |
| Cash | \$ 3,476,153 | \$ 2,358,404 | \$ 5,834,557 | \$ 8,269,704 |
| Investments | - | - | - | 7,014,255 |
| Accounts Receivable, net | 2,198,273 | 2,632,590 | 4,830,863 | 983,377 |
| Capital Assets: | | | | |
| Depreciable (net) | 1,503,980 | - | 1,503,980 | 849,139 |
| Total Assets | 7,178,406 | 4,990,994 | 12,169,400 | 17,116,475 |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| Deferred Outflows - FRS and HIS | 541,511 | 135,377 | 676,888 | - |
| LIABILITIES | | | | |
| Wages and Benefits Payable | 297,639 | 30,070 | 327,709 | 292,326 |
| Accounts Payable | 162,466 | 192,511 | 354,977 | 1,660,139 |
| Estimated Insurance Claims Payable | - | - | - | 1,238,985 |
| Unearned Revenue | 221,252 | - | 221,252 | - |
| Long-term Liabilities: | | | | |
| Portion Due and Payable Within One Year: | | | | |
| Liability for Compensated Absences | 77,040 | 14,859 | 91,899 | - |
| Portion Due and Payable After One Year: | | | | |
| Liability for Compensated Absences | 459,038 | 87,443 | 546,481 | - |
| Liability for Other Post Employment Benefits | 386,288 | 96,572 | 482,860 | - |
| Liability for Florida Retirement Pension & Health Subsidy | 2,868,120 | 573,016 | 3,441,136 | - |
| Total Liabilities | 4,471,843 | 994,471 | 5,466,314 | 3,191,450 |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Deferred Inflows - FRS and HIS | 426,216 | 106,554 | 532,770 | - |
| NET POSITION | | | | |
| Invested in Capital Assets | 1,503,980 | - | 1,503,980 | 849,139 |
| Restricted for Encumbrances | 127,722 | 102,781 | 230,503 | - |
| Unrestricted | 1,190,156 | 3,922,565 | 5,112,721 | 13,075,886 |
| Total Net Position | \$ 2,821,858 | \$ 4,025,346 | \$ 6,847,204 | \$ 13,925,025 |

(a) FLVS enterprise funds include the global services fund, global school fund, and the development fund.

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

**The Florida Virtual School
Statement of Revenues, Expenditures and
Changes in Net Position
Proprietary Funds
For the Fiscal Year Ended June 30, 2016**

| | Business-type Activities FLVS Enterprise Funds ^(a) | Business-type Activities Franchises | Business-type Activities Total | Governmental Activities Internal Service Fund |
|---|--|--|---|--|
| OPERATING REVENUES | | | | |
| Charges for Sales or Services | \$ 10,232,277 | \$ 11,652,960 | \$ 21,885,237 | \$ 4,312,435 |
| Premium Revenues | - | - | - | 18,277,473 |
| Miscellaneous Revenues | 1,395 | - | 1,395 | - |
| Total Operating Revenue | 10,233,672 | 11,652,960 | 21,886,632 | 22,589,908 |
| OPERATING EXPENSES | | | | |
| Salaries | 3,289,670 | 641,874 | 3,931,544 | 3,282,825 |
| Employee Benefits | 1,290,440 | 225,881 | 1,516,321 | 1,199,313 |
| Purchased Services | 2,518,645 | 3,344,608 | 5,863,253 | 1,298,697 |
| Materials and Supplies | 8,063 | 48,024 | 56,087 | 514 |
| Capital Outlay | 856 | - | 856 | - |
| Other Expenses | 836,912 | 2,172,816 | 3,009,728 | 18,481,440 |
| Bad Debt Expense | 2,105 | - | 2,105 | - |
| Unallocated Depreciation/Amortization Expense | 732,586 | - | - | 283,234 |
| Total Operating Expenses | 8,679,277 | 6,433,203 | 15,112,480 | 24,546,023 |
| Operating Income (Loss) | 1,554,395 | 5,219,757 | 6,774,152 | (1,956,115) |
| NONOPERATING REVENUES | | | | |
| Interest | 6,527 | - | 6,527 | 23,811 |
| Income (Loss) Before Operating Transfers | 1,560,922 | 5,219,757 | 6,780,679 | (1,932,304) |
| Transfers In | - | - | - | 6,312,846 |
| Transfers Out | 5,031,750 | 3,049,776 | 8,081,526 | - |
| Change in Net Position | (3,470,828) | 2,169,981 | (1,300,847) | 4,380,542 |
| Net Position - July 1, 2015 | 6,292,686 | 1,855,365 | 8,148,051 | 9,544,483 |
| Net Position - June 30, 2016 | \$ 2,821,858 | \$ 4,025,346 | \$ 6,847,204 | \$ 13,925,025 |

(a) FLVS enterprise funds include the global services fund, global school fund, and the development fund.

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

**The Florida Virtual School
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2016**

| | Business-type Activities FLVS Enterprise Funds ^(a) | Business-type Activities Franchises | Business-type Activities Total | Governmental Activities Internal Service Fund |
|---|--|--|-----------------------------------|--|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Receipts from Customers and Users | \$ 10,899,484 | \$ 12,343,250 | \$ 23,242,734 | \$ 23,105,603 |
| Payments to Suppliers of Goods and Services | (8,665,312) | (9,227,655) | (17,892,967) | (12,574,653) |
| Payments to Employees | (4,933,583) | (757,191) | (5,690,774) | (4,927,879) |
| Net Cash Provided by Operating Activities | <u>(2,699,411)</u> | <u>2,358,404</u> | <u>(341,007)</u> | <u>5,603,071</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | |
| Acquisition of Capital Assets | (163,450) | - | (163,450) | (1,132,373) |
| Net Cash Used in Capital and Related Financing Activities | <u>(163,450)</u> | <u>-</u> | <u>(163,450)</u> | <u>(1,132,373)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Interest on Investments | 6,527 | - | 6,527 | 23,811 |
| Purchases of Investments | - | - | - | (7,014,254) |
| Net Cash Provided by Investing Activities | <u>6,527</u> | <u>-</u> | <u>6,527</u> | <u>(6,990,443)</u> |
| Net Change in Cash | (2,856,334) | 2,358,404 | (497,930) | (2,519,745) |
| Cash at Beginning of Year | 6,332,487 | - | 6,332,487 | 10,789,449 |
| Cash at End of Year | <u>\$ 3,476,153</u> | <u>\$ 2,358,404</u> | <u>\$ 5,834,557</u> | <u>\$ 8,269,704</u> |
| Reconciliation of Operating Income to Net Cash Provided by Operating Activities: | | | | |
| Operating Income | \$ 1,554,395 | \$ 5,219,757 | \$ 6,774,152 | \$ (1,956,115) |
| Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities: | | | | |
| Amortization Expense | 732,585 | - | 732,585 | 283,234 |
| Transfers In | - | - | - | 6,312,846 |
| Transfers Out | (5,031,750) | (3,049,776) | (8,081,526) | - |
| Changes in Assets and Liabilities: | | | | |
| Decrease (Increase) in Accounts Receivable | 585,844 | 690,290 | 1,276,134 | 515,696 |
| Increase (Decrease) in Due to Other Funds | - | (509,031) | (509,031) | - |
| Increase (Decrease) in Accounts Payable | (386,509) | (103,401) | (489,910) | (37,987) |
| Increase (Decrease) in Salaries and Benefits Payable | (273,141) | 4,559 | (268,582) | 292,325 |
| Increase (Decrease) in Compensated Absence Payable | (219,666) | 41,290 | (178,376) | - |
| Increase (Decrease) in OPEB Payable | 386,288 | 96,572 | 482,860 | - |
| Increase (Decrease) in Pension Contribution Payable | (127,425) | (31,856) | (159,281) | - |
| Increase (Decrease) in Unearned Revenue | 79,968 | - | 79,968 | - |
| Increase (Decrease) in Est Unpaid Claims | - | - | - | 193,072 |
| Total adjustments | <u>(4,253,806)</u> | <u>(2,861,353)</u> | <u>(7,115,159)</u> | <u>7,559,186</u> |
| Net Cash Provided by Operating Activities | <u>\$ (2,699,411)</u> | <u>\$ 2,358,404</u> | <u>\$ (341,007)</u> | <u>\$ 5,603,071</u> |

(a) FLVS enterprise funds include the global services fund, global school fund, and the development fund.

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

**THE FLORIDA VIRTUAL SCHOOL
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

➤ **Reporting Entity**

The Florida Virtual School (the School) was established by an act of the Florida Legislature, as specified under Title XLVIII, Chapter 1002, Section 1002.37, Florida Statutes, to develop and deliver online and distance learning education. The School initiated online activities in August 1997 in partnership with the School Board of Alachua County and Orange County Public Schools with the name of Florida Online High School. As a result of legislative activity in 2001, the Florida Online High School changed its name to The Florida Virtual School and ended its partnership with the School Board of Alachua and Orange County Public Schools. The Florida Virtual School is a component unit of the State of Florida.

The School is governed by a board of trustees consisting of seven members appointed by the Governor. Members have experience working in a variety of fields such as education, business and government. The board of trustees is required to meet a minimum of four times each year. The board members and the President who served during the 2015-16 fiscal year are shown in the following tabulation:

| <u>Board Member</u> | <u>County</u> |
|--|---------------|
| Lady Dhyana Ziegler, Ph.D, Chair | Leon |
| Mr. Brian Cunningham | Broward |
| Ms. Linda Pellegrini | Orange |
| Ms. Dorene McShea | Collier |
| Robert Gidel, Sr. | Orange |
| Iris Gonzalez | Pinellas |
| Robert Saltzman | Orange |
| Ronald Blocker, President, Chief Executive Officer | |

Criteria for determining if other entities are potential component units of the School which should be reported with the School's financial statements are identified and described in the Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600. The application of these criteria provide for identification of any entities for which the School is financially accountable and other organizations for which the nature and significance of their relationship with the School are such that exclusion would cause the School's financial statements to be misleading or incomplete. Based on these criteria, no component units are included within the reporting entity of the School.

➤ **Basis of Presentation**

Government-wide Financial Statements - Government-wide financial statements, including the statement of net position and the statement of activities, present information about the School as a whole. These statements include the non-fiduciary financial activity of the primary government. The statements distinguish between governmental activities of the School and those that are considered business-type activities.

Government-wide financial statements are prepared using the economic resources measurement focus. The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the School's governmental activities and for each

**THE FLORIDA VIRTUAL SCHOOL
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016**

segment of the business-type activities. Direct expenses are those that are specifically associated with a service, program, or department and are thereby clearly identifiable to a particular function.

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 that are not classified as program revenues are presented as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each governmental function or business segment is self-financing or draws from the general revenues of the School.

The School eliminates from the statement of net position and the statement of activities interfund transfers and most interfund receivables and payables between funds.

Fund Financial Statements - Fund financial statements report detailed information about the School in the governmental and proprietary funds. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Because the focus of governmental fund financial statements differs from the focus of government-wide financial statements, a reconciliation is presented with the governmental fund financial statements.

The School reports the following major governmental fund:

- General Fund – to account for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.

The School reports the following non-major fund:

- Special Revenue Fund – Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

Additionally, the School reports the following proprietary fund types:

- Internal Service Fund – to account for the self-insurance activities and course development.
- Enterprise Fund – to account for the activities of FLVS global and Florida franchises.

➤ **Basis of Accounting**

Basis of accounting refers to when revenues and expenditures, or expenses, are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide financial statements are prepared using the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of the related cash flows.

Governmental fund financial statements are prepared using the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The School considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Revenues from the Enterprise Fund are recognized at the gross value

**THE FLORIDA VIRTUAL SCHOOL
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016**

earned. Commissions related to the sales are recorded as an expense. Under the modified accrual basis of accounting, expenditures are generally recognized when the related fund liability is incurred, except for claims and judgments, and compensated absences, which are recognized when due. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds' principal ongoing operations. The principal operating revenues and expenses of the School's proprietary funds relate to the sales and services provided by FLVS global services, FLVS global school, and Florida franchises. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the School's policy to use restricted resources first, then unrestricted resources as they are needed.

➤ **Deposits and Investments**

Cash deposits are held by banks qualified as public depositories under Florida law. All deposits are insured by Federal depository insurance and collateralized with securities held in Florida's multiple financial institution collateral pool as required by Chapter 280, Florida Statutes. The statement of cash flows considers cash as those accounts used as demand deposit accounts and investments.

Investments consist of amounts placed with the State Board of Administration for participation in the Local Government Surplus Funds Trust Fund investment pool created by Section 218.405, Florida Statutes. This investment pool operates under investments guidelines established by Section 215.47, Florida Statutes. The School's investments in the Local Government Surplus Funds Trust Fund, a Securities and Exchange Commission Rule 2a7-like external investment pool, are reported at fair value, which is amortized cost.

➤ **Capital Assets**

Expenditures for capital assets acquired or constructed for general School purposes are reported in the governmental fund that financed the acquisition or construction. The capital assets so acquired are reported at cost in the government-wide statement of net position but are not reported in the governmental fund financial statements. Capital assets are defined by the School as those with a useful life greater than a year and costing more than \$1,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at fair value at the date of donation.

Interest costs incurred during the construction of capital assets are not considered material and are not capitalized as part of the cost of construction.

Internally generated software, such as coursework for the School, is recognized as an intangible asset. Expenditures relating to the creation of intangible assets are capitalized and reported at cost in the government-wide statement of net position but are reported as expenditures in the governmental fund financial statements. An intangible asset is recognized in the statement of net position only if it is considered identifiable.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

**THE FLORIDA VIRTUAL SCHOOL
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016**

| <u>Description</u> | <u>Estimated Lives</u> |
|---|------------------------|
| Furniture, Fixtures, and Equipment | 3 years |
| Internally Generated Courses & Purchased Software | 4 years |

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

➤ **Long-Term Liabilities**

Long-term obligations that will be financed from resources to be received in the future are reported as liabilities in the government-wide statement of net position.

In the government-wide financial statements, compensated absences (i.e., paid absences for employee vacation leave and sick leave) are accrued as liabilities to the extent that it is probable that the benefits will result in termination payments. A liability is reported in the governmental fund financial statements only for the current portion of compensated absences expected to be paid using expendable available resources.

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

➤ **State Revenue Sources**

Revenues from State sources for current operations are primarily from the Florida Education Finance Program administered by the Florida Department of Education (Department) under the provisions of Section 1011.62, Florida Statutes. In accordance with this law, the School determines and reports the number of full-time equivalent (FTE) students and related data to the Department. The Department performs certain edit checks on the reported number of FTE and related data, and calculates the allocation of funds to the School. The School is permitted to amend its original reporting based on the DOE Schedule of FTE Amendments. Such amendments may impact funding allocations for subsequent years. The Department may also adjust subsequent fiscal period allocations based upon an audit of the School's compliance in determining and reporting FTE and related data. Normally, such adjustments are treated as reductions or additions of revenue in the year when the adjustments are made.

The State provides financial assistance to administer certain categorical educational programs. State Board of Education rules require that revenue earmarked for certain programs be expended only for the program 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 year to be expended for the same categorical educational programs. The Department generally requires that categorical educational program revenues be accounted for in the General Fund. A portion of the fund balance of the General Fund is restricted in the governmental fund financial statements for the unencumbered balance of categorical educational program resources.

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

➤ **Fund Balance Policy**

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The Board itself can establish limitations on the use of resources through a commitment (committed fund balance). The Board does not have a policy regarding the commitment of fund balances. As such, the School does not report any committed fund balances. However, to ensure that an adequate fund balance is

**THE FLORIDA VIRTUAL SCHOOL
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016**

available for financial emergencies, it is a normal practice of the Board to annually budget at least an 8% reserve of its State (FEFP) and Virtual Learning Lab (VLL) revenue in its general fund budget.

➤ **Pensions**

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

2. ALLOWANCE FOR DOUBTFUL ACCOUNTS

Accounts receivable are presented on the balance sheet net of estimated uncollectible amounts. The School records an allowance for estimated uncollectible accounts in an amount approximating anticipated losses. Individual uncollectible accounts are written off against the allowance when collection of the individual accounts appears doubtful. The School recorded an allowance for doubtful accounts of \$63,353 as of June 30, 2016.

3. BUDGETARY COMPLIANCE AND ACCOUNTABILITY

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

- Budgets are prepared, public meetings are held, and original budgets are adopted annually for all governmental fund types in accordance with procedures and time intervals prescribed by law and State Board of Education rules.
- Appropriations are controlled at the object level (e.g., salaries, purchased services, and capital outlay) within each function (e.g., instruction, pupil personnel services, and school administration) and may be amended by resolution at any Board of Trustees meeting prior to the due date for the annual financial report.
- Budgets are prepared using the same modified accrual basis as is used to account for governmental funds.
- Budgetary information is integrated into the accounting system and, to facilitate budget control, budget balances are encumbered when purchase orders and other commitments are issued. Appropriations lapse at fiscal year-end and encumbrances outstanding are honored from the subsequent year's appropriations.

4. INVESTMENTS

Section 218.415(17), Florida Statutes, authorizes the School to invest in the Local Government Surplus Funds Trust Fund, any intergovernmental investment pool, money market funds registered with the

**THE FLORIDA VIRTUAL SCHOOL
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016**

Securities and Exchange Commission, interest-bearing time deposits or savings accounts, and direct obligations of the U.S. Treasury.

Investments with a fair value of \$41,250,964 at June 30, 2016, are in the State Board of Administration investment pool (Florida PRIME) with a weighted average maturity (WAM) of 39 days. A portfolio's WAMP reflects the average maturity in days based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the portfolio to interest rate changes. The School's investment in Florida PRIME is rated AAAM by Standard and Poor's.

5. CHANGES IN CAPITAL ASSETS

Changes in capital assets are presented in the table below:

| | <u>Balance 7-1-15</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance 6-30-16</u> |
|--|---------------------------|-----------------------|------------------|----------------------------|
| Capital Assets Being Depreciated | | | | |
| <u>GOVERNMENTAL ACTIVITIES:</u> | | | | |
| Furniture, Fixtures, and Equipment | \$ 5,176,079 | \$ 233,677 | \$ 187,000 | \$ 5,222,756 |
| Less Accumulated Depreciation | <u>4,598,822</u> | <u>419,856</u> | <u>187,000</u> | <u>4,831,678</u> |
| Total Furniture, Fixtures, and Equipment | <u>577,257</u> | <u>(186,179)</u> | <u>-</u> | <u>391,078</u> |
| Internally Created Software | 25,363,952 | 1,492,578 | - | 26,856,530 |
| Less Accumulated Amortization | <u>22,021,275</u> | <u>2,606,000</u> | <u>-</u> | <u>24,627,275</u> |
| Total Internally Created Software | <u>3,342,677</u> | <u>(1,113,422)</u> | <u>-</u> | <u>2,229,255</u> |
| Learning Content Management System | - | 689,756 | - | 689,756 |
| Less: Accumulated Amortization | <u>-</u> | <u>172,439</u> | <u>-</u> | <u>172,439</u> |
| Total LCMS | <u>-</u> | <u>517,317</u> | <u>-</u> | <u>517,317</u> |
| <u>BUSINESS-TYPE ACTIVITIES:</u> | | | | |
| Furniture, Fixtures, and Equipment | 20,290 | 15,833 | - | 36,123 |
| Less Accumulated Depreciation | <u>7,341</u> | <u>10,919</u> | <u>-</u> | <u>18,260</u> |
| Total Furniture, Fixtures, and Equipment | <u>12,949</u> | <u>4,914</u> | <u>-</u> | <u>17,863</u> |
| Internally Created Software | 2,746,888 | 147,618 | - | 2,894,506 |
| Less Accumulated Amortization | <u>686,722</u> | <u>721,667</u> | <u>-</u> | <u>1,408,389</u> |
| Total Internally Created Software | <u>2,060,166</u> | <u>(574,049)</u> | <u>-</u> | <u>1,486,117</u> |
| TOTAL GOV'T & BUSINESS-TYPE CAPITAL ASSETS, NET | <u>\$ 5,993,049</u> | <u>\$ (1,351,419)</u> | <u>\$ -</u> | <u>\$ 4,641,630</u> |

**THE FLORIDA VIRTUAL SCHOOL
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016**

Depreciation/Amortization expense for the governmental funds was charged to functions for the year ended June 30, 2016 as follows:

| Function | Amount |
|---|---------------------|
| GOVERNMENTAL | |
| Instruction | \$ 2,779,001 |
| Administrative Related Technology | 385,750 |
| Instructional Related Technology | 33,544 |
| | <hr/> |
| Total Depreciation/Amortization-Governmental Activities | <u>\$ 3,198,295</u> |

6. OPERATING LEASES

The School is obligated under a lease agreement for office facilities beginning October 1, 2013 and ending July 31, 2023. The base rent is being waived for the period of February 1, 2016 through July 31, 2016. The annual lease payments increase approximately 3% beginning fiscal year 2018. The total amount of payments for fiscal year ending June 30, 2016 is \$1,049,736.

Annual remaining rent payments are shown in the table below:

| Fiscal Year Ending June 30 | Payment |
|-----------------------------------|---------------------|
| 2017 | 1,142,144 |
| 2018 | 1,176,550 |
| 2019 | 1,211,691 |
| 2020 | 1,248,056 |
| 2021 | 1,285,524 |
| 2022-2023 | 1,435,516 |
| | <hr/> |
| Total | <u>\$ 7,499,481</u> |

**THE FLORIDA VIRTUAL SCHOOL
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016**

7. CHANGES IN LONG-TERM LIABILITIES

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

| Description | Balance | | | Balance 6-30-16 | Due in One Year |
|--------------------------------------|----------------------|---------------------|-------------------|----------------------|---------------------|
| | 7-1-15 | Additions | Reductions | | |
| Comp Abs - Governmental Activities | \$ 9,698,969 | \$ 2,113,425 | \$ 573,400 | \$ 11,238,994 | \$ 1,886,306 |
| Comp Abs - Business-Type Activities | 816,754 | - | 178,374 | 638,380 | 91,899 |
| Total Compensated Absences Payable | 10,515,723 | 2,113,425 | 751,774 | 11,877,374 | 1,978,205 |
| OPEB - Governmental Activities | 8,295,959 | 878,387 | - | 9,174,346 | - |
| OPEB - Business-Type Activities | - | 482,860 | - | 482,860 | - |
| Total Other Post Employment Benefits | 8,295,959 | 1,361,247 | - | 9,657,206 | - |
| Pension - Governmental Activities | 39,242,254 | 14,618,359 | - | 53,860,613 | - |
| Pension - Business-Type Activities | 2,504,825 | 936,311 | - | 3,441,136 | - |
| Total Net Pension Liability | 41,747,079 | 15,554,670 | - | 57,301,749 | - |
| Estimated Insurance Claims Payable | 1,045,913 | 193,072 | - | 1,238,985 | 1,238,985 |
| Total Long-Term Liabilities | <u>\$ 61,604,674</u> | <u>\$19,222,414</u> | <u>\$ 751,774</u> | <u>\$ 80,075,314</u> | <u>\$ 3,217,190</u> |

8. ENCUMBRANCES

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

9. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

| Funds | Interfund | |
|---------------------------|---------------------|---------------------|
| | Transfer In | Transfer Out |
| General Fund | \$ 1,768,680 | |
| Internal Service Fund | \$ 6,312,846 | |
| Enterprise Funds | | |
| FLVS Global Services Fund | | 2,052,533 |
| Development Fund | | 2,979,217 |
| Franchises Fund | | 3,049,776 |
| Total | <u>\$ 8,081,526</u> | <u>\$ 8,081,526</u> |

**THE FLORIDA VIRTUAL SCHOOL
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016**

The interfund transfers represent a transfer of profit from the FLVS global and franchise enterprise funds, as well as from the development fund to the governmental funds. Of the amount transferred to the governmental funds, \$6,312,846 was used for the development of student courses, with the remainder used for various technology upgrades.

10. SCHEDULE OF STATE REVENUE SOURCES

The following is a schedule of the School's State revenue for the General Fund for the 2014-15 fiscal year:

| Source | 2015-16 |
|-----------------------------------|----------------|
| Florida Education Finance Program | \$ 166,652,887 |
| Other State Sources: | |
| Reading Program | 1,431,614 |
| School Recognition Program | 157,635 |
| Miscellaneous State | 1,631,168 |
| Total Other State Sources | 3,220,417 |
| Total State Revenues | \$ 169,873,304 |

Accounting policies relating to certain State revenue sources are described in Note 1.

11. STATE RETIREMENT PROGRAMS

Florida Retirement System. The Florida Retirement System (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 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 Health Insurance Subsidy (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 School 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 FLORIDA VIRTUAL SCHOOL
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016**

The School's pension expense totaled \$3,404,489 for the fiscal year ended June 30, 2016.

Plan Description. The FRS Pension Plan (Plan) is a cost-sharing multiple-employer defined benefit pension plan, with a Teacher's Retirement System, Plan E and a Deferred Retirement Option Program (DROP) for eligible employees. The general classes of membership are as follows:

- Regular Class – Members of the FRS who do not qualify for membership in the other classes.
- Elected County Officers Class – Members who hold specified elective offices in local government.
- Senior Management Service Class (SMSC) – Members in senior management level positions.

Vesting refers to an earned right to receive retirement benefits when the employee reaches normal retirement of 62 years of age or by 30 years of service for employees who began participation in the FRS prior to July 1, 2011. **On or after July 1, 2011**, vesting refers to an earned right to receive retirement benefits when the employee reaches normal retirement of 65 years of age or by 33 years of service for employees who began participation in the FRS.

- Six (6) years of contiguous service is required to become fully vested for FRS members whose participation in the FRS began prior to July 1, 2011.
- Eight (8) years of contiguous service is required to become fully vested for employees who begin participation in the FRS on or after July 1, 2011.
- Effective July 1, 2011 all employee contributions are immediately vested, minus any interest earnings for those in the Pension Plan, once the member has been off all FRS covered payrolls for three full calendar months. Employer contributions made on behalf of the member are not refundable prior to vesting.

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, and death benefits and annual cost-of-living adjustments.

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 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.

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 five highest fiscal years' earnings; for members initially enrolled on or after July 1, 2011, the average final compensation is the average of the eight 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:

**THE FLORIDA VIRTUAL SCHOOL
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016**

| <u>Class, Initial Enrollment, and Retirement Age/Years of Service</u> | <u>% of Value</u> |
|--|-------------------|
| 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 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 years of service | 1.68 |
| | |
| Senior Management Service Class | 2.00 |

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 the 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.

FRS Retirement Contribution Rates

The Florida Legislature establishes, and may amend, contribution rates for each membership class of the FRS. During the 2015-16 fiscal year, contribution rates were as follows:

| Class or Plan | <u>Percent of Gross Salary</u> | |
|--|--------------------------------|--------------|
| | Employee | Employer (A) |
| Florida Retirement System, Regular | 3.00 | 7.26 |
| Florida Retirement System, Senior Management Service | 3.00 | 21.43 |
| Deferred Retirement Option Program - Applicable to Members from all of the Above Classes or Plans | 0.00 | 12.88 |
| Florida Retirement System, Reemployed Retiree | (B) | (B) |

Notes: (A) In addition to the rates shown, employer rates include 1.66 percent for the post-employment health insurance supplement. Also, employer rates, other than for DROP participants, include 0.04 percent for administrative costs of the Public Employee Optional Retirement Program.

(B) Contribution rates are dependent upon the retirement class in which re-employed.

The School's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the School. The School's contributions for the fiscal years ended June 30, 2014, June 30, 2015 and June 30, 2016, totaled \$6,722,389, \$7,061,736, and \$7,616,012 respectively, which were equal to the required contributions for each fiscal year.

**THE FLORIDA VIRTUAL SCHOOL
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016**

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to FRS Pensions. At June 30, 2016, the School reported a liability of \$25,973,394 for its proportionate share of the net pension liability. The total pension liability was determined by the plans' actuary and reported in the plans' valuations dated July 1, 2015. The School's proportion of the net pension liability was based on the School's share of contributions to the pension plan relative to the contributions of all Division of Retirement participating employers. At June 30, 2015, the School's proportion was .201089408% compared to .203303791% at June 30, 2014.

For the fiscal year ended June 30, 2016, the School recognized pension expense of \$1,423,828 related to the Plan. At June 30, 2016, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | | Deferred Inflows of Resources | |
|---|--------------------------------|---------------------|-------------------------------|---------------------|
| | Gov't Activities | Bus-type Activities | Gov't Activities | Bus-type Activities |
| Differences between expected and actual experience | \$ 2,604,920 | \$ 137,101 | \$ 585,211 | \$ 30,800 |
| Changes in assumptions or other inputs | 1,637,744 | 86,197 | - | - |
| Net difference between projected and actual earnings on pension plan investments | - | - | 5,891,911 | 310,101 |
| Changes in proportion and differences between district contributions and proportionate share of contributions | - | - | 1,821,393 | 95,863 |
| District contributions subsequent to the measurement date, 6/30/2015 | 4,660,978 | 245,315 | - | - |
| Total | \$ 8,903,642 | \$ 468,613 | \$ 8,298,515 | \$ 436,764 |

The deferred outflows of resources related to pensions, totaling \$4,906,293 (4,660,978 + 245,315), resulting from the School contributions subsequent to the measurement date, will be recognized as a reduction of net pension liability in the year ended 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:

| Fiscal Year Ending June 30 | Amount |
|----------------------------|-----------------------|
| 2017 | \$ (2,054,695) |
| 2018 | (2,054,695) |
| 2019 | (2,054,695) |
| 2020 | 3,062,158 |
| 2021 | 594,660 |
| Thereafter | 155,209 |
| Totals | \$ (2,352,058) |

**THE FLORIDA VIRTUAL SCHOOL
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016**

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

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

Mortality rates were based on the Generational RP-2000 with Projection Scale BB, with adjustments for mortality improvements based on Scale AA.

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 | Compound Annual (Geometric) Return | Standard Deviation |
|--------------------------|----------------------------------|---|---|-------------------------------|
| Cash | 1.0% | 3.2% | 3.1% | 1.7% |
| Fixed Income | 18.0% | 4.8% | 4.7% | 4.7% |
| 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 Investments | 12.0% | 6.7% | 6.1% | 11.4% |
| Total | 100.0% | | | |
| Assumed Inflation - Mean | | 2.6% | | 1.9% |

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

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

Sensitivity of the School's Proportionate Share of the Net Position Liability to Changes in the Discount Rate. The following tables demonstrate the sensitivity of the net liability to changes to the discount rate. The sensitivity analysis shows the impact to the collective net pension liability of the participating employers if the discount rate was 1.00 percent higher or 1.00 percent lower than the current discount rate at June 30, 2015.

**THE FLORIDA VIRTUAL SCHOOL
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016**

| | FRS Net Pension Liability (Asset) | | |
|--|-----------------------------------|----------------------|-----------------------|
| | 1% Decrease | Current | 1% Increase |
| | 6.65% | 7.65% | 8.65% |
| NPL per FRS, June 30, 2015 | \$ 33,469,161,224 | \$ 12,916,341,186 | \$ (4,186,981,004) |
| FLVS proportionate @measurement date, date, June 30, 2015 | 0.201089408% | 0.201089408% | 0.201089408% |
| FLVS proportionate share of NPL | <u>\$ 67,302,938</u> | <u>\$ 25,973,394</u> | <u>\$ (8,419,575)</u> |

Additional Financial and Actuarial Information. Additional audited financial information supporting the Schedules of Employer Allocations and the Schedules of Pension Amounts by Employer, is located in the Florida CAFR for the fiscal year ended June 30, 2014, and in the Florida Retirement System Pension Plan and Other State-Administered Systems CAFR for the fiscal year ended June 30, 2015.

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 Division of Retirement within the Florida Department of Management Services.

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 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 1.26 percent of payroll pursuant to section 112.363, Florida Statutes. The District contributed 100 percent of its statutorily required contributions for the current and proceeding three 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 School's contribution for HIS Plan totaled \$1,683,813 for fiscal year ended June 30, 2016.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to HIS Pensions. At June 30, 2016, the School reported a net pension liability of \$31,328,356 for its proportionate share of the HIS Plan's net pension liability. The current portion of

**THE FLORIDA VIRTUAL SCHOOL
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016**

the net pension liability is the School's proportionate share of benefit payments expected to be paid within one 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, 2015. The School's proportionate share of the net pension liability was based on the School's 2014-15 fiscal year contributions relative to the total 2014-15 fiscal year contributions of all participating members. At June 30, 2015, the School's proportionate share was .307188119% for HIS, compared to .313815997% measured as of June 30, 2014.

For fiscal year ended June 30, 2016, the School recognized pension expense of \$1,980,661 related to the HIS Plan. In addition, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | | Deferred Inflows of Resources | |
|---|--------------------------------|---------------------|-------------------------------|---------------------|
| | Gov't Activities | Bus-type Activities | Gov't Activities | Bus-type Activities |
| Changes in assumptions or other inputs | \$ 2,341,488 | \$ 123,236 | \$ - | \$ - |
| Net difference between projected and actual earnings on pension plan investments | 16,111 | 848 | - | - |
| Changes in proportion and differences between district contributions and proportionate share of contributions | - | - | 1,824,110 | 96,006 |
| District contributions subsequent to the measurement date, 6/30/2015 | 1,599,622 | 84,191 | - | - |
| Total | \$ 3,957,221 | \$ 208,275 | \$ 1,824,110 | \$ 96,006 |

The deferred outflows of resources related to pensions, totaling \$1,683,813 (1,599,622 + 84,191), resulting from School 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 ended 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:

| Fiscal Year Ending June 30 | Amount |
|----------------------------|---------------------|
| 2017 | \$ 429,226 |
| 2018 | 429,226 |
| 2019 | 429,226 |
| 2020 | 425,779 |
| 2021 | 424,125 |
| Thereafter | 344,099 |
| Totals | \$ 2,481,681 |

**THE FLORIDA VIRTUAL SCHOOL
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016**

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 HIS Plan has a valuation performed biennially that is updated for GASB reporting in the year a valuation is not performed. The most recent experience study was completed in 2015 for the period July 1, 2008, through June 30, 2013. Because the HIS Plan is 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 School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the School's proportionate share of the net pension liability calculated using the discount rate of 3.80 percent, as well as what the School's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percent lower (2.80 percent) or 1 percent higher (4.80 percent) than the current rate:

| | HIS Net Pension Liability (Asset) | | |
|--|-----------------------------------|-------------------|------------------|
| | 1% Decrease | Current | 1% Increase |
| | 2.80% | 3.80% | 4.80% |
| NPL per HIS, June 30, 2015 | \$ 11,620,632,800 | \$ 10,198,426,975 | \$ 9,012,520,805 |
| FLVS proportionate @measurement date, date, June 30, 2015 | 0.307188119% | 0.307188119% | 0.307188119% |
| FLVS proportionate share of NPL | \$ 35,697,203 | \$ 31,328,356 | \$ 27,685,393 |

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. The School reported no payables for the outstanding amount of contributions to the HIS Plan required for the fiscal year ended June 30, 2016.

Defined Contribution Pension Plan

The School 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. Service retirement benefits are based upon the value of the member's account upon retirement.

**THE FLORIDA VIRTUAL SCHOOL
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016**

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. School 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 Class, Elected County Officers, etc.), as the FRS defined benefit plan. Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Allocations to the investment members accounts during the 2015-16 fiscal year were as follows:

| <u>Class</u> | <u>Percent of Gross Compensation</u> |
|--------------------------------|--|
| FRS, Regular | 6.30 |
| FRS, Senior Management Service | 7.67 |

For all membership classes, employees are immediately vested in their own contributions and are vested after one year of service for employer contributions and investment earnings. 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. Non-vested employer contributions are placed in a suspense account for up to five years. If the employee returns to FRS-covered employment within the five year period, the employee will regain control over their account. If the employee does not return within the five 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 School.

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 School's Investment Plan pension expense totaled \$2,263,080 and there were 624 School participates for the fiscal year ended June 30, 2016.

12. RISK MANAGEMENT PROGRAMS

The School is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Florida Virtual School is a member of the North East Florida Educational Consortium (NEFEC) under which several district school boards have established a combined limited self-insurance program for property protection, general liability, automobile liability, workers' compensation, and other coverage deemed necessary by the

**THE FLORIDA VIRTUAL SCHOOL
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016**

members of the Consortium. However, workers' compensation for employees who reside in states other than Florida is provided through fully insured plans that are not part of NEFEC. Arthur Gallagher Risk Management Services handles the School's multi-state worker's compensation policy for all states in which we have employees that allow such a policy. Section 1001.42(10)(k), Florida Statutes, provides the authority for the School to enter in such a risk management program. The Consortium is self-sustaining through member assessments (premiums), and purchases coverage through commercial companies for claims in excess of specified amounts. Reinsurance from commercial companies provided excess property coverage of up to \$50 million during the 2015-16 fiscal year. The Board of Directors of the Consortium is composed of superintendents of all participating districts and schools. The Putnam County District School Board serves as fiscal agent for the Consortium. The School has not reduced insurance coverage for the past two years. Settled claims have not exceeded insurance coverage for the past three years.

The School provides group health, life and disability insurance to benefited employees. There are three different health plans offered. All are PPO (Preferred Organization) plans, with one plan offering a lower-premium higher-deductible option coupled with an employer-funded HRA contribution. Under these plans, the Board contributes to a portion of the premiums as part of the "fringe benefits" offered to employees. These plans offer four participant tiers to include employee-only, employee plus spouse, employee plus child(ren), and full family coverage. The three plans are administered by Blue Cross Blue Shield of Florida. The School reported an estimated unpaid claims liability of \$1,238,985.

13. OTHER POSTEMPLOYMENT BENEFITS

Plan Description. Pursuant to the provision of the Section 112.0801, Florida Statutes, former employees who retire from the School, and eligible dependents, may continue to participate in the School's health and hospitalization plan for medical and prescription coverages. The School subsidizes the premium rates paid by the retirees by allowing them to participate in the plan at the blended group premium rates for both active and retired employees. These 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 School on average than those of active employees. Retirees are required to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible. The rates by retirees eligible for Medicare are reduced by the Medicare premium. Separate stand-alone financial statements for the plan are not prepared.

Funding Policy. The School funds the postemployment benefit on a pay-as-you-go basis. For fiscal year 2015-16, 14 retirees received health care benefits. The School provided required contributions estimated at (\$597) toward the annual Other Post Employment Benefits ("OPEB") cost, comprised of benefit payments made on behalf of retirees net of retiree contributions.

Annual OPEB Cost and Net OPEB Obligations. The following table shows the School's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the School's net OPEB obligation:

**THE FLORIDA VIRTUAL SCHOOL
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016**

| Description | Amount |
|--|--------------|
| Normal Cost (service cost for one year) | \$ 824,384 |
| Amortization of Unfunded Actuarial Accrued Liability | 550,093 |
| Interest on Normal Cost and Amortization | - |
| Annual Required Contribution (ARC) | 1,374,477 |
| Interest on Net OPEB Obligation (NOO) | 331,838 |
| Adjustment to Annual Required Contribution | (345,665) |
| Annual OPEB Cost (Expense) | 1,360,650 |
| Estimated Contribution Toward the OPEB Cost | 597 |
| Increase in Net OPEB Obligation | 1,361,247 |
| Net OPEB Obligation, Beginning of Year | 8,295,959 |
| Net OPEB Obligation, End of Year | \$ 9,657,206 |

The School's annual OPEB Cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, was as follows:

| Year Ended | Annual OPEB Cost | Amount Contributed | Annual OPEB Cost Contributed | Net OPEB Obligation |
|---------------|---------------------|-----------------------|---------------------------------|------------------------|
| June 30, 2014 | \$ 1,719,780 | \$ (51,021) | -2.97% | \$ 7,099,161 |
| June 30, 2015 | \$ 1,302,980 | \$ 106,182 | 8.15% | \$ 8,295,959 |
| June 30, 2016 | \$ 1,360,650 | \$ (597) | -0.04% | \$ 9,657,206 |

Funded Status and Funding Progress. As of June 30, 2015, the most recent valuation date, the actuarial accrued liability for benefits was \$12,447,964, and the actuarial value of assets was \$0, resulting in an unfunded actuarial liability of \$12,447,964 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$91,872,334 for the 2014-2015 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 13.55 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and termination, mortality, and the healthcare cost trends. 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 is presented as required supplementary information following the notes to the financial statements.

**THE FLORIDA VIRTUAL SCHOOL
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2016**

Actuarial Methods and Assumptions. Projection of benefits for financial reporting purposes are based on the substantive plan provisions, as understood by the employer and participating members, and include the type of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and the participating members. The actuarial methods and assumptions used include techniques that are designed to reduce the effect of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on a closed basis.

The School's OPEB actuarial valuation as of June 30, 2016, used the Entry Age actuarial method with amortization on a level percentage basis, to estimate the unfunded and funded actuarial liability as of June 30, 2016 and to estimate the School's 2015-2016 fiscal year ARC. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent discount rate, compounded annually. The actuarial assumptions also included a payroll growth rate of 4 percent per year, and projected salary increases of 4.0% through 7.80%. The unfunded actuarial accrued liability is being amortized as a level percentage of expected payroll on a closed basis. The remaining amortization period at June 30, 2016, is 23 years.

14. LITIGATION

From time to time, the School may be involved in litigation. Currently, the School is not aware of any pending or threatened legal actions that would have a material effect on the financial statements.

Required Supplementary Information

Annual Financial Report 2016



FLORIDA VIRTUAL
SCHOOL

**The Florida Virtual School
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Fiscal Year Ended June 30, 2016**

| | General Fund | | | Variance Positive / (Negative) |
|--|----------------------|----------------------|----------------------|--------------------------------------|
| | Budgeted Amounts | | Actual Amounts | |
| | Original | Final | | |
| REVENUES | | | | |
| State Sources: | | | | |
| Florida Education Finance Program | \$ 159,914,653 | \$ 164,496,780 | \$ 166,652,887 | \$ 2,156,107 |
| Reading Program | 1,378,549 | 1,414,147 | 1,431,614 | 17,467 |
| School Recognition Program | 330,715 | 1,969,889 | 157,635 | (1,812,254) |
| Other State Sources | - | - | 1,631,168 | 1,631,168 |
| Total State Sources | 161,623,917 | 167,880,816 | 169,873,304 | 1,992,488 |
| Local Sources: | | | | |
| Other Local Sources | 15,419,318 | 12,572,971 | 13,155,150 | 582,179 |
| Total Local Sources | 15,419,318 | 12,572,971 | 13,155,150 | 582,179 |
| Total Revenues | 177,043,235 | 180,453,787 | 183,028,454 | 2,574,667 |
| EXPENDITURES | | | | |
| Current: | | | | |
| Instruction | 130,992,408 | 138,465,234 | 132,027,679 | 6,437,555 |
| Pupil Personnel Services | 4,033,429 | 4,748,977 | 4,216,097 | 532,880 |
| Instruction and Curriculum Development Services | 614,523 | 3,909,212 | 557,266 | 3,351,946 |
| Instructional Staff Training Services | 2,874,861 | 4,004,329 | 2,608,481 | 1,395,848 |
| Instruction Related Technology | 8,733,857 | 8,640,408 | 7,317,450 | 1,322,958 |
| School Board | 1,085,010 | 1,756,874 | 1,047,885 | 708,989 |
| General Administration | 2,756,287 | 3,069,058 | 2,576,677 | 492,381 |
| School Administration | 5,794,081 | 6,408,609 | 5,943,088 | 465,521 |
| Fiscal Services | 2,090,174 | 2,166,193 | 2,166,193 | - |
| Central Services | 10,331,301 | 11,162,296 | 9,742,408 | 1,419,888 |
| Operation of Plant | 1,643,345 | 2,129,394 | 1,896,112 | 233,282 |
| Administrative Technology Services | 6,795,950 | 9,060,655 | 5,883,138 | 3,177,517 |
| Capital Outlay: | | | | |
| Other Capital Outlay | | 1,283,638 | 1,283,638 | - |
| Total Expenditures | 177,745,226 | 196,804,877 | 177,266,112 | 19,538,765 |
| Excess (Deficiency) of Revenues Over Expenditures | (701,991) | (16,351,090) | 5,762,342 | 22,113,432 |
| OTHER FINANCIAL SOURCES (USES) | | | | |
| Transfers In | - | 1,768,680 | 1,768,680 | - |
| Total Other Financial Sources (Uses) | - | 1,768,680 | 1,768,680 | - |
| Net Change in Fund Balance | (701,991) | (14,582,410) | 7,531,022 | 22,113,432 |
| Fund Balance, July 1, 2015 | 30,568,114 | 43,106,111 | 43,106,111 | - |
| Fund Balance, June 30, 2016 | \$ 29,866,123 | \$ 28,523,701 | \$ 50,637,133 | \$ 22,113,432 |

**The Florida Virtual School
Required Supplementary Information
Schedule of Funding Progress
Other Post Employment Benefits Plan
For the Fiscal Year Ended June 30, 2016**

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) Projected Unit Credit (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll [(b-a)/c] |
|--------------------------------|--|---|------------------------------------|--------------------------|-----------------------------|---|
| June 30, 2014 | \$ - | \$ 14,010,519 | \$ 14,010,519 | 0.00% | \$ 87,176,211 | 16.07% |
| June 30, 2015 | \$ - | \$ 12,447,964 | \$ 12,447,964 | 0.00% | \$ 91,872,334 | 13.55% |
| June 30, 2016 | \$ - | \$ 12,447,964 | \$ 12,447,964 | 0.00% | \$ 91,872,334 | 13.55% |

**The Florida Virtual School
Required Supplementary Information
Schedule of Proportionate Share of Net Pension Liability
Florida Retirement System**

| | 2015 | | 2014 |
|---|----------------|----|--------------|
| Florida Virtual School's proportion of the net pension liability (asset) | 0.201089408% | | 0.203303739% |
| Florida Virtual School's proportionate share of the net pension liability (asset) | \$ 25,973,394 | \$ | 12,404,518 |
| Florida Virtual School's covered-employee payroll | \$ 101,434,489 | \$ | 91,872,334 |
| Florida Virtual School's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 25.61% | | 13.50% |
| Plan fiduciary net position as a percentage of the total pension liability | 92.00% | | 96.09% |

Note: Two years of data available for GASB 68 compliance which was adopted June 30, 2015.

**The Florida Virtual School
Required Supplementary Information
Schedule of Contributions
Florida Retirement System**

| | 2016 | 2015 |
|--|----------------|----------------|
| Contractually required contribution | \$ 4,906,293 | \$ 4,902,731 |
| Contributions in relation to the contractually required contribution | \$ (4,906,293) | \$ (4,902,731) |
| Contribution deficiency (excess) | \$ - | \$ - |
| Florida Virtual School's covered-employee payroll | \$ 101,434,489 | \$ 91,872,334 |
| Contributions as a percentage of covered-employee payroll | 4.84% | 5.34% |

Note: Two years of data available for GASB 68 compliance which was adopted June 30, 2015.

**The Florida Virtual School
 Required Supplementary Information
 Schedule of Proportionate Share of Net Pension Liability
 Health Insurance Subsidy Program**

| | <u>2015</u> | | <u>2014</u> |
|---|----------------|----|--------------|
| Florida Virtual School's proportion of the net pension liability (asset) | 0.307188119% | | 0.313815997% |
| Florida Virtual School's proportionate share of the net pension liability (asset) | \$ 31,328,356 | \$ | 29,342,561 |
| Florida Virtual School's covered-employee payroll | \$ 101,434,489 | \$ | 91,872,334 |
| Florida Virtual School's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 30.89% | | 31.94% |
| Plan fiduciary net position as a percentage of the total pension liability | 0.50% | | 0.99% |

Note: Two years of data available for GASB 68 compliance which was adopted June 30, 2015.

**The Florida Virtual School
Required Supplementary Information
Schedule of Contributions
Health Insurance Subsidy Program**

| | 2016 | 2015 |
|--|----------------|----------------|
| Contractually required contribution | \$ 1,683,813 | \$ 1,174,264 |
| Contributions in relation to the contractually required contribution | \$ (1,683,813) | \$ (1,174,264) |
| Contribution deficiency (excess) | \$ - | \$ - |
| Florida Virtual School's covered-employee payroll | \$ 101,434,489 | \$ 91,872,334 |
| Contributions as a percentage of covered-employee payroll | 1.66% | 1.28% |

Note: Two years of data available for GASB 68 compliance which was adopted June 30, 2015.

THE FLORIDA VIRTUAL SCHOOL
Required Supplementary Information
Notes to the Pension Plans Schedules
Year Ended June 30, 2016

Note 1. Factors That Affect Trend

Actuarial assumptions for both defined benefit plans are reviewed annually by the Florida Retirement System Actuarial Assumptions Conference. The FRS Pension Plan has a valuation performed annually. The HIS Program has a valuation performed biennially that is updated for GASB reporting in the year a valuation is not performed. The most recent experience study for the FRS Pension Plan was completed in 2015 for the period July 1, 2008, through June 30, 2013. Because the HIS Program is funded on a pay-as-you-go basis, no experience study has been completed for this program.

The following changes in actuarial assumptions occurred in 2015:

- FRS: As of June 30, 2015, the inflation rate assumption was 2.60%, the overall payroll growth rate assumption was 3.25%, and the long-term expected rate of return was 7.65%.
- HIS: The municipal bond rate used to determine total pension liability was decreased from 4.29% to 3.80%.

Other Reports

Annual Financial Report 2016



FLORIDA VIRTUAL
SCHOOL

THE FLORIDA VIRTUAL SCHOOL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2016

| Federal Pass-Through Entity Federal Program | CFDA Number | Contract/ Grant Number | Contract Period | Expenditures | Amount Provided to Sub-Recipients |
|---|----------------|------------------------------|---------------------|---------------------|---|
| Federal Awards | | | | | |
| U.S. Department of Education | | | | | |
| Indirect: | | | | | |
| Passed through the State of Florida Department of Education | | | | | |
| Carl D. Perkins Career & Technical Education | 84.048A | 48C-1616A-6CV01 | 07/01/15 - 06/30/16 | \$ 25,000 | \$ - |
| Title I - Part A, Education of Disadvantaged Children & Youth | 84.010A | 48C-2126B-6CB01 | 07/01/15 - 06/30/16 | 904,736 | 666,053 |
| Title II - Teacher and Principal Training and Recruiting Fund | 84.367A | 48C-2246B-6CT01 | 07/01/15 - 06/30/16 | 37,139 | 21,243 |
| IDEA - Part B K-12 | 84.027A | 48C-2636B-6CB01 | 07/01/15 - 06/30/16 | 732,374 | 471,373 |
| Total Federal Awards | | | | <u>\$ 1,699,249</u> | <u>\$ 1,158,669</u> |

See Accompanying Notes to Schedule

THE FLORIDA VIRTUAL SCHOOL
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

NOTE 1. General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards of the Florida Virtual School. The School reporting entity is defined in Note 1 to the School's Basic Financial Statements for the year ended June 30, 2016. All federal awards passed through to other government agencies are included in the schedule.

NOTE 2. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note 1 to the School's Basic Financial Statements for the year ended June 30, 2016.

THE FLORIDA VIRTUAL SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2016

Section I - Summary of Independent Auditor's Results

Financial Statements

Type of Auditor's Report Issued:

Unmodified Opinion

Internal control over financial reporting:

- Material weakness(es) identified? ___ Yes X No
- Significant deficiency(ies) identified? ___ Yes X None reported

Noncompliance material to financial statements noted? ___ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ___ Yes X No
- Significant deficiency(ies)? ___ Yes X None reported

Type of report issued on compliance for major federal program:

Unmodified Opinion

Any audit findings disclosed that are required to be reported in accordance with Section 200.516 of the Uniform Guidance? ___ Yes X No

Identification of Major Program:

CFDA Number

Name of Federal Program or Cluster

84.010A

Title I - Grants to Local Educational Agencies

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee? X Yes ___ No

THE FLORIDA VIRTUAL SCHOOL

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (*Continued*)

For the Year Ended June 30, 2016

Section II - Findings Related to the Financial Statement Audit, as required to be reported in accordance with *Government Auditing Standards*.

No matters are reported.

Section III - Federal Award Findings and Questioned Costs Section reported in accordance with the Uniform Guidance.

No matters are reported.



MOORE STEPHENS
LOVELACE, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

**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**

Chairman and Members of
The Florida Virtual School
Orlando, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of The Florida Virtual School (the “School”) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School’s basic financial statements and have issued our report thereon dated January 25, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School’s internal control. Accordingly, we do not express an opinion on the effectiveness of the School’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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’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 over financial reporting 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.

Chairman and Members of
The Florida Virtual School

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, 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*.

Pursuant to provisions of Chapter 10.800, *Rules of the Auditor General*, we reported certain matters to management of the School in a separate management letter and Independent Accountant's Report dated January 25, 2017.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Moore Stephens Lovelace, P.A." The signature is written in a cursive, flowing style.

MOORE STEPHENS LOVELACE, P.A.
Certified Public Accountants

Orlando, Florida
January 25, 2017



MOORE STEPHENS
LOVELACE, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE AND REPORT ON THE SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE**

Chairman and Members of
The Florida Virtual School
Orlando, Florida

Report on Compliance for Each Major Federal Program

We have audited the compliance of The Florida Virtual School (the "School") with the types of compliance requirements described in the U.S. Office of Management and Budget *OMB Compliance Supplement* that could have a direct and material effect on the School's major federal program for the fiscal year ended June 30, 2016. The School's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the School's major federal program 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 School'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 its major federal program. However, our audit does not provide a legal determination of the School's compliance.

Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

Management of the School 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 School's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 School'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 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.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the School as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School's basic financial statements. We issued our report thereon dated January 25, 2017, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis, as required by the Uniform Guidance, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements.

Chairman and Members of
The Florida Virtual School

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance (Cont.)

The 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in blue ink that reads "Moore Stephens Lovelace, P.A." The signature is written in a cursive, flowing style.

MOORE STEPHENS LOVELACE, P.A.
Certified Public Accountants

Orlando, Florida
January 25, 2017



MOORE STEPHENS
LOVELACE, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S MANAGEMENT LETTER

Chairman and Members of
The Florida Virtual School
Orlando, Florida

Report on Financial Statements

We have audited the financial statements of The Florida Virtual School (the "School") as of and for the year ended June 30, 2016, and have issued our report thereon dated January 25, 2017.

Auditor's Responsibility

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; 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"); and Chapter 10.850, *Rules of the Auditor General*.

Other Reports and Schedule

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance, and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated January 25, 2017, should be considered in conjunction with this management letter.

Prior Audit Findings

Section 10.854(1)(e)1., *Rules of the Auditor General*, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial report. In conjunction with our audit, we determined that no findings were reported in the preceding annual financial report.

Official Title

Section 10.854(1)(e)5., *Rules of the Auditor General*, requires the name or official title of the entity. The official title of the entity is The Florida Virtual School.

Financial Condition

Section 10.854(1)(e)2., *Rules of the Auditor General*, requires that we report the results of our determination as to whether or not the School has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of specific condition(s) met. In connection with our audit, we determined that the School did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Pursuant to Sections 10.854(1)(e)6a. and 10.855(12), *Rules of the Auditor General*, we applied financial condition assessment procedures for the School. It is management's responsibility to monitor the School's financial condition, and our financial condition assessment was based, in part, on representations made by management and the review of financial information provided by the same. The assessment was prepared as of fiscal year end.

Transparency

Section 10.854(1)(e)7., *Rules of the Auditor General*, requires the auditor to report the results of our determination as to whether the School maintains on its website the information specified in Section 1002.33(9)(p), Florida Statutes. In connection with our audit, we determined that the School maintained on its website the information specified in Section 1002.33(9)(p), Florida Statutes.

Other Matters

Section 10.854(1)(e)3., *Rules of the Auditor General*, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.

Section 10.854(1)(e)4., *Rules of the Auditor General*, requires that we address noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In conjunction with our audit, we did not have any such findings.

Purpose of this Letter

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, federal and other granting agencies, the Board of Trustees, and applicable management and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in blue ink that reads "Moore Stephens Lovelace, P.A." The signature is written in a cursive style.

MOORE STEPHENS LOVELACE, P.A.
Certified Public Accountants

Orlando, Florida
January 25, 2017



MOORE STEPHENS
LOVELACE, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT ACCOUNTANT'S REPORT

Chairman and Members of
The Florida Virtual School
Orlando, Florida

We have examined The Florida Virtual School's (the "School") compliance with the requirements of Section 218.415, Florida Statutes, during the fiscal year ended June 30, 2016. Management is responsible for the School's compliance with those requirements. Our responsibility is to express an opinion on the School's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the School's compliance with specified requirements.

In our opinion, the School complied, in all material respects, with the aforementioned requirements for the fiscal year ended June 30, 2016.

Moore Stephens Lovelace, P.A.

MOORE STEPHENS LOVELACE, P.A.

Certified Public Accountants

Orlando, Florida
January 25, 2017