

Annual Financial Report

For the Fiscal Year Ended

June 30, 2014



Florida
VirtualSchool

THE FLORIDA VIRTUAL SCHOOL

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INDEPENDENT AUDITOR'S REPORT

Chairman and Members of
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 Florida Virtual School, Florida (the "School"), as of and for the fiscal year ended June 30, 2014, 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.

Opinions

In our opinion, the financial statements referred to above 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, 2014, 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.

INDEPENDENT AUDITOR'S REPORT
(Concluded)

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 and Schedule of Funding Progress – Other Postemployment Benefits Plan, 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 December 15, 2014, 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
December 15, 2014

**THE FLORIDA VIRTUAL SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2014**

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, 2014.

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

When compared to the prior fiscal year, General Fund revenues decreased by \$32,549,559. This decrease in revenue was due to a decrease of approximately 9% in student credits in the School's part-time instructional program, along with a per credit funding reduction due to the new Florida Education Funding Program (FEFP) funding model implemented by legislative action in the 2013 legislative session. Under this new model, a student FTE (full-time equivalent) for funding is determined on a state-wide basis and not on a district by district basis. Each district and/or the Florida Virtual School will "share" one FTE for each student based upon a proportionate sharing formula. Previously, districts received the full allotment for each student regardless of the number of online courses taken and the Florida Virtual School received an additional per credit allotment that equaled one-sixth of the FEFP FTE funding. Under the new funding model, if a student takes one course online with Florida Virtual School and takes six courses with their local school district, the Florida Virtual School receives one-seventh of an FTE per student credit and the district receives six-seventh of an FTE for six course credits.

However, the negative effects of this funding formula change were anticipated and budget reduction plans to offset the anticipated revenue reduction were implemented for the 2013-14 budget.

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.

**THE FLORIDA VIRTUAL SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2014**

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. An increase or decrease in net position is an indication of whether the School's financial health is improving or deteriorating.

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 FLORIDA VIRTUAL SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2014**

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, and self-insurance.

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, 2013 and June 30, 2014:

	Net Position, End of Year					
	Governmental		Business-Type		Total	
	Activities		Activities			
	6-30-14	6-30-13	6-30-14	6-30-13	6-30-14	6-30-13
Current Assets	\$ 72,024,708	\$ 66,843,070	\$ 9,470,135	\$ 8,900,936	\$ 81,494,843	\$ 75,744,006
Capital Assets	6,588,404	8,203,751	418,579	-	7,006,983	8,203,751
Total Assets	78,613,112	75,046,821	9,888,714	8,900,936	88,501,826	83,947,757
Other Liabilities	25,090,855	23,379,294	960,948	3,060,975	26,051,803	26,440,269
Long-Term Liabilities	18,096,566	12,127,879	564,022	302,422	18,660,588	12,430,301
Total Liabilities	43,187,421	35,507,173	1,524,970	3,363,397	44,712,391	38,870,570
Net Position:						
Invested in Capital Assets	6,588,404	8,203,751	418,579	-	7,006,983	8,203,751
Restricted for State Categoricals	4,054,914	4,176,429	-	-	4,054,914	4,176,429
Unrestricted	24,782,373	27,159,468	7,945,165	5,537,539	32,727,538	32,697,007
Total Net Position	\$ 35,425,691	\$ 39,539,648	\$ 8,363,744	\$ 5,537,539	\$ 43,789,435	\$ 45,077,187

As noted earlier, net position may serve as a useful indicator of a government's financial position. In the case of the School's governmental activities, assets exceed liabilities by \$35,425,691 at the end of the fiscal year. The unrestricted net position may be used to meet the School's ongoing obligations to the students, employees, and creditors. The net position for governmental activities was reduced by \$4,113,957 for the fiscal year due to the General Fund balance reduction and due to liability increases for compensated absences and other post-employment benefits. This reduction was substantially offset by an increase in net position of \$2,826,205 for the business-type activities from the net income achieved through those operations.

**THE FLORIDA VIRTUAL SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2014**

The overall net position of the School decreased by \$1,287,752 from the prior fiscal year for a June 30, 2014 total of \$43,789,435. However, the unrestricted portion of the net position increased slightly by \$30,531 between years (\$32,727,538 - \$32,697,007). This is due to an increase in the net position not restricted for certain purposes (such as state categorical funding).

The following is a summary of the School's changes in net position for the fiscal years ended June 30, 2013 and June 30, 2014, as follows:

	Governmental Activities		Business-Type Activities		Total	
	6-30-14	6-30-13	6-30-14	6-30-13	6-30-14	6-30-13
Program Revenues:						
Charges for Services	\$ 8,505,291	\$ 720,282	\$ 16,572,075	\$ 8,737,070	\$ 25,077,366	\$ 9,457,352
General Revenues:						
Grants and Contributions Not Restricted to Specific Programs	158,036,700	199,371,724			158,036,700	199,371,724
Investment Earnings	68,851	66,710	4,619	3,378	73,470	70,088
Miscellaneous	4,466,019	2,976,512	281,256	1,006,759	4,747,275	3,983,271
Total Revenues	171,076,861	203,135,228	16,857,950	9,747,207	187,934,811	212,882,435
Functions/Program Expenses:						
Instruction	126,165,630	131,462,968			126,165,630	131,462,968
Pupil Personnel Services	3,974,790	4,425,670			3,974,790	4,425,670
Instruction and Curriculum Development Svcs	1,406,380	2,578,372			1,406,380	2,578,372
Instructional Staff Training Services	4,094,236	3,991,391			4,094,236	3,991,391
Instructional Related Technology	8,486,492	10,434,875			8,486,492	10,434,875
Board	657,094	860,039			657,094	860,039
General Administration	3,011,734	2,521,965			3,011,734	2,521,965
School Administration	4,089,357	5,399,891			4,089,357	5,399,891
Fiscal Services	1,844,339	1,809,036			1,844,339	1,809,036
Central Services	10,377,745	8,780,057			10,377,745	8,780,057
Operation of Plant	2,114,027	2,218,100			2,114,027	2,218,100
Administrative Technology Services	8,968,994	9,043,063			8,968,994	9,043,063
Community Services	-	-			-	-
Unallocated Depreciation Expense	-	-			-	-
Loss on Disposal of Asset	-	-			-	-
FLVS Global/Franchises Expenses	-	-	14,031,745	10,355,555	14,031,745	10,355,555
Total Functions/Program Expenses	175,190,818	183,525,427	14,031,745	10,355,555	189,222,563	193,880,982
Changes in Net Position	(4,113,957)	19,609,801	2,826,205	(608,348)	(1,287,752)	19,001,453
Net Position - Beginning	39,539,648	20,409,317	5,537,539	5,666,417	45,077,187	26,075,734
Adj to Beginning Net Position	-	(479,470)	-	479,470	-	-
Net Position - Ending	\$ 35,425,691	\$ 39,539,648	\$ 8,363,744	\$ 5,537,539	\$ 43,789,435	\$ 45,077,187

The largest revenue source is the State of Florida (84 percent). Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula. Included in the FEFP funds is revenue the School receives for both part-time and full-time programs. The

**THE FLORIDA VIRTUAL SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2014**

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 \$27,690,238. The total unassigned fund balance represents 16 percent of total General Fund revenues, which is down over last year's unassigned fund balance of \$30,534,803 or 15 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 less than the adjusted budgeted revenues by \$15,270,036 due to a mid-year reduction in the Department of Education estimate of the funding to be received by the School due to the new FEFP funding model. However, actual General Fund expenditures were also less than the adjusted budgeted appropriations by \$23,216,559 due to several unfilled job opportunities as well as various other budgetary accounts that were not fully expended.

CAPITAL ASSET ADMINISTRATION

Capital Assets

The School's investment in capital assets as of June 30, 2014, amounts to \$7,006,983 (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 \$1,196,768.

FUTURE ECONOMIC FACTORS

As described in the financial highlights section on page 3, for the 2013-14 fiscal year, the School experienced a decrease of approximately 9% in student credits in the School's part-time instructional program, along with a per credit funding reduction due to the new Florida Education Funding Program (FEFP) funding model implemented by legislative action in the 2013 legislative session. For the 2014-15 fiscal year, it appears that the enrollments are beginning to stabilize as indicated by only a 4% reduction in student credits expected for the 2014-15 fiscal year. Additionally, the School is anticipating increases in revenues for all its other major programs: the School's full-time k-12 program (13% FTE growth), global school and global services (15% revenue growth) and the franchises (43% revenue growth).

**THE FLORIDA VIRTUAL SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2014**

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 200, Orlando, Florida, 32835, 407-513-3320, jpavelchak@flvs.net.

Basic Financial Statements

Annual Financial Report 2014



The Florida Virtual School
Statement of Net Position
June 30, 2014

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash	\$ 48,825,238	\$ 6,511,189	\$ 55,336,427
Investments	18,057,457	-	18,057,457
Accounts Receivable, net	4,046,773	3,008,845	7,055,618
Due from Other Funds	49,899	(49,899)	-
Due from Other Agencies	417,125	-	417,125
Prepaid Expenses	628,216	-	628,216
Capital Assets:			
Depreciable, net	6,588,404	418,579	7,006,983
Total Assets	78,613,112	9,888,714	88,501,826
LIABILITIES			
Wages and Benefits Payable	7,365,665	287,804	7,653,469
Accounts Payable	13,059,197	552,328	13,611,525
Due to Other Agencies	4,665,993	-	4,665,993
Unearned Revenue	-	120,816	120,816
Long-Term Liabilities:			
Portion Due and Payable Within One Year:			
Liability for Compensated Absences	1,696,034	67,770	1,763,804
Estimated Insurance Claims Payable	986,842	-	986,842
Portion Due and Payable After One Year:			
Liability for Compensated Absences	8,314,529	496,252	8,810,781
Liability for Other Post Employment Benefits	7,099,161	-	7,099,161
Total Liabilities	43,187,421	1,524,970	44,712,391
NET POSITION			
Investment in Capital Assets	6,588,404	418,579	7,006,983
Restricted for State Categoricals	4,054,914	-	4,054,914
Unrestricted	24,782,373	7,945,165	32,727,538
Total Net Position	\$ 35,425,691	\$ 8,363,744	\$ 43,789,435

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, 2014

FUNCTIONS/ PROGRAMS	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Governmental Activities:							
Instruction	\$ 126,165,630	\$	\$	\$	(126,165,630)	\$	(126,165,630)
Pupil Personnel Services	3,974,790				(3,974,790)		(3,974,790)
Instruction and Curriculum Development Services	1,406,380	8,505,291			7,098,911		7,098,911
Instructional Staff Training Services	4,094,236				(4,094,236)		(4,094,236)
Instructional Related Technology	8,486,492				(8,486,492)		(8,486,492)
Board	657,094				(657,094)		(657,094)
General Administration	3,011,734				(3,011,734)		(3,011,734)
School Administration	4,089,357				(4,089,357)		(4,089,357)
Fiscal Services	1,844,339				(1,844,339)		(1,844,339)
Central Services	10,377,745				(10,377,745)		(10,377,745)
Operation of Plant	2,114,027				(2,114,027)		(2,114,027)
Administrative Technology Services	8,968,994				(8,968,994)		(8,968,994)
Total Governmental Activities	175,190,818	8,505,291			(166,685,527)		(166,685,527)
Business-type Activities:							
FLVS Global & Franchises	14,031,745	16,572,075				2,540,330	2,540,330
Total Primary Government	\$ 189,222,563	\$ 25,077,366	\$	\$	\$ (166,685,527)	\$ 2,540,330	\$ (164,145,197)
General Revenues:							
Grants and Contributions not Restricted to Specific Programs					158,036,700		158,036,700
Unrestricted Investment Earnings					68,851	4,619	73,470
Miscellaneous					4,466,019	281,256	4,747,275
Total General Revenues					162,571,570	285,875	162,857,445
Change in Net Position					(4,113,957)	2,826,205	(1,287,752)
Net Position - July 1, 2013					39,539,648	5,537,539	45,077,187
Net Position - June 30, 2014					\$ 35,425,691	\$ 8,363,744	\$ 43,789,435

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, 2014**

	General Fund	Special Revenue Fund	Total Governmental Funds
ASSETS			
Cash	\$ 37,267,226	\$ -	\$ 37,267,226
Investments	18,057,457	-	18,057,457
Accounts Receivable, net	2,539,916	-	2,539,916
Due from Other Funds	442,988	-	442,988
Prepaid Expense	628,216	-	628,216
Due from Other Agencies	-	417,125	417,125
Total Assets	\$ 58,935,803	\$ 417,125	\$ 59,352,928
LIABILITIES AND FUND BALANCE			
Liabilities:			
Salaries, Benefits, and Payroll Taxes Payable	\$ 7,353,118	\$ 12,547	\$ 7,365,665
Accounts Payable	10,155,600	393,386	10,548,986
Due to Other Funds	-	11,192	11,192
Due to Other Agencies	4,665,993	-	4,665,993
Total Liabilities	22,174,711	417,125	22,591,836
Fund Balances:			
Non-spendable:			
Spendable:			
Restricted for State Categoricals	4,054,914	-	4,054,914
Assigned for Encumbrances	5,015,940	-	5,015,940
Unassigned	27,690,238	-	27,690,238
Total Fund Balance	36,761,092	-	36,761,092
Total Liabilities and Fund Balance	\$ 58,935,803	\$ 417,125	\$ 59,352,928

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, 2014**

Total Fund Balances - Governmental Funds	\$ 36,761,092
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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.	6,588,404
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Compensated Absences are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(10,010,563)
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Other Post Employment Benefits are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(7,099,161)
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Internal service funds are used by management to charge the costs of its self-insurance program. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.	9,185,919
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Net Position - Governmental Activities	\$ 35,425,691
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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, 2014

	General Fund	Special Revenue Fund	Total Governmental Funds
REVENUES			
Federal Direct Sources:			
Miscellaneous Federal Direct	\$ 266	\$ -	\$ 266
Total Federal Direct Sources	266	-	266
Federal Through State Sources:			
Other Federal Through State Sources	-	1,454,184	1,454,184
Total Federal Through State	-	1,454,184	1,454,184
State Sources:			
Florida Education Finance Program	155,216,125	-	155,216,125
Reading Program	1,366,126	-	1,366,126
Total State Sources	156,582,251	-	156,582,251
Local Sources:			
Other Local Sources	13,033,041	-	13,033,041
Total Local Sources	13,033,041	-	13,033,041
Total Revenues	169,615,558	1,454,184	171,069,742
EXPENDITURES			
Current:			
Instruction	119,116,395	1,279,875	120,396,270
Pupil Personnel Services	3,899,814	1,645	3,901,459
Instruction and Curriculum Development Services	1,530,534	132,606	1,663,140
Instructional Staff Training Services	3,924,901	15,363	3,940,264
Instruction Related Technology	7,863,823	1,463	7,865,286
School Board	649,320	-	649,320
General Administration	3,085,152	17,275	3,102,427
School Administration	3,992,090	629	3,992,719
Fiscal Services	1,835,933	-	1,835,933
Central Services	10,376,727	5,328	10,382,055
Operation of Plant	2,104,552	-	2,104,552
Administrative Technology Services	8,798,552	-	8,798,552
Capital Outlay:			
Other Capital Outlay	3,916,510	-	3,916,510
Total Expenditures	171,094,303	1,454,184	172,548,487
Excess of Revenues Over Expenditures	(1,478,745)	-	(1,478,745)
Net Change in Fund Balance	(1,478,745)	-	(1,478,745)
Fund Balance, July 1, 2013	38,239,837	-	38,239,837
Fund Balance, June 30, 2014	\$ 36,761,092	\$ -	\$ 36,761,092

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, 2014**

Net Change in Fund Balances - Governmental Funds	\$ (1,478,745)
---	-----------------------

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital outlay, \$3,916,511 less than depreciation/amortization expense, (\$5,531,857) in the current period.	(1,615,346)
--	-------------

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.	(767,132)
--	-----------

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.	(1,770,801)
--	-------------

Internal service funds are used by management to charge the cost of certain activities, such as insurance to individual funds. The net revenue of internal service funds is reported with governmental activities plus the depreciation reported above.	<div style="border-top: 1px solid black; border-bottom: 3px double black;">1,518,067</div>
---	--

Change in Net Position - Governmental Activities	<u>\$ (4,113,957)</u>
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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, 2014**

	Business-type Activities FLVS Enterprise Funds	Governmental Activities Internal Service Fund
	¹	
ASSETS		
Cash	\$ 6,511,189	\$ 11,558,012
Accounts Receivable, net	3,008,845	1,506,857
Due from Other Funds	(49,899)	-
Capital Assets:		
Depreciable (net)	418,579	-
Total Assets	9,888,714	13,064,869
LIABILITIES		
Wages and Benefits Payable	287,804	-
Accounts Payable	552,328	2,510,211
Due to Other Funds	-	381,897
Est Unpaid Claims - Self Insurance	-	986,842
Unearned Revenue	120,816	-
Long-term Liabilities:		
Portion Due and Payable Within One Year:		
Liability for Compensated Absences	67,770	-
Portion Due and Payable After One Year:		
Liability for Compensated Absences	496,252	-
Total Liabilities	1,524,970	3,878,950
NET POSITION		
Invested in Capital Assets	418,579	-
Restricted for Encumbrances	-	-
Unrestricted	7,945,165	9,185,919
Total Net Position	\$ 8,363,744	\$ 9,185,919

¹ FLVS enterprise funds include the global services fund, global school fund, franchises 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, 2014**

	Business-type Activities FLVS Enterprise Funds	Governmental Activities Internal Service Fund
	¹	
OPERATING REVENUES		
Charges for Sales or Services	\$ 16,572,075	\$ -
Premium Revenues	-	16,492,794
Miscellaneous Revenues	281,256	-
Total Operating Revenue	16,853,331	16,492,794
OPERATING EXPENSES		
Salaries	4,174,691	-
Employee Benefits	1,114,640	-
Purchased Services	5,837,695	-
Materials and Supplies	113,371	-
Capital Outlay	100	-
Other Expenses	2,751,166	14,981,846
Bad Debt Expense	(93,452)	-
Unallocated Depreciation/Amortization Expense	133,534	-
Total Operating Expenses	14,031,745	14,981,846
Operating Income (Loss)	2,821,586	1,510,948
NONOPERATING REVENUES		
Interest	4,619	7,119
Income (Loss) Before Operating Transfers	2,826,205	1,518,067
Transfers In	3,138,599	-
Transfers Out	3,138,599	-
Change in Net Position	2,826,205	1,518,067
Net Position - July 1, 2013	5,537,539	7,667,852
Net Position - June 30, 2014	\$ 8,363,744	\$ 9,185,919

¹ FLVS enterprise funds include the global services fund, global school fund, franchises 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, 2014**

	Business-type Activities FLVS Enterprise Funds	Governmental Activities Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers and Users	\$ 15,830,633	\$ 16,499,437
Payments to Suppliers of Goods and Services	(10,650,840)	(14,230,916)
Payments to Employees	(4,970,116)	-
Net Cash Provided by Operating Activities	<u>209,677</u>	<u>2,268,521</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of Capital Assets	(552,113)	-
Net Cash Used in Capital and Related Financing Activities	<u>(552,113)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on Investments	4,619	7,119
Net Cash Provided by Investing Activities	<u>4,619</u>	<u>7,119</u>
Net Change in Cash	(337,817)	2,275,640
Cash at Beginning of Year	6,849,006	9,282,372
Cash at End of Year	<u><u>\$ 6,511,189</u></u>	<u><u>\$ 11,558,012</u></u>
Reconciliation of Operating Income to Net Cash Provided by operating activities:		
Operating Income (Loss)	<u>\$ 2,821,586</u>	<u>\$ 1,510,948</u>
Adjustments to Reconcile Operating Income to Net Cash		
Provided by Operating Activities:		
Amortization Expense	133,534	-
Changes in Assets and Liabilities:		
Decrease (Increase) in Accounts Receivable	(956,914)	6,643
Decrease (Increase) in Prepaid Expenses	-	58,642
Increase (Decrease) in Due to Other Funds	(2,238,803)	381,897
Increase (Decrease) in Accounts Payable	196,843	232,582
Increase (Decrease) in Salaries and Benefits Payable	138,271	-
Increase (Decrease) in Compensated Absence Payable	180,944	-
Increase (Decrease) in Unearned Revenue	(65,784)	-
Increase (Decrease) in Est Unpaid Claims	-	77,809
Total adjustments	<u>(2,611,909)</u>	<u>757,573</u>
Net Cash Provided by Operating Activities	<u><u>\$ 209,677</u></u>	<u><u>\$ 2,268,521</u></u>

¹ FLVS enterprise funds include the global services fund, global school fund, franchises 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, 2014**

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 2013-14 fiscal year are shown in the following tabulation:

<u>Board Member</u>	<u>County</u>
Mr. Michael Olenick, Chair	Martin
Lady Dhyana Ziegler, Ph.D	Leon
Ms. Tammie Nemecek	Collier
Mr. Brian Cunningham	Broward
Ms. Linda Pellegrini	Orange
Ms. Dorene McShea	Collier

Ronald Blocker, Interim 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 segment of the business-type activities. Direct expenses are those that are specifically

**THE FLORIDA VIRTUAL SCHOOL
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014**

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.
- 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 earned. Commissions related to the sales are recorded as an expense. Under the modified

**THE FLORIDA VIRTUAL SCHOOL
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014**

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, Franchises and the Development Funds. 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 and the Fund B Surplus Trust Fund investment pools created by Sections 218.405 and 218.417, Florida Statutes. These investment pools operate 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. The School's investment in the Fund B Surplus Trust Fund are accounted for as a fluctuating net asset value pool, with a Fair Value factor of 1.84438408 at June 30, 2014. The dollar value as of June 30, 2014 is \$21,086.

➤ **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.

**THE FLORIDA VIRTUAL SCHOOL
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014**

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

<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 by governmental funds 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.

**THE FLORIDA VIRTUAL SCHOOL
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014**

➤ **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 either a commitment (committed fund balance) or an assignment (assigned fund balance). The Board does not have a policy regarding the commitment or assignment of fund balances. As such, the School does not report any committed or assigned fund balances. However, to ensure that an adequate fund balance is 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.

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 \$87,613 as of June 30, 2014.

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

The School's investment policy provides that an attempt will be made to match investment maturities with known cash needs and anticipated cash flow requirements. The policy limits current short-term fund

**THE FLORIDA VIRTUAL SCHOOL
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014**

investments to a maximum of twelve (12) months, and investments of core funds shall have a term appropriate to the need for monies, but not to exceed two (2) years.

Investments with a fair value of \$18,057,457 at June 30, 2014, are in the State Board of Administration investment pool (Florida PRIME) with a weighted average maturity (WAM) of 40 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. Investments with a fair value of \$21,086 at June 30, 2014, are in the State Board of Administration Fund B Surplus Funds Trust Fund with a weighted average life (WAL) of 2.86 years. A portfolio's WAL is the dollar weighted average length of time until securities held reach maturity. WAL, which also measures the sensitivity of the portfolio to interest rate changes, is based on legal final maturity dates for Fund B as of June 30, 2014. However, because Fund B consists of restructured or defaulted securities, there is considerable uncertainty regarding the WAL. The School's investment in the Fund B Surplus Funds Trust Fund is unrated.

Third-Party Custodial Agreements

Securities, with the exception of certificates of deposits, shall be held with a third party custodian; and all securities purchased by, and all collateral obtained by the School should be properly designated as an asset of the School. The securities must be held in an account separate and apart from the assets of the financial institution. A third party custodian is defined as any bank depository chartered by the Federal government, the State of Florida, or any other state or territory of the United States which has a branch or principal place of business in the State of Florida as defined in F.S. 658.12 or by a national association organized and existing under the laws of the United States which is authorized to accept and execute trusts and which is doing business in the State of Florida. Certificates of deposits will be placed in the provider's safekeeping department for the term of the deposit.

The custodian shall accept transaction instructions only from those persons who have been duly authorized by the Chief Financial Officer and which authorization has been provided, in writing, to the custodian. No withdrawal of securities, in whole or in part, shall be made from safekeeping unless authorized by such a duly authorized person.

The custodian shall provide the Controller with safekeeping receipts that provide detail information on the securities held by the custodian. Security transactions between a broker/dealer and the custodian involving the purchase or sale of securities by transfer of money or securities must be made on a "delivery vs. payment" basis, if applicable, to ensure that the custodian will have the security or money, as appropriate, in hand at the conclusion of the transaction. Securities held as collateral shall be held free and clear of any liens.

**THE FLORIDA VIRTUAL SCHOOL
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014**

5. CHANGES IN CAPITAL ASSETS

Changes in capital assets are presented in the table below:

	Balance 7-1-13	Additions	Deletions	Balance 6-30-14
GOVERNMENTAL ACTIVITIES:				
Capital Assets Being Depreciated:				
Furniture, Fixtures, and Equipment	\$ 4,649,154	\$ 727,363	\$ 329,205	\$ 5,047,312
Less Accumulated Depreciation	3,662,841	721,461	329,205	4,055,097
Total Furniture, Fixtures, and Equipment	986,313	5,902	-	992,215
Internally Created Software	20,669,647	3,189,148		23,858,795
Less Accumulated Amortization	13,452,210	4,810,396		18,262,606
Total Internally Created Software	7,217,437	(1,621,248)	-	5,596,189
BUSINESS-TYPE ACTIVITIES:				
Furniture, Fixtures, and Equipment	-	20,290	-	20,290
Less Accumulated Depreciation	-	578	-	578
Total Furniture, Fixtures, and Equipment	-	19,712	-	19,712
Internally Created Software	-	531,823	-	531,823
Less Accumulated Amortization	-	132,956	-	132,956
Total Internally Created Software	-	398,867	-	398,867
TOTAL GOV'T & BUSINESS-TYPE- CAPITAL ASSETS, NET	\$ 8,203,750	\$ (1,196,767)	\$ -	\$ 7,006,983

Depreciation/Amortization expense for the governmental funds was charged to functions for the year ended June 30, 2014 as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Instruction	\$ 4,810,396
Administrative Related Technology	140,100
Instructional Related Technology	581,361
Total Depreciation/Amortization-Governmental Activities	<u>\$ 5,531,857</u>

**THE FLORIDA VIRTUAL SCHOOL
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014**

6. OPERATING LEASES

The School is obligated under a lease agreement for office facilities beginning October 1, 2013 and ending July 31, 2022. The base rent is being waived for the period of February 1, 2015 through July 31, 2015. The annual lease payments increase approximately 3% beginning fiscal year 2018. The total amount of payments for fiscal year ending June 30, 2014 is \$1,212,350.

Annual remaining rent payments are shown in the table below:

<u>Fiscal Year Ending June 30</u>	<u>Payment</u>
2015	\$ 661,582
2016	1,018,681
2017	1,142,144
2018	1,176,550
2019	1,211,691
2020-2023	<u>3,969,096</u>
Total	<u><u>\$ 9,179,744</u></u>

7. CHANGES IN LONG-TERM LIABILITIES

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

<u>Description</u>	<u>Balance</u>			<u>Balance</u>	<u>Due in</u>
	<u>7-1-13</u>	<u>Additions</u>	<u>Reductions</u>	<u>6-30-14</u>	<u>One Year</u>
Governmental Activities	\$ 9,243,432	\$ 2,804,050	\$ 2,036,919	\$ 10,010,563	\$ 1,696,034
Business-Type Activities	<u>383,078</u>	<u>256,933</u>	<u>75,989</u>	<u>564,022</u>	<u>67,770</u>
Compensated Absences Payable	9,626,510	3,060,983	2,112,908	10,574,585	1,763,804
Estimated Insurance Claims Payable	909,033	986,842	909,033	986,842	986,842
Other Post Employment Benefits	<u>5,328,360</u>	<u>1,770,801</u>	<u>-</u>	<u>7,099,161</u>	<u>-</u>
Total	<u><u>\$ 15,863,903</u></u>	<u><u>\$ 5,818,626</u></u>	<u><u>\$ 3,021,941</u></u>	<u><u>\$ 18,660,588</u></u>	<u><u>\$ 2,750,646</u></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.

**THE FLORIDA VIRTUAL SCHOOL
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014**

9. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The following is a summary of interfund receivables and payables reported in the fund financial statements at June 30, 2014:

Funds	Interfund	
	Receivables	Payables
	Due From	Due To
Major Governmental Funds		
General Fund	\$ 442,988	\$ -
Special Revenue Fund		11,192
Business-type Activities		431,796
Total	\$ 442,988	\$ 442,988

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

The following is a summary of interfund transfers reported in the proprietary financial statements at June 30, 2014:

Funds	Intrafund	
	Transfer In	Transfer Out
Enterprise Fund		
FLVS Development	\$ 3,138,599	\$ -
FLVS Global Services		2,420,772
FLVS Global School		364,530
Franchises		353,297
Total	\$ 3,138,599	\$ 3,138,599

The interfund transfers represent a transfer of profit from the FLVS global and franchise enterprise funds to the FLVS global development enterprise fund. Of the amount transferred to FLVS development fund, \$1,773,365 was used for the development of student courses, with the remainder used for various technology upgrades.

**THE FLORIDA VIRTUAL SCHOOL
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014**

10. SCHEDULE OF STATE REVENUE SOURCES

The following is a schedule of the School's State revenue for the General Fund for the 2013-14 fiscal year:

<u>Source</u>	<u>2013-14</u>
Florida Education Finance Program	<u>\$ 155,216,125</u>
Other State Sources:	
Reading Program	<u>1,366,126</u>
Total Other State Sources	<u>1,366,126</u>
Total State Revenues	<u><u>\$ 156,582,251</u></u>

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

11. STATE RETIREMENT PROGRAM

All regular employees of the School are covered by the Florida Retirement System (FRS). Provisions relating to FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code, wherein eligibility, contributions, and benefits are defined and described in detail. Essentially all regular employees of participating employers are eligible and must enroll as members of the FRS. The FRS is a single retirement system administered by the Division of Retirement, Department of Management Services, and consists of two cost-sharing, multiple-employer retirement plans and other nonintegrated programs. These include a defined benefit pension plan (Plan), a Deferred Retirement Option Program (DROP), and a defined contribution plan, referred to as the Public Employee Optional Retirement Program (PEORP).

The FRS Pension Plan is a defined benefited plan qualified under Section 401(a) of the Internal Revenue Code. The following information provides vesting options:

- 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. 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 on/after July 1, 2011.
- 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 FLORIDA VIRTUAL SCHOOL
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014**

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.

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in PEORP in lieu of the Plan. School employees participating in DROP are not eligible to participate in PEORP. Employer contributions are defined by law; however, the ultimate benefit depends in part on the performance of investment funds. PEORP is funded by employer contributions that are based on salary and membership class. Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Benefits in PEORP vest after one year of service. There were 599 School participants during the 2013-14 fiscal year. Required contributions made to PEORP totaled \$2,084,455.

FRS Retirement Contribution Rates

The Florida Legislature establishes, and may amend, contribution rates for each membership class of the FRS. During the 2013-14 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	6.95
Florida Retirement System, Senior Management Service	3.00	18.31
Deferred Retirement Option Program - Applicable to Members from all of the Above Classes or Plans	0.00	12.84
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) In addition to the rates shown, employer rates include 1.20 percent for the post-employment health insurance supplement. Also, employer rates, other than for DROP participants, include 0.03 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, 2012, June 30, 2013 and June 30, 2014, totaled \$3,733,734, \$5,065,845, and \$6,722,389 respectively, which were equal to the required contributions for each fiscal year.

The financial statements and the required supplemental information of the FRS are included in the comprehensive annual financial report of the State of Florida which may be obtained from the Florida Department of Financial Services. Also, an annual report on FRS, which includes its financial statements, required supplemental information, actuarial report, and other relevant information is available from the Florida Department of Management Services, Division of Retirement.

**THE FLORIDA VIRTUAL SCHOOL
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014**

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 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 2013-14 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 \$986,842.

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 2013-14, 13 retirees received health care benefits. The School provided required contributions estimated at (\$51,021) 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, 2014**

Description	Amount
Normal Cost (service cost for one year)	\$ 1,148,260
Amortization of Unfunded Actuarial Accrued Liability	571,520
Interest on Normal Cost and Amortization	-
Annual Required Contribution (ARC)	1,719,780
Interest on Net OPEB Obligation (NOO)	213,134
Adjustment to Annual Required Contribution	(213,134)
Annual OPEB Cost (Expense)	1,719,780
Estimated Contribution Toward the OPEB Cost	51,021
Increase in Net OPEB Obligation	1,770,801
Net OPEB Obligation, Beginning of Year	5,328,360
Net OPEB Obligation, End of Year	<u><u>\$ 7,099,161</u></u>

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:

Fiscal Year Ended	Annual OPEB Cost	Estimated Amount Contributed	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2012	\$ 1,354,338	\$ 74,428	5.50%	\$ 3,776,784
June 30, 2013	\$ 1,631,664	\$ 80,088	4.91%	\$ 5,328,360
June 30, 2014	\$ 1,719,780	\$ (51,021)	-2.97%	\$ 7,099,161

Funded Status and Funding Progress. As of June 30, 2013, the most recent valuation date, the actuarial accrued liability for benefits was \$14,010,519, and the actuarial value of assets was \$0, resulting in an unfunded actuarial liability of \$14,010,519 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$87,176,211 for the 2012-2013 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 16.07 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, 2014**

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, 2014, 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, 2014 and to estimate the School's 2013-2014 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 4.5% through 9.75%. 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, 2014, is 25 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 2014



**THE FLORIDA VIRTUAL SCHOOL
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Fiscal Year Ended June 30, 2014**

	General Fund			Variance
	Budgeted Amounts		Actual Amounts	Positive /
	Original	Final		(Negative)
REVENUES				
Federal Direct Sources:				
Miscellaneous Federal Direct	\$ -	\$ -	\$ 266	\$ 266
Total Federal Direct Sources	-	-	266	266
State Sources:				
Florida Education Finance Program	176,170,028	165,624,141	155,216,125	(10,408,016)
Reading Program	1,548,303	1,490,565	1,366,126	(124,439)
Other State Sources	-	5,439,926		(5,439,926)
Total State Sources	177,718,331	172,554,632	156,582,251	(15,972,381)
Local Sources:				
Other Local Sources	3,638,436	12,330,962	13,033,041	702,079
Total Local Sources	3,638,436	12,330,962	13,033,041	702,079
Total Revenues	181,356,767	184,885,594	169,615,558	(15,270,036)
EXPENDITURES				
Current:				
Instruction	131,689,039	131,853,013	119,116,395	12,736,618
Pupil Personnel Services	4,362,873	4,386,913	3,899,814	487,099
Instruction and Curriculum Development Services	8,110,756	1,924,675	1,530,534	394,141
Instructional Staff Training Services	4,470,482	4,505,458	3,924,901	580,557
Instruction Related Technology	8,340,341	8,692,448	7,863,823	828,625
School Board	818,148	889,816	649,320	240,496
General Administration	2,561,015	3,050,267	3,085,152	(34,885)
School Administration	4,177,595	4,392,379	3,992,090	400,289
Fiscal Services	4,340,850	1,935,382	1,835,933	99,449
Central Services	10,842,170	11,541,299	10,376,727	1,164,572
Operation of Plant	1,946,898	2,514,580	2,104,552	410,028
Administrative Technology Services	8,651,748	14,708,122	8,798,552	5,909,570
Capital Outlay:				
Other Capital Outlay		3,916,510	3,916,510	-
Total Expenditures	190,311,915	194,310,862	171,094,303	23,216,559
Excess (Deficiency) of Revenues Over Expenditures	(8,955,148)	(9,425,268)	(1,478,745)	7,946,523
Net Change in Fund Balance	(8,955,148)	(9,425,268)	(1,478,745)	7,946,523
Fund Balance, July 1, 2013	36,935,698	38,239,837	38,239,837	-
Fund Balance, June 30, 2014	\$ 27,980,550	\$ 28,814,569	\$ 36,761,092	\$ 7,946,523

**THE FLORIDA VIRTUAL SCHOOL
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
OTHER POST EMPLOYMENT BENEFITS PLAN
For the Fiscal Year Ended June 30, 2014**

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, 2012	\$ -	\$ 11,475,086	\$ 11,475,086	0.00%	\$ 73,853,389	15.54%
June 30, 2013	\$ -	\$ 14,010,519	\$ 14,010,519	0.00%	\$ 87,176,211	16.07%
June 30, 2014	\$ -	\$ 14,010,519	\$ 14,010,519	0.00%	\$ 87,176,211	16.07%



Other Reports

Annual Financial Report 2014



THE FLORIDA VIRTUAL SCHOOL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2014

Federal Pass-Through Entity	CFDA	Contract/ Grant	Contract	Amount	
Federal Program	Number	Number	Period	Expenditures	Provided to Sub-Recipients
<u>Federal Awards</u>					
U.S. Department of Education					
Indirect:					
Passed through the State of Florida Department of Education					
Carl D. Perkins -Secondary, Sec. 131	84.048A	48C-1614A-4CV01	07/01/13 - 06/30/14	21,905	-
Title I - Part A	84.010A	48C-2124A-4CB01	07/01/13 - 06/30/14	924,605	684,367
Title II - Part A	84.367A	48C-2244B-4CT01	07/01/13 - 06/30/14	18,798	-
IDEA - Part B	84.027A	48C-2634A-4CB01	07/01/13 - 06/30/14	487,276	474,068
ARRA - Florida Standards Professional Development Action Project	84.395A	48C-RG311-4CP01	03/31/14 - 09/23/14	-	-
Postsecondary Education Readiness Assessment	L.I.131	48C-99750-4ST01	11/12/13 - 06/30/14	1,463	-
ARRA - Common Core State Standards	84.395A	48C-RG311-3C401	05/08/13 - 06/30/14	137	-
Total Department of Education Indirect				<u>1,454,184</u>	<u>1,158,435</u>
Indirect:					
ARRA - Race to the Top Fund - passed through from the University of Central Florida	84.395A	481-RG411-4C001	07/01/13-06/30/14	<u>276,131</u>	<u>-</u>
Total Federal Awards				<u>\$ 1,730,315</u>	<u>\$ 1,158,435</u>
See Accompanying Notes to Schedule					

THE FLORIDA VIRTUAL SCHOOL
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

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, 2014. 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, 2014.

FLORIDA VIRTUAL SCHOOL, ORLANDO, FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2014

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 510(a) of OMB Circular A-133? ___ Yes X No

Identification of Major Programs:

CFDA Numbers

Name of Federal Program or Cluster

84.010A	Title I - Grants to Local Educational Agencies
84.395A	ARRA - Race To The Top Incentive Grants

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

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

FLORIDA VIRTUAL SCHOOL, ORLANDO, FLORIDA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (*Continued*)

For The Year Ended June 30, 2014

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 OMB Circular A-133.

No matters are reported.

Section IV - Summary Schedule of Prior Year Audit Findings

No matters were reported in the prior year affecting federal financial assistance programs.

**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
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 Florida Virtual School (the "School"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated December 15, 2014.

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
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 December 15, 2014.

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.".

MOORE STEPHENS LOVELACE, P.A.
Certified Public Accountants

Orlando, Florida
December 15, 2014

**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 OMB CIRCULAR A-133**

Chairman and Members of
Florida Virtual School
Orlando, Florida

Report on Compliance for Each Major Federal Program

We have audited the compliance of Florida Virtual School (the "School"), with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") Circular A-133 *Compliance Supplement*, that could have a direct and material effect on each of the School's major federal programs for the fiscal year ended June 30, 2014. The School's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the School's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 each 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 each of its major federal programs for the fiscal year ended June 30, 2014.

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 each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

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, 2014, and the related notes to the financial statements, which collectively comprise the School's basic financial statements. We issued our report thereon dated December 15, 2014, 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 OMB Circular A-133, 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
Florida Virtual School

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133 (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.".

MOORE STEPHENS LOVELACE, P.A.
Certified Public Accountants

Orlando, Florida
December 15, 2014



INDEPENDENT AUDITOR'S MANAGEMENT LETTER

Chairman and Members of
Florida Virtual School
Orlando, Florida

Report on Financial Statements

We have audited the financial statements of Florida Virtual School (the "School"), as of and for the year ended June 30, 2014, and have issued our report thereon dated December 15, 2014.

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; OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*; and Chapter 10.800, Rules of the Auditor General.

Other Reporting Requirements

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on a Audit of the Basic 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 OMB Circular A-133, Schedule of Findings and Questioned Costs, and our Independent Accountant's Report in accordance with the provisions of Chapter 10.800, Rules of the Auditor General. Disclosures in those reports and schedule, which are dated December 15, 2014, should be considered in conjunction with this management letter.

Prior Audit Findings

Section 10.804(1)(f)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.

Financial Condition

Section 10.804(1)(f)2., Rules of the Auditor General requires a statement be included 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 conjunction with our audit, we determined that the School did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Financial Condition (*Continued*)

Pursuant to Sections 10.804(1)(f)5a. and 10.805(6), Rules of the Auditor General, we applied financial condition assessment procedures. 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 10.804(1)(f)6., Rules of the Auditor General, requires the auditor to state whether or not the School complied with transparency requirements (Section 1011.035, Florida Statutes, provides that school boards include a plain-language version of each proposed, tentative and official budget that describes each budget line item in terms that are easily understandable to the public). In conjunction with our audit, we determined that the School complied with transparency requirements.

Other Matters

Section 10.804(1)(f)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In conjunction with our audit, we did not have any such findings.

Section 10.804(1)(f)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 School Board members, 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.".

MOORE STEPHENS LOVELACE, P.A.
Certified Public Accountants

Orlando, Florida
December 15, 2014



INDEPENDENT ACCOUNTANT'S REPORT

Chairman and Members of
Florida Virtual School
Orlando, Florida

We have examined Florida Virtual School's (the "School") compliance with the requirements of Section 218.415, Florida Statutes, during the fiscal year ended June 30, 2014. 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, 2014.

Moore Stephens Lovelace, P.A.

MOORE STEPHENS LOVELACE, P.A.
Certified Public Accountants

Orlando, Florida
December 15, 2014