



Annual Financial Report

For the Fiscal Year Ended

June 30, 2013

The *student* is at the center...



...of *every* decision we make.

THE FLORIDA VIRTUAL SCHOOL
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INDEPENDENT AUDITOR'S REPORT

To The Board of Trustees
The Florida Virtual School
Orlando, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of The Florida Virtual School (the "School"), as of and for the year ended June 30, 2013, 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 from material misstatement.

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

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

Opinions

In our opinion, 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 Florida Virtual School, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information and schedule of funding progress – other post employment benefit plans 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise The Florida Virtual School's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 basic financial statements. 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2014, on our consideration of The Florida Virtual 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 Florida Virtual School's internal control over financial reporting and compliance.

Carole Riggs & DeNeman LLC

Orlando, Florida
January 29, 2014

**THE FLORIDA VIRTUAL SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2013**

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, 2013.

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.

The School implemented Governmental Accounting Standards Board (GASB) Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* in fiscal year 2013. GASB 63 provides guidelines for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The reader will note a change in terminology from "net assets" to "net position" and a new category within the Statement of Net Position called "Deferred Inflows of Resources".

FINANCIAL HIGHLIGHTS

- Total net position exceeded prior fiscal year by \$19,001,453 for a total of \$45,077,187.
- During the current year, General Fund revenues increased \$78,662,116. This increase is due to increased FTE of 7,966 in the FLVS part-time program and the presentation of the FLVS full-time program within the General Fund, which represents an additional 5,158 FTE. In years past the FLVS full-time program was presented in the Enterprise Fund.
- The Unassigned fund balance in the General Fund, representing the net current financial resources available for general appropriation by the Board, totals \$30,534,803 at June 30, 2013, or 15 percent of total General Fund revenues.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

**THE FLORIDA VIRTUAL SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2013**

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 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

**THE FLORIDA VIRTUAL SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2013**

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, 2012 and June 30, 2013:

	Net Position, End of Year					
	Governmental		Business-Type		Total	
	Activities		Activities			
	6-30-13	6-30-12	6-30-13	6-30-12	6-30-13	6-30-12
Current Assets	\$ 66,843,070	\$ 35,737,276	\$ 8,900,936	\$ 12,367,282	\$ 75,744,006	\$ 48,104,558
Capital Assets	8,203,751	8,345,803	-	-	8,203,751	8,345,803
Total Assets	75,046,821	44,083,079	8,900,936	12,367,282	83,947,757	56,450,361
Other Liabilities	23,379,294	13,035,403	3,060,975	6,439,775	26,440,269	19,475,178
Long-Term Liabilities	12,127,879	10,638,359	302,422	261,090	12,430,301	10,899,449
Total Liabilities	35,507,173	23,673,762	3,363,397	6,700,865	38,870,570	30,374,627
Net Position:						
Invested in Capital Assets	8,203,751	8,345,803	-	-	8,203,751	8,345,803
Restricted for State Categoricals	4,176,429	3,903,842	-	-	4,176,429	3,903,842
Unrestricted	27,159,468	8,159,672	5,537,539	5,666,417	32,697,007	13,826,089
Total Net Position	\$ 39,539,648	\$ 20,409,317	\$ 5,537,539	\$ 5,666,417	\$ 45,077,187	\$ 26,075,734

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 \$39,539,648 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 School's unrestricted net position increased in total by \$18,870,918 during the current fiscal year primarily due from an increase in students funded through the State of Florida. Under the long-term view provided by the government-wide statements, the School's unrestricted net position balance is positive indicating the School's ability to sufficiently meet its current obligations.

**THE FLORIDA VIRTUAL SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2013**

The School's net position increased in total by \$19,001,453 during the 2012-13 fiscal year. The increase is a result from a large increase in the number of students funded through the State of Florida. The following is a summary of the School's changes in net position for the fiscal years ended June 30, 2012 and June 30, 2013, as follows:

	Governmental Activities		Business-Type Activities		Total	
	6-30-13	6-30-12	6-30-13	6-30-12	6-30-13	6-30-12
Program Revenues:						
Charges for Services	\$ 720,282	\$ 92,466	\$ 8,737,070	\$ 23,177,491	\$ 9,457,352	\$ 23,269,957
General Revenues:						
Grants and Contributions Not Restricted to Specific Programs	199,371,724	121,776,930			199,371,724	121,776,930
Investment Earnings	66,710	66,778	3,378	2,610	70,088	69,388
Miscellaneous	2,976,512	1,649,414	1,006,759	3,153,322	3,983,271	4,802,736
Total Revenues	<u>203,135,228</u>	<u>123,585,588</u>	<u>9,747,207</u>	<u>26,333,423</u>	<u>212,882,435</u>	<u>149,919,011</u>
Functions/Program Expenses:						
Instruction	131,462,968	81,815,096			131,462,968	81,815,096
Pupil Personnel Services	4,425,670	3,295,674			4,425,670	3,295,674
Instruction and Curriculum Development Svcs	2,578,372	5,933,877			2,578,372	5,933,877
Instructional Staff Training Services	3,991,391	3,536,057			3,991,391	3,536,057
Instructional Related Technology	10,434,875	5,676,083			10,434,875	5,676,083
Board	860,039	693,904			860,039	693,904
General Administration	2,521,965	2,880,426			2,521,965	2,880,426
School Administration	5,399,891	6,173,565			5,399,891	6,173,565
Fiscal Services	1,809,036	1,698,463			1,809,036	1,698,463
Central Services	8,780,057	7,627,503			8,780,057	7,627,503
Operation of Plant	2,218,100	2,070,998			2,218,100	2,070,998
Administrative Technology Services	9,043,063	8,777,032			9,043,063	8,777,032
Community Services	-	2,183			-	2,183
Unallocated Depreciation Expense	-	775,202			-	775,202
Loss on Disposal of Asset	-	3,553,889			-	3,553,889
FLVS Global/Franchises Expenses	-	-	10,355,555	22,501,138	10,355,555	22,501,138
Total Functions/Program Expenses	<u>183,525,427</u>	<u>134,509,952</u>	<u>10,355,555</u>	<u>22,501,138</u>	<u>193,880,982</u>	<u>157,011,090</u>
Changes in Net Position	19,609,801	(10,924,364)	(608,348)	3,832,285	19,001,453	(7,092,079)
Net Position - Beginning	20,409,317	31,333,681	5,666,417	1,834,132	26,075,734	33,167,813
Adj to Beginning Net Position	(479,470)	-	479,470	-	-	-
Net Position - Ending	<u>\$ 39,539,648</u>	<u>\$ 20,409,317</u>	<u>\$ 5,537,539</u>	<u>\$ 5,666,417</u>	<u>\$ 45,077,187</u>	<u>\$ 26,075,734</u>

The largest revenue source is the State of Florida (93 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 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.

**THE FLORIDA VIRTUAL SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2013**

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 \$30,534,803. The total unassigned fund balance represents 15 percent of total General Fund revenues, which is up over last year's unassigned fund balance of \$14,224,152 or 12 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 exceed the adjusted budgeted revenues by \$372,338. The actual General Fund expenditures were less than the adjusted budgeted appropriations by \$21,755,429 due to several unfilled job opportunities as well as projects that were not completed.

CAPITAL ASSET ADMINISTRATION

Capital Assets

The School's investment in capital assets as of June 30, 2013, amounts to \$8,203,751 (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 \$142,052.

FUTURE ECONOMIC FACTORS

During the 2013 legislative session, the Florida legislators passed a new funding model that affects the way that FEFP funding is calculated for school districts and The Florida Virtual School. For the current fiscal year, it is anticipated that The Florida Virtual School will experience a State formula revenue reduction of approximately \$25.8 million (in comparison to prior year funding) due to this change in funding model. The School has made budget adjustments which fully cover this funding reduction.

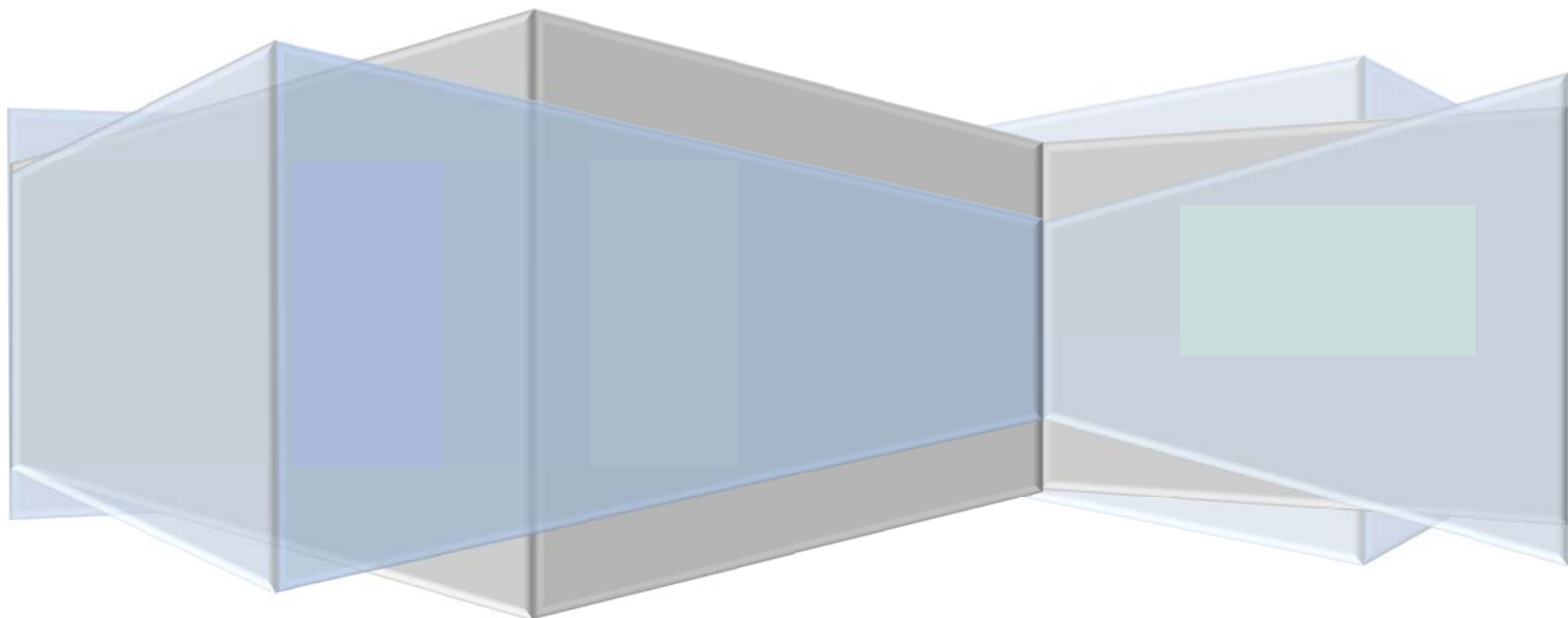
REQUESTS FOR INFORMATION

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 2013



**The Florida Virtual School
Statement of Net Position
June 30, 2013**

	Primary Government		Total
	Governmental Activities	Business-type Activities	
ASSETS			
Cash	\$ 44,554,554	\$ 6,849,006	\$ 51,403,560
Investments	18,027,649	-	18,027,649
Accounts Receivable	1,904,290	2,242,820	4,147,110
Allowance for Doubtful Accounts	-	(190,890)	(190,890)
Due from Other Funds	2,288,703	-	2,288,703
Due from Other Agencies	9,232	-	9,232
Prepaid Insurance Expenses	58,642	-	58,642
Capital Assets:			
Depreciable, net	8,203,751	-	8,203,751
Total Assets	75,046,821	8,900,936	83,947,757
LIABILITIES			
Wages and Benefits Payable	7,335,329	149,533	7,484,862
Accounts Payable	10,170,869	355,483	10,526,352
Due to Other Agencies	2,518,945	-	2,518,945
Due to Other Funds	-	2,288,703	2,288,703
Unearned Revenue	1,205	186,600	187,805
Long-Term Liabilities:			
Portion Due and Payable Within One Year:			
Liability for Compensated Absences	2,443,913	80,656	2,524,569
Estimated Insurance Claims Payable	909,033	-	909,033
Portion Due and Payable After One Year:			
Liability for Compensated Absences	6,799,519	302,422	7,101,941
Liability for Other Post Employment Benefits	5,328,360	-	5,328,360
Total Liabilities	35,507,173	3,363,397	38,870,570
NET POSITION			
Investment in Capital Assets	8,203,751	-	8,203,751
Restricted for State Categoricals	4,176,429	-	4,176,429
Unrestricted	27,159,468	5,537,539	32,697,007
Total Net Position	\$ 39,539,648	\$ 5,537,539	\$ 45,077,187

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, 2013**

FUNCTIONS/ PROGRAMS	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities	Business-type Activities	
Governmental Activities:							
Instruction	\$ 131,462,968	\$	\$	\$	\$ (131,462,968)	\$	\$ (131,462,968)
Pupil Personnel Services	4,425,670				(4,425,670)		(4,425,670)
Instruction and Curriculum Development Services	2,578,372	755,107			(1,823,265)		(1,823,265)
Instructional Staff Training Services	3,991,391				(3,991,391)		(3,991,391)
Instructional Related Technology	10,434,875				(10,434,875)		(10,434,875)
Board	860,039				(860,039)		(860,039)
General Administration	2,521,965				(2,521,965)		(2,521,965)
School Administration	5,399,891				(5,399,891)		(5,399,891)
Fiscal Services	1,809,036				(1,809,036)		(1,809,036)
Central Services	8,780,057				(8,780,057)		(8,780,057)
Operation of Plant	2,218,100				(2,218,100)		(2,218,100)
Administrative Technology Services	9,043,063				(9,043,063)		(9,043,063)
*Unallocated Depreciation/Amortization Expense	-				-		-
Total Governmental Activities	<u>183,525,427</u>	<u>755,107</u>			<u>(182,770,320)</u>		<u>(182,770,320)</u>
Business-type Activities:							
FLVS Global & Franchises	10,355,555	8,737,070				(1,618,485)	(1,618,485)
Total Primary Government	<u>\$ 193,880,982</u>	<u>\$ 9,492,177</u>	<u>\$</u>	<u>\$</u>	<u>\$ (182,770,320)</u>	<u>\$ (1,618,485)</u>	<u>\$ (184,388,805)</u>
General Revenues:							
Grants and Contributions not Restricted to Specific Programs					199,371,724	-	199,371,724
Unrestricted Investment Earnings					66,710	3,378	70,088
Miscellaneous					2,941,687	1,006,759	3,948,446
Total General Revenues					<u>202,380,121</u>	<u>1,010,137</u>	<u>203,390,258</u>
Change in Net Position					19,609,801	(608,348)	19,001,453
Net Position - July 1, 2012					20,409,317	5,666,417	26,075,734
Adj to Beginning Net Position					(479,470)	479,470	-
Net Position - June 30, 2013					<u>\$ 39,539,648</u>	<u>\$ 5,537,539</u>	<u>\$ 45,077,187</u>

*This amount excludes the depreciation/amortization that is included in the direct expenses of the instruction and instructional-related technology functions.

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, 2013**

	General Fund	Special Revenue Funds	Total Governmental Funds
ASSETS			
Cash	\$ 35,021,961	\$ 250,221	\$ 35,272,182
Investments	18,027,649	-	18,027,649
Accounts Receivable, net	390,790	-	390,790
Due from Other Funds	2,371,462	-	2,371,462
Due from Other Agencies	-	9,232	9,232
Total Assets	\$ 55,811,862	\$ 259,453	\$ 56,071,315
LIABILITIES AND FUND BALANCE			
Liabilities:			
Salaries, Benefits, and Payroll Taxes Payable	\$ 7,333,725	\$ 1,604	\$ 7,335,329
Accounts Payable	7,636,596	256,644	7,893,240
Due to Other Funds	82,759	-	82,759
Due to Other Agencies	2,518,945	-	2,518,945
Unearned Revenue	-	1,205	1,205
Total Liabilities	17,572,025	259,453	17,831,478
Fund Balances:			
Non-spendable:			
Spendable:			
Restricted for State Categoricals	4,176,429	-	4,176,429
Assigned for Encumbrances	3,528,605	-	3,528,605
Unassigned	30,534,803	-	30,534,803
Total Fund Balance	38,239,837	-	38,239,837
Total Liabilities and Fund Balance	\$ 55,811,862	\$ 259,453	\$ 56,071,315

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
 For the Fiscal Year Ended June 30, 2013**

Total Fund Balances - Governmental Funds	\$	38,239,837
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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.		8,203,751
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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.		(9,243,432)
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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.		(5,328,360)
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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.		7,667,852
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Net Position - Governmental Activities	\$	39,539,648
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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, 2013**

	General Fund	Special Revenue Funds	Total Governmental Funds
REVENUES			
Federal Direct Sources:			
Miscellaneous Federal Direct	\$ 91,919	\$ -	\$ 91,919
Total Federal Direct Sources	91,919	-	91,919
Federal Through State Sources:			
Other Federal Through State Sources	-	963,761	963,761
Total Federal Through State	-	963,761	963,761
State Sources:			
Florida Education Finance Program	196,574,768	-	196,574,768
Reading Program	1,740,927	-	1,740,927
Other State Sources	350	-	350
Total State Sources	198,316,045	-	198,316,045
Local Sources:			
Other Local Sources	3,757,153	-	3,757,153
Total Local Sources	3,757,153	-	3,757,153
Total Revenues	202,165,117	963,761	203,128,878
EXPENDITURES			
Current:			
Instruction	126,569,133	699,123	127,268,256
Pupil Personnel Services	4,003,083	161,104	4,164,187
Instruction and Curriculum Development Services	2,506,469	46,442	2,552,911
Instructional Staff Training Services	3,872,781	40,278	3,913,059
Instruction Related Technology	9,811,770	381	9,812,151
School Board	852,409	-	852,409
General Administration	2,472,642	16,154	2,488,796
School Administration	5,764,249	-	5,764,249
Fiscal Services	1,802,004	-	1,802,004
Central Services	8,892,380	279	8,892,659
Operation of Plant	2,246,085	-	2,246,085
Administrative Technology Services	9,156,014	-	9,156,014
Capital Outlay:			
Other Capital Outlay	5,299,191	-	5,299,191
Total Expenditures	183,248,210	963,761	184,211,971
Excess of Revenues Over Expenditures	18,916,907	-	18,916,907
Net Change in Fund Balance	18,916,907	-	18,916,907
Fund Balance, July 1, 2012	19,764,070	-	19,764,070
Adj to Beginning Fund Balance	(441,140)	-	(441,140)
Fund Balance, June 30, 2013	\$ 38,239,837	\$ -	\$ 38,239,837

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, 2013**

Net Change in Fund Balances - Governmental Funds \$ 18,916,907

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, \$5,299,191 less than depreciation/amortization expense, (\$5,441,243) in the current period. (142,052)

In the statement of activities, the cost of compensated absences is measured by the amounts earned during the year, while in the governmental funds expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences earned in excess of the amount paid in the current period. (1,430,231)

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. (1,551,576)

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. 3,816,753

Change in Net Position - Governmental Activities \$ 19,609,801

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

**The Florida Virtual School
Statement of Net Position
Proprietary Fund
June 30, 2013**

		Governmental Activities Self-Insurance Fund
<hr/>		
ASSETS		
Cash	\$	9,282,372
Accounts Receivable		1,513,500
Prepaid Expenses		58,642
Total Assets		<hr/> <hr/> 10,854,514
 LIABILITIES		
Accounts Payable		2,277,629
Est Unpaid Claims - Self Insurance		909,033
Total Liabilities		<hr/> <hr/> 3,186,662
 NET POSITION		
Unrestricted		7,667,852
Total Net Position	\$	<hr/> <hr/> <hr/> 7,667,852

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 Fund
For the Fiscal Year Ended June 30, 2013**

	Governmental Activities Self-Insurance Fund
OPERATING REVENUES	
Premium Revenues	\$ 15,894,156
Total Operating Revenue	15,894,156
OPERATING EXPENSES	
Other Expenses	12,083,754
Total Operating Expenses	12,083,754
Operating Income	3,810,402
NONOPERATING REVENUES	
Interest	6,351
Income	3,816,753
Change in Net Position	3,816,753
Net Position - July 1, 2012	3,851,099
Net Position - June 30, 2013	\$ 7,667,852

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

**The Florida Virtual School
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2013**

	Governmental Activities Self-Insurance Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers and Users	\$ 15,520,300
Payments to Suppliers of Goods and Services	(11,845,141)
Net Cash Provided by Operating Activities	3,675,159
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on Investments	6,351
Net Cash Provided by Investing Activities	6,351
Net Change in Cash	3,681,510
Cash at Beginning of Year	5,600,862
Cash at End of Year	\$ 9,282,372
Reconciliation of Operating Income to Net Cash Provided by operating activities:	
Operating Income	\$ 3,810,402
Change in Assets and Liabilities	
Decrease (Increase) in Accounts Receivable	(373,856)
Decrease (Increase) in Prepaid Expenses	(58,642)
Increase (Decrease) in Due to Other Funds	(78,779)
Increase (Decrease) in Accounts Payable	575,915
Increase (Decrease) in Est Unpaid Claims	(199,881)
Total adjustments	(135,243)
Net Cash Provided by Operating Activities	\$ 3,675,159

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, 2013**

	Business-type Activities FLVS Global	Business-type Activities Franchises	Business-type Activities Total
ASSETS			
Cash	\$ 6,849,006	\$ -	\$ 6,849,006
Accounts Receivable	1,146,181	1,096,639	2,242,820
Allowance for Doubtful Accounts	(190,890)	-	(190,890)
Total Assets	<u>7,804,297</u>	<u>1,096,639</u>	<u>8,900,936</u>
LIABILITIES			
Wages and Benefits Payable	136,661	12,872	149,533
Accounts Payable	352,427	3,056	355,483
Due to Other Funds	1,561,288	727,415	2,288,703
Unearned Revenue	186,600	-	186,600
Long-term Liabilities:			
Portion Due and Payable Within One Year:			
Liability for Compensated Absences	67,281	13,375	80,656
Portion Due and Payable After One Year:			
Liability for Compensated Absences	250,748	51,674	302,422
Total Liabilities	<u>2,555,005</u>	<u>808,392</u>	<u>3,363,397</u>
NET POSITION			
Unrestricted	5,249,292	288,247	5,537,539
Total Net Position	<u>\$ 5,249,292</u>	<u>\$ 288,247</u>	<u>\$ 5,537,539</u>

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, 2013**

	Business-type Activities FLVS Global	Business-type Activities Franchises	Business-type Activities Total
OPERATING REVENUES			
Charges for Sales or Services	\$ 6,121,840	\$ 2,615,230	\$ 8,737,070
Miscellaneous Revenues	1,006,759	-	1,006,759
Total Operating Revenue	7,128,599	2,615,230	9,743,829
OPERATING EXPENSES			
Salaries	2,675,339	474,437	3,149,776
Employee Benefits	656,370	116,133	772,503
Purchased Services	3,272,308	509,525	3,781,833
Materials and Supplies	96,166	27,882	124,048
Capital Outlay	691	-	691
Other Expenses	1,146,071	1,186,743	2,332,814
Bad Debt Expense	193,890	-	193,890
Total Operating Expenses	8,040,835	2,314,720	10,355,555
Operating Income (Loss)	(912,236)	300,510	(611,726)
NONOPERATING REVENUES			
Interest	3,378	-	3,378
Income (Loss) Before Operating Transfers	(908,858)	300,510	(608,348)
Transfers In	1,773,365	-	1,773,365
Transfers Out	-	1,773,365	1,773,365
Change in Net Position	864,507	(1,472,855)	(608,348)
Net Position - July 1, 2012	4,384,785	1,761,102	6,145,887
Net Position - June 30, 2013	\$ 5,249,292	\$ 288,247	\$ 5,537,539

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, 2013**

	Business-type Activities FLVS Global	Business-type Activities Franchises	Business-type Activities Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Customers and Users	\$ 10,360,395	\$ 2,440,712	\$ 12,801,107
Payments to Suppliers of Goods and Services	(3,255,888)	(1,073,672)	(4,329,560)
Payments to Employees	(3,190,723)	(527,964)	(3,718,687)
Net Cash Provided by Operating Activities	<u>3,913,784</u>	<u>839,076</u>	<u>4,752,860</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Receipts from Other Funds	1,773,365	-	1,773,365
Payments to Other Funds	-	(1,773,365)	(1,773,365)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>1,773,365</u>	<u>(1,773,365)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest on Investments	<u>3,378</u>	<u>-</u>	<u>3,378</u>
Net Cash Provided by Investing Activities	<u>3,378</u>	<u>-</u>	<u>3,378</u>
Net Change in Cash	5,690,527	(934,289)	4,756,238
Cash at Beginning of Year	1,158,479	934,289	2,092,768
Cash at End of Year	<u>\$ 6,849,006</u>	<u>\$ -</u>	<u>\$ 6,849,006</u>
Reconciliation of Operating Income to Net Cash Provided by operating activities:			
Operating Income (Loss)	<u>\$ (912,236)</u>	<u>\$ 300,510</u>	<u>\$ (611,726)</u>
Change in Assets and Liabilities			
Decrease (Increase) in Accounts Receivable	3,045,197	(174,518)	2,870,679
Increase (Decrease) in Due to Other Funds	1,727,774	647,500	2,375,274
Increase (Decrease) in Accounts Payable	(274,534)	2,978	(271,556)
Increase (Decrease) in Salaries and Benefits Payable	57,109	9,820	66,929
Increase (Decrease) in Compensated Absence Payable	83,874	52,786	136,660
Increase (Decrease) in Unearned Revenue	186,600	-	186,600
Total adjustments	<u>4,826,020</u>	<u>538,566</u>	<u>5,364,586</u>
Net Cash Provided by Operating Activities	<u>\$ 3,913,784</u>	<u>\$ 839,076</u>	<u>\$ 4,752,860</u>

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, 2013**

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 2012-13 fiscal year are shown in the following tabulation:

Board Member	County
Mr. Michael Olenick, Chair	Martin
Lady Dhyana Ziegler, Ph.D	Leon
Ms. Suzanne O. Martin	Leon
Ms. Deborah Jallad	Orange
Ms. Tammie Nemecek	Collier
Mr. Brian Cunningham	Broward
Ms. Linda Pellegrini	Orange
Julie E. Young, President, Chief Executive Officer	

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

➤ **Basis of Presentation**

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

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

**THE FLORIDA VIRTUAL SCHOOL
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2013**

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

Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each governmental function or business segment is self-financing or draws from the general revenues of the School.

The School eliminates from the Statement of Net Position and the Statement of Activities interfund transfers and most interfund receivables and payables between funds.

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

The School reports the following major governmental funds:

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

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.

During fiscal year 2013, the presentation of the full-time fund was moved from the enterprise fund to the general fund. The decision to make this change was based upon the fact that the majority of the full-time funding comes from State (FEFP) revenue. An adjustment to the beginning fund balance as well as to the beginning net position has been made to both the governmental and business-type statements.

➤ **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

**THE FLORIDA VIRTUAL SCHOOL
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2013**

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 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 1.11845939 at June 30, 2013. The dollar value as of June 30, 2013 is \$90,617.

➤ **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

**THE FLORIDA VIRTUAL SCHOOL
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2013**

governmental fund financial statements. An intangible asset is recognized in the statement of net position only if it is considered identifiable.

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

<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, 2013**

2. 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, such as construction contracts, are issued. Appropriations lapse at fiscal year-end and encumbrances outstanding are honored from the subsequent year's appropriations.

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

Investments with a fair value of \$17,937,032 at June 30, 2013, 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 \$90,617 at June 30, 2013, are in the State Board of Administration Fund B Surplus Funds Trust Fund with a weighted average life (WAL) of 3.98 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, 2013. 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.

**THE FLORIDA VIRTUAL SCHOOL
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2013**

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, 2013**

4. CHANGES IN CAPITAL ASSETS

Changes in capital assets are presented in the table below:

	Balance 7-1-12	Additions	Deletions	Balance 6-30-13
GOVERNMENTAL ACTIVITIES:				
Capital Assets Being Depreciated:				
Furniture, Fixtures, and Equipment	\$ 4,565,994	\$ 621,405	\$ 538,245	\$ 4,649,154
Less Accumulated Depreciation	3,637,684	563,401	538,245	3,662,840
Total Furniture, Fixtures, and Equipment	928,310	58,004	-	986,314
Internally Created Software	15,991,861	4,677,786	-	20,669,647
Less Accumulated Amortization	8,574,368	4,877,842	-	13,452,210
Total Internally Created Software	7,417,493	(200,056)	-	7,217,437
TOTAL GOVERNMENTAL CAPITAL ASSETS, NET	\$ 8,345,803	\$ (142,052)	\$ -	\$ 8,203,751

Depreciation/Amortization expense was charged to functions for the year ended June 30, 2013 as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Instruction	\$ 4,877,842
Instructional Related Technology	563,401
Total Depreciation/Amortization-Governmental Activities	\$ 5,441,243

5. OPERATING LEASES

The School is obligated under a lease agreement for office facilities. Monthly lease payments are \$114,665 increasing three percent each year. The total amount of payments for fiscal year ending June 30, 2013 is \$1,407,909.

Annual remaining rent payments are shown in the table below:

Fiscal Year Ending June 30	Payment
2014	\$ 1,452,243
2015	868,758
Total	\$ 2,321,001

**THE FLORIDA VIRTUAL SCHOOL
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2013**

6. CHANGES IN LONG-TERM LIABILITIES

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

Description	Balance <u>7-1-12</u>	Additions	Reductions	Balance <u>6-30-13</u>	Due in <u>One Year</u>
Governmental Activities	\$ 7,774,871	\$ 2,903,573	\$ 1,435,012	\$ 9,243,432	\$ 2,443,913
Business-Type Activities	<u>284,748</u>	<u>117,073</u>	<u>18,743</u>	<u>383,078</u>	<u>80,656</u>
Compensated Absences Payable	8,059,619	3,020,646	1,453,755	9,626,510	2,524,569
Estimated Insurance Claims Payable	1,108,914	909,033	1,108,914	909,033	909,033
Other Post Employment Benefits	<u>3,776,784</u>	<u>1,551,576</u>	<u>-</u>	<u>5,328,360</u>	<u>-</u>
Total	<u>\$ 12,945,317</u>	<u>\$ 5,481,255</u>	<u>\$ 2,562,669</u>	<u>\$ 15,863,903</u>	<u>\$ 3,433,602</u>

7. 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.

8. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The following is a summary of interfund receivables and payables reported in the fund financial statements at June 30, 2013:

Funds	Interfund	
	<u>Receivables Due From</u>	<u>Payables Due To</u>
Major Governmental Funds		
General	\$ 2,288,703	
Business-type Activities		2,288,703
Total	<u>\$ 2,288,703</u>	<u>\$ 2,288,703</u>

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

**THE FLORIDA VIRTUAL SCHOOL
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2013**

The following is a summary of interfund transfers reported in the proprietary financial statements at June 30, 2013:

<u>Funds</u>	<u>Interfund</u>	
	<u>Transfer</u>	<u>Transfer</u>
	<u>In</u>	<u>Out</u>
Major Governmental Funds:		
FLVS Global-Development	\$ 1,773,365	
Franchises		\$ 1,773,365
Total	<u>\$ 1,773,365</u>	<u>\$ 1,773,365</u>

The interfund transfers represent a transfer of profit from the franchise enterprise fund to the FLVS global-development enterprise fund. The transfer was for \$1,773,365 to be used for the development of student courses.

9. SCHEDULE OF STATE REVENUE SOURCES

The following is a schedule of the School's State revenue for the General Fund for the 2012-13 fiscal year:

<u>Source</u>	<u>2012-13</u>
Florida Education Finance Program	<u>\$ 196,574,768</u>
Other State Sources:	
Reading Program	1,740,927
Miscellaneous State	<u>350</u>
Total Other State Sources	<u>1,741,277</u>
Total State Revenues	<u>\$ 198,316,045</u>

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

10. 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 FLORIDA VIRTUAL SCHOOL
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2013**

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 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 745 School participants during the 2012-13 fiscal year. Required contributions made to PEORP totaled \$1,402,695.

**THE FLORIDA VIRTUAL SCHOOL
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2013**

FRS Retirement Contribution Rates

The Florida Legislature establishes, and may amend, contribution rates for each membership class of the FRS. During the 2012-13 fiscal year, contribution rates were as follows:

	Employee	Employer (A)
Florida Retirement System, Regular	3.00	5.18
Florida Retirement System, Senior Management Service	3.00	6.30
Deferred Retirement Option Program - Applicable to Members from all of the Above Classes or Plans	0.00	5.44
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) In addition to the rates shown, employer rates include 1.11 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 reemployed.

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, 2011, June 30, 2012 and June 30, 2013, totaled \$7,537,689, \$3,733,734, and \$5,065,845 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.

11. 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 2012-13 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 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

**THE FLORIDA VIRTUAL SCHOOL
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2013**

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 two plans are administered by Blue Cross Blue Shield of Florida. The School reported an estimated unpaid claims liability of \$909,033.

12. 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 2012-13, 13 retirees received health care benefits. The School provided required contributions estimated at \$80,088 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:

Description	Amount
Normal Cost (service cost for one year)	\$ 1,076,316
Amortization of Unfunded Actuarial Accrued Liability	549,538
Interest on Normal Cost and Amortization	-
	<hr/>
Annual Required Contribution (ARC)	1,625,854
Interest on Net OPEB Obligation (NOO)	151,071
Adjustment to Annual Required Contribution	(145,261)
	<hr/>
Annual OPEB Cost (Expense)	1,631,664
	<hr/>
Estimated Contribution Toward the OPEB Cost	(80,088)
	<hr/>
Increase in Net OPEB Obligation	1,551,576
	<hr/>
Net OPEB Obligation, Beginning of Year	3,776,784
	<hr/>
Net OPEB Obligation, End of Year	<u>\$ 5,328,360</u>

**THE FLORIDA VIRTUAL SCHOOL
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2013**

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, 2011	\$ 1,272,916	\$ 52,706	4.14%	\$ 2,496,874
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

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.

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, 2013, 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, 2013 and to estimate the School's 2012-2013 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, 2013, is 26 years.

13. 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.

**THE FLORIDA VIRTUAL SCHOOL
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2013**

14. SUBSEQUENT EVENTS

During the 2013 legislative session, the Florida legislators passed a new funding model that affects the way that FEFP (Florida Education Funding Program) funding is calculated for school districts and the Florida Virtual School.

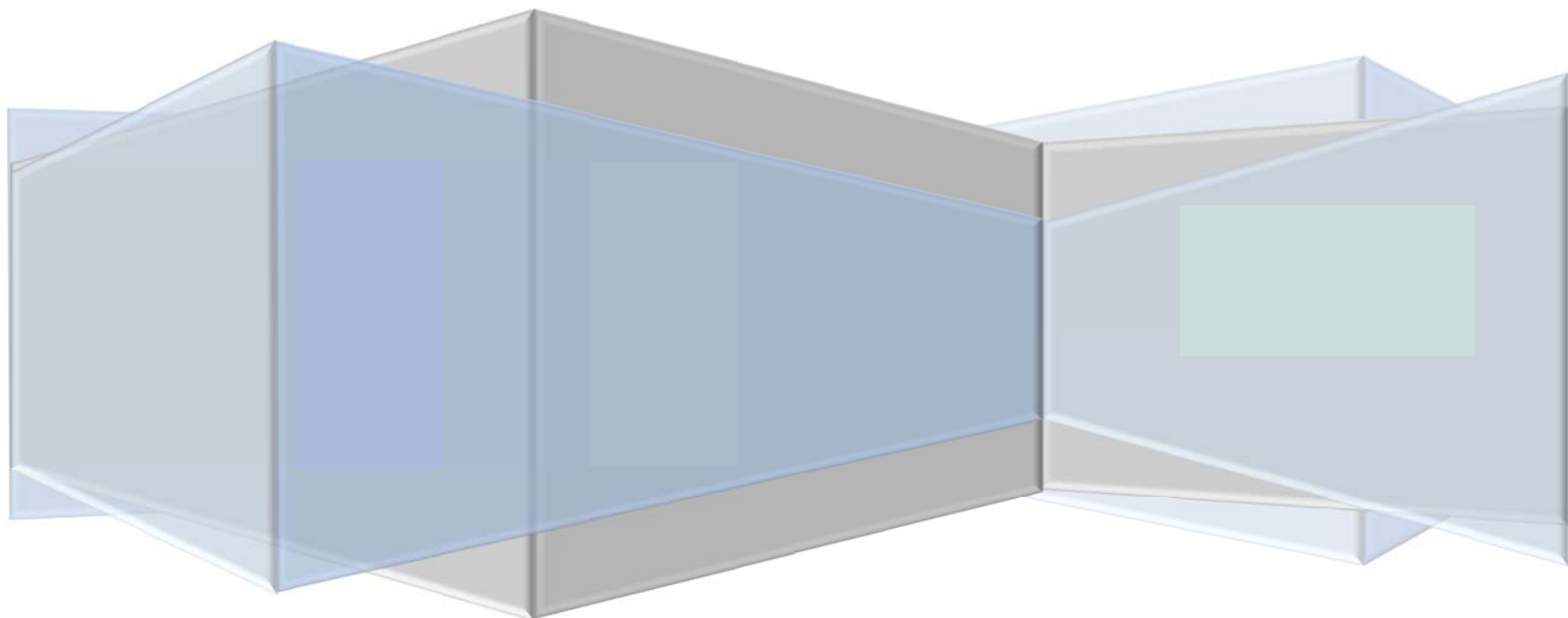
Under the new funding model, a student FTE (Full-Time Equivalent) for funding will be determined on a State-wide basis and not on a district by district basis. Each district and/or the Florida Virtual School will "share" ONE (1) FTE for each student based upon a proportionate sharing formula.

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-course allotment that equaled one-sixth of the FEFP FTE funding. Under the new funding model, the Florida Virtual School receives one-seventh of the allotment and the district receives six-sevenths if a student takes six courses with their local school and one course online. This is further adjusted if additional courses are taken online. Funding for homeschool and private school students, however, remain the same.



Required Supplementary Information

Annual Financial Report 2013



**THE FLORIDA VIRTUAL SCHOOL
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Fiscal Year Ended June 30, 2013**

	General Fund			Variance Positive / (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
REVENUES				
Federal Direct Sources:				
Miscellaneous Federal Direct	\$ -	\$ 92,197	\$ 91,919	\$ (278)
Total Federal Direct Sources	-	92,197	91,919	(278)
State Sources:				
Florida Education Finance Program	140,594,518	170,706,605	196,574,768	25,868,163
Reading Program	1,428,727	1,428,727	1,740,927	312,200
Other State Sources	-	-	350	350
Total State Sources	142,023,245	172,135,332	198,316,045	26,180,713
Local Sources:				
Other Local Sources	1,501,092	29,565,250	3,757,153	(25,808,097)
Total Local Sources	1,501,092	29,565,250	3,757,153	(25,808,097)
Total Revenues	143,524,337	201,792,779	202,165,117	372,338
EXPENDITURES				
Current:				
Instruction	103,719,536	126,569,133	126,569,133	-
Pupil Personnel Services	598,431	4,091,409	4,003,083	88,326
Instruction and Curriculum Development Services	8,297,225	10,265,948	2,506,469	7,759,479
Instructional Staff Training Services	2,865,293	4,262,949	3,872,781	390,168
Instruction Related Technology	8,133,840	12,716,894	9,811,770	2,905,124
School Board	1,052,899	1,210,409	852,409	358,000
General Administration	2,755,741	3,126,669	2,472,642	654,027
School Administration	12,531,804	8,190,904	5,764,249	2,426,655
Fiscal Services	2,909,670	1,930,435	1,802,004	128,431
Central Services	12,320,913	11,438,589	8,892,380	2,546,209
Operation of Plant	2,258,586	2,478,215	2,246,085	232,130
Administrative Technology Services	7,693,029	13,422,894	9,156,014	4,266,880
Capital Outlay:				
Other Capital Outlay	-	5,299,191	5,299,191	-
Total Expenditures	165,136,967	205,003,639	183,248,210	21,755,429
Excess (Deficiency) of Revenues Over Expenditures	(21,612,630)	(3,210,860)	18,916,907	22,127,767
Net Change in Fund Balance	(21,612,630)	(3,210,860)	18,916,907	22,127,767
Fund Balance, July 1, 2012	18,239,067	19,764,070	19,764,070	-
Adj to Beginning Fund Balance	-	(441,140)	(441,140)	-
Fund Balance, June 30, 2013	\$ (3,373,563)	\$ 16,112,070	\$ 38,239,837	\$ 22,127,767

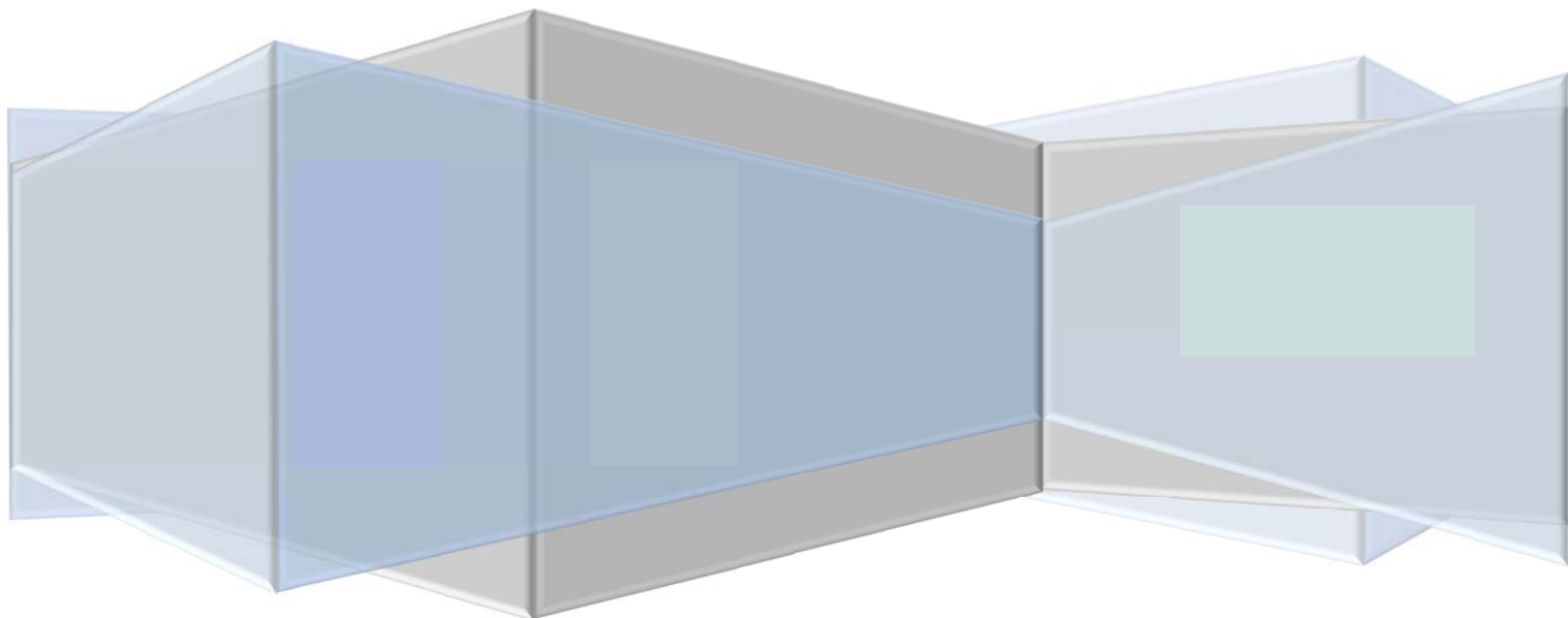
**THE FLORIDA VIRTUAL SCHOOL
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
OTHER POST EMPLOYMENT BENEFITS PLAN
For the Fiscal Year Ended June 30, 2013**

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)	UAAAL as a Percentage of Covered Payroll [(b-a)/c]
June 30, 2011	\$ -	\$ 11,475,086	\$ 11,475,086	0.00%	\$ 73,853,389	15.54%
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%



Other Reports

Annual Financial Report 2013



**THE FLORIDA VIRTUAL SCHOOL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2013**

Federal Pass-Through Entity Federal Program	CFDA Number	Contract/ Grant Number	Contract Period	Expenditures	Amount Provided to Sub-Recipients
Federal Awards					
Direct:					
United States Department of Education					
Turning Points in American History	84.215X	N/A	07/15/09 - 07/14/13	\$ 91,919	\$ -
Indirect:					
Passed through the State of Florida Department of Educator					
Carl D. Perkins -Secondary, Sec. 131	84.048A	48C-1613A-3CV01	07/01/12 - 06/30/13	25,000	-
Title I - Part A	84.010A	48C-2123A-3CB01	07/01/12 - 06/30/13	555,596	474,775
Title II - Part A	84.367A	48C-2243B-3CT01	07/01/12 - 06/30/13	32,423	28,560
IDEA - Part B	84.027A	48C-2633A-3CB01	09/17/12 - 06/30/13	350,082	346,220
Postsecondary Education Readiness Assessment	L.I.115	48C-99750-3ST01	10/15/12 - 06/30/13	381	-
Common Core State Standards	84.395A	48C-RG311-3C401	05/08/13 - 06/30/14	279	-
Total Department of Education Indirect				<u>963,761</u>	<u>849,555</u>
Indirect:					
Race to the Top Fund - passed through from the University of Central Florida	84.395A	481-RG411-3C001	07/01/12-06/30/13	211,275	-
Total Federal Awards				<u>\$ 1,266,955</u>	<u>\$ 849,555</u>

See Accompanying Notes to Schedule

THE FLORIDA VIRTUAL SCHOOL
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013

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, 2013. 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, 2013.

THE FLORIDA VIRTUAL SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - FEDERAL PROGRAMS
YEAR ENDED JUNE 30, 2013

Section A – Summary of Auditor’s Results

1. The independent auditor’s report expresses an unqualified opinion on the financial statements of The Florida Virtual School.
2. No significant deficiencies or material weaknesses were reported in the 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*.
3. No instances of noncompliance material to the financial statements of The Florida Virtual School were disclosed during the audit.
4. No significant deficiencies or material weakness related to the audit of the major federal award programs were reported in the Independent Auditor’s Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditor’s report on compliance for the major federal award programs for The Florida Virtual School expresses an unqualified opinion.
6. There were no audit findings relative to the major federal award programs for The Florida Virtual School.
7. Identification of major programs:

<u>Name of Federal Program</u>	<u>Federal CFDA Number</u>
Title I – Part A	84.010A
IDEA – Part B	84.027A

8. The threshold for distinguishing Type A and Type B programs was \$300,000 for major federal programs.
9. The Florida Virtual School did not qualify as a low-risk auditee pursuant to OMB Circular A-133 for the year ended June 30, 2013 due to the fact that Single Audits have not been performed for the previous two years.

Section B – Financial Statement Findings

No matters were reported.

See auditor’s report.

THE FLORIDA VIRTUAL SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - FEDERAL PROGRAMS - CONTINUED
YEAR ENDED JUNE 30, 2013

Section C – Findings and Questioned Costs – Major Federal Programs

No matters were reported.

Section D – Other Issues

1. No summary schedule of prior audit findings is presented because there were no prior audit findings related to federal awards.

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

To the Board of Trustees
The Florida Virtual School
Orlando, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of The Florida Virtual School, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise The Florida Virtual School's basic financial statements, and have issued our report thereon dated January 29, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Florida Virtual 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 Florida Virtual School's internal control. Accordingly, we do not express an opinion on the effectiveness of the Florida Virtual 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 a 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Florida Virtual School's financial statements are free from 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*.

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.

Carole Riggs & DeNoma LLC

Orlando, Florida
January 29, 2014

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

To the Board of Trustees
The Florida Virtual School
Orlando, Florida

Report on Compliance for Each Major Federal Program

We have audited The Florida Virtual School's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of The Florida Virtual School's major federal programs for the year ended June 30, 2013. The Florida Virtual 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's 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 Florida Virtual 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 Florida Virtual 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 Florida Virtual School's compliance.

Opinion on Each Major Federal Program

In our opinion, The Florida Virtual 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 identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of The Florida Virtual 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 Florida Virtual 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 Florida Virtual 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.

Carole Riggs & Dorman LLC

Orlando, Florida
January 29, 2014

INDEPENDENT AUDITOR'S MANAGEMENT LETTER

To The Board of Trustees
The Florida Virtual School
Orlando, Florida

We have audited the financial statements of The Florida Virtual School, as of and for the fiscal year ended June 30, 2013, and have issued our report thereon dated January 29, 2014.

We conducted our audit 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*. We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*, Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on each Major Federal Program and on Internal Control over Compliance in Accordance with IMB Circular A-133, and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated January 29, 2014, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.800, Rules of the Auditor General, which governs the conduct of district school board audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditor's reports or schedule:

- 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 financial audit report. Corrective actions have been taken to address findings and recommendations made in the preceding financial audit report.
- Section 10.804(1)(f)2., Rules of the Auditor General, requires a statement be included as to whether or not the district school board has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that The Florida Virtual School did not meet any of the conditions described in Section 218.503(1), Florida Statutes.
- Section 10.804(1)(f)3., Rules of the Auditor General, requires our audit to include a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that The Florida Virtual School complied with Section 218.415, Florida Statutes.
- Section 10.804(1)(f)4., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.

- Section 10.804(1)(f)5., Rules of the Auditor General, requires that we address fraud, noncompliance with provisions of laws or regulations and contract 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 warrant the attention of those charged with governance. In connections with our audit, we did not have any such findings.
- Pursuant to Sections 10.804(1)(f)6.a. and 10.805(6), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor The Florida Virtual School's financial condition, and our financial condition assessment was based in part on representation made by management and the review of financial information provided by same.
- Section 10.804(1)(f)7., Rules of the Auditor General, requires the auditor to state whether or not the district school board complied with transparency requirements (Section 1011.035, Florida Statutes, provides that district school boards include a plain language version of each proposed, tentative, and official budget that describes each budget item in terms that are easily understandable to the public.) In connection with our audit, we determined that The Florida Virtual School complied with transparency requirements.

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, and applicable management and is not intended to be and should not be used by anyone other than these specified parties.

Carole Riggs & DeNoma LLC

Orlando, Florida
January 29, 2014