

FIVE FLAGS ACADEMY
(A CHARTER SCHOOL UNDER 21ST CENTURY
ACADEMY OF PENSACOLA, INC.)

A Charter School and Component Unit of the
District School Board of Escambia County, Florida

INDEPENDENT AUDITOR'S REPORT
for the fiscal year ended JUNE 30, 2015

King & Walker, CPAs, PL

Certified Public Accountants

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FIVE FLAGS ACADEMY
(A CHARTER SCHOOL UNDER 21ST CENTURY ACADEMY OF PENSACOLA, INC.)
A Charter School and Component Unit of the District School Board of Escambia County, Florida)

TABLE OF CONTENTS

	PAGE <u>NO.</u>
FINANCIAL SECTION	
Independent Auditor’s Report on Basic Financial Statements and Required Supplementary Information	1
Management’s Discussion and Analysis – (Unaudited)	3
Basic Financial Statements	
<i>Government-Wide Financial Statements:</i>	
Statement of Net Position	8
Statement of Activities	9
<i>Fund Financial Statements:</i>	
Balance Sheet – Governmental Funds	10
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	11
Notes to Financial Statements	12
Other Required Supplementary Information	
Budgetary Comparison Schedule – General Fund – (Unaudited)	21
Notes to Required Supplementary Information	22
COMPLIANCE AND INTERNAL CONTROL	
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Governmental Auditing Standards</i>	23
Management Letter as required by Rules of the Florida Auditor General, Chapter 10.850, Florida Statutes, <i>Charter School Audits</i> .	25
Management’s Response to Findings	27

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Independent Auditor's Report

To the Board of Directors of the Five Flags Academy
(A charter school under 21st Century Academy of Pensacola, Inc.),
a Charter School and Component Unit of the District
School Board of Escambia County, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Five Flags Academy, a charter school under 21st Century Academy of Pensacola, Inc. ("School"), and a component unit of the District School Board of Escambia County, Florida, as of and for the year ended June 30, 2015, 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 *Governmental 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 School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Five Flags Academy, as of June 30, 2015, and the respective changes in financial position thereof for the year ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1, the accompanying financial statements referred to above present only the financial position of Five Flags Academy at June 30, 2015, and the respective changes in financial position for the year then ended, and is not intended to be a complete presentation of 21st Century Academy of Pensacola, Inc. These financial statements do not purport to and do not present fairly the financial position of 21st Century Academy of Pensacola, Inc. as of June 30, 2015 and its changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Termination of Charter

As disclosed in Note 8 of the financial statements, the District terminated the charter school agreement and closed the School effective June 30, 2015. Thereafter the control of the assets of the School reverted to the District School Board of Escambia County.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Budgetary Comparison Schedule, and Notes to Required Supplementary Information, as shown on 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 historic 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 methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 17, 2015 on our consideration of Five Flags Academy'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 Five Flags Academy's internal control over financial reporting and compliance.

Respectfully submitted,



August 17, 2015
Tampa, Florida

FIVE FLAGS ACADEMY

(A CHARTER SCHOOL UNDER 21ST CENTURY ACADEMY OF PENSACOLA, INC.)
A Charter School and Component Unit of the District School Board of Escambia County, Florida

MANAGEMENT'S DISCUSSION AND ANALYSIS - (Unaudited)

The Management's Discussion and Analysis (MD&A) section of the annual financial report of the Five Flags Academy, a charter school under 21st Century Academy of Pensacola, Inc. ("School") provides an overview of the School's activities for the fiscal year ended June 30, 2015.

Because the information contained in the MD&A is intended to highlight significant transactions, events, and conditions, it should be considered in conjunction with the School's financial statements and notes to financial statements as listed on the table of contents.

CLOSING OF THE SCHOOL

The District School Board of Escambia County approved the termination of the School's charter effective June 30, 2015. As required by the charter agreement and State statute all assets revert to the District School Board of Escambia County. This is the final annual financial report of the School.

FINANCIAL HIGHLIGHTS

- For the fiscal year ended June 30, 2015, the School's expenses exceeded revenues as shown on the School's statement of activities by \$506,176.
- As shown on the statement of Net Position, the School reported a Net Position deficit balance of \$514,481.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements consist of three components:

- ✓ Government-wide financial statements
- ✓ Fund financial statements
- ✓ Notes to financial statements

Government-Wide Financial Statements

The government-wide financial statements provide both short-term and long-term information about the School's overall financial condition in a manner similar to those of a private-sector business. The statements include a statement of Net Position and a statement of activities that are designed to provide consolidated financial information about the governmental activities of the School presented on the accrual basis of accounting. The statement of Net Position provides information about the government's financial position, its assets and liabilities, using an economic resources measurement focus. The difference between the assets and liabilities, the Net Position, 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 and 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. To assess the overall financial position

of the School, one needs to consider additional non-financial factors such as changes in the School student base funding level.

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. Fund financial statements provide more detailed information about the School's financial activities, focusing on its most significant funds rather than fund types. This is in contrast to the entity-wide perspective contained in the government-wide statements.

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

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

The governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances provide detailed information about the School's most significant funds. The School operates the following funds: a General Fund to account for its general operations and internal account activities. The General Fund is reported as a major fund.

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

Notes to Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position may serve over time as a useful indicator of a government's financial position. The School was only in operation for one year; therefore, there are no comparative amounts from a prior year to report. The following is a summary of the School's Net Position as of June 30, 2015:

	Net Position, End of Year	
	<u>Governmental Activities</u>	
	<u>6-30-15</u>	
ASSETS		
Current and Other Assets	\$	<u>85,311</u>
Total Assets		<u>85,311</u>
LIABILITIES		
Current Liabilities		<u>599,792</u>
Total Liabilities		<u>599,792</u>
NET POSITION		
Unrestricted		<u>514,481</u>
Total Net Position	\$	<u><u>514,481</u></u>

The assets of the School consist of cash, accounts receivable, and amounts due from other agencies. Liabilities consist of accounts and loans payable and amounts owed to other charter schools for current operations. Total Net Position amounted to a deficit of \$514,481.

The School was only in operation for one year; therefore, there are no comparative amounts from a prior year to report. The key elements of the changes in the School's Net Position for the fiscal year ended June 30, 2015 is as follows:

	Operating Results for the Year	
	<u>Governmental Activities</u>	
	<u>6-30-15</u>	
Revenues:		
State Sources	\$	577,260
Local and Other		11,959
Total Revenues		<u>589,219</u>
Expenses:		
Instruction		448,733
Pupil Personnel Services		1,910
Instructional Staff Training		650
Instructional Related Technology		61,722
Board of Education		155,548
School Administration		233,585
Facilities Acq. & Construction		127,247
Fiscal Services		15,769
Food Services		8,582
Operation of Plant		39,494
Maintenance of Plant		2,150
Community Service		5
Total Expenses		<u>1,095,395</u>
Increase/(Decrease) in Net Position	\$	<u>(506,176)</u>

The largest revenue source for the School is from the State of Florida (98%). Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data to determine the funds available for the School.

The largest concentration of expenses was for Instruction related functions which represents 47 percent of total expenditures.

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

Governmental Funds

As the School completed the year, its governmental funds reported a combined deficit fund balance of \$514,481.

BUDGETARY HIGHLIGHTS

The General Fund budget for the fiscal year ended June 30, 2015, was developed based on the School's anticipated revenues and expenditures and the expected student population for the school year. Over the course of the year, the school revised its General Fund budget. Refer to the Budgetary Comparison Schedule for additional information.

CAPITAL ASSETS

The School Reported no investment in capital assets for its governmental activities as of June 30, 2015.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Five Flags Academy's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to School Financial Services, Inc., 30 East Texar Drive, Pensacola, FL 32503.

FIVE FLAGS ACADEMY
(A CHARTER SCHOOL UNDER 21ST CENTURY ACADEMY OF PENSACOLA, INC.)

A CHARTER SCHOOL AND COMPONENT UNIT OF THE
DISTRICT SCHOOL BOARD OF ESCAMBIA COUNTY, FLORIDA

STATEMENT OF NET POSITION

June 30, 2015

	<u>Governmental Activities</u>
ASSETS	
Cash & Cash Equivalents	\$ 35,066
Accounts Receivable	595
Due From Escambia County Schools	<u>49,650</u>
TOTAL ASSETS	<u><u>85,311</u></u>
LIABILITIES	
Accounts Payable	30,295
Due to Management Company	354,170
Due to Affiliated Charter School - NewPoint Pensacola High	168,232
Due to Affiliated Charter School - NewPoint Pensacola Academy	<u>47,095</u>
TOTAL LIABILITIES	<u><u>599,792</u></u>
NET POSITION	
Net Investment in Capital Assets	-
Unrestricted	<u>(514,481)</u>
TOTAL NET POSITION	<u><u>\$ (514,481)</u></u>

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

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A CHARTER SCHOOL AND COMPONENT UNIT OF THE
DISTRICT SCHOOL BOARD OF ESCAMBIA COUNTY, FLORIDA

STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2015

	Expenses	Program Revenues			Net (Expenses) Revenue and Changes Net Position	Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
Governmental Activities:						
Instruction	\$ 448,733	\$ -	\$ -	\$ -	\$ (448,733)	\$ (448,733)
Student Personnel Services	1,910				(1,910)	(1,910)
Instructional Staff Training	650				(650)	(650)
Instructional Related Technology	61,722				(61,722)	(61,722)
Board of Education	155,548				(155,548)	(155,548)
School Administration	233,585				(233,585)	(233,585)
Facilities Acquisition & Construction	127,247				(127,247)	(127,247)
Fiscal Services	15,769				(15,769)	(15,769)
Food Services	8,582				(8,582)	(8,582)
Operation of Plant	39,494				(39,494)	(39,494)
Maintenance of Plant	2,150				(2,150)	(2,150)
Community Service	5				(5)	(5)
Total Governmental Activities	\$ 1,095,395	\$ -	\$ -	\$ -	(1,095,395)	(1,095,395)
General Revenues:						
State Sources					577,260	577,260
Local and Other					11,959	11,959
Total General Revenues					589,219	589,219
Change in Net Position					(506,176)	(506,176)
Net Position - July 1, 2014					(8,305)	(8,305)
Net Position - June 30, 2015					\$ (514,481)	\$ (514,481)

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

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A CHARTER SCHOOL AND COMPONENT UNIT OF THE
DISTRICT SCHOOL BOARD OF ESCAMBIA COUNTY, FLORIDA

BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2015

	<u>General Fund</u>	<u>Tot Govern: Activ</u>
ASSETS		
Cash & Cash Equivalents	\$ 35,066	
Accounts Recievable	595	
Due From Escambia County Schools	<u>49,650</u>	
Total Assets	<u><u>\$ 85,311</u></u>	=
LIABILITIES		
Accounts Payable	\$ 30,295	
Due to Management Company	354,170	
Due to Affiliated Charter School - NewPoint Pensacoal High	168,232	
Due to Affiliated Charter School - NewPoint Pensacola Academy	<u>47,095</u>	
Total Liabilities	<u>599,792</u>	-
FUND BALANCE		
Unspendable	-	
Spendable - Unassigned	<u>(514,481)</u>	-
Total Fund Balance	<u>(514,481)</u>	-
Total Liabilities and Fund Balance	<u><u>\$ 85,311</u></u>	=

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

FIVE FLAGS ACADEMY
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A CHARTER SCHOOL AND COMPONENT UNIT OF THE
DISTRICT SCHOOL BOARD OF ESCAMBIA COUNTY, FLORIDA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS

For the Fiscal Year Ended June 30, 2015

	General Fund
Revenues	
Intergovernmental:	
State Sources	\$ 577,260
Local and Other	11,959
Total Revenues	589,219
Expenditures	
Current - Education:	
Instruction	448,733
Student Personnel Services	1,910
Instructional Staff Training	650
Instructional Related Technology	61,722
Board of Education	155,548
School Administration	233,585
Facilities Acquisition & Construction	127,247
Fiscal Services	15,769
Food Services	8,582
Operation of Plant	39,494
Maintenance of Plant	2,150
Community Service	5
Total Expenditures	1,095,395
Net Change in Fund Balances	(506,176)
Fund Balance, July 1, 2014	(8,305)
Fund Balance, June 30, 2015	\$ (514,481)

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

➤ **Reporting Entity**

Five Flags Academy, a charter school under 21st Century Academy of Pensacola, Inc. (“School”) is a component unit of Escambia County School Board, Florida. The school is sponsored by its charter-holder, 21st Century Academy of Pensacola, Inc., a not-for-profit corporation organized pursuant to Chapter 617, Florida Statutes, the Florida Not-For-Profit Corporation Act. The governing body of the School is the not-for-profit corporation Board of Directors, which is comprised of five members.

The basic financial statements of the School present only the balances, activity and disclosures related to the School. They do not purport to, and do not, present fairly the financial position of 21st Century Academy of Pensacola, Inc. as of June 30, 2015, and its changes in financial position or budgetary comparisons, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The general operating authority of the School is contained in Section 1002.33, Florida Statutes. The School operated under a charter of the sponsoring school district, the District School Board of Escambia County, Florida, (“District”). The charter was terminated by the District as of June 30, 2015, as disclosed in Note 8 of the financial statements. The School is considered a component unit of the District; therefore, for financial reporting purposes, the School is required to follow generally accepted accounting principles applicable to state and local governmental units.

Criteria for determining if other entities are potential component units which should be reported within the School's basic financial statements are identified and described in the Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600. The application of these criteria provides for identification of any 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 basic 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.

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. Direct expenses are those that are specifically

NOTES TO FINANCIAL STATEMENTS
June 30, 2015

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 is self-financing or draws from the general revenues of the School.

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

The School's major governmental fund is as follows:

- 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.

➤ **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. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of the related cash flows. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been satisfied.

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 30 days of the end of the current fiscal year. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made. Under the modified accrual basis of accounting, expenditures are generally recognized when the

NOTES TO FINANCIAL STATEMENTS
June 30, 2015

related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, and compensated absences, which are recognized when due. Allocations of cost, such as depreciation, are not recognized in governmental funds.

➤ **Cash and Cash Equivalents**

Cash and cash equivalents consist of demand deposits with one financial institution. Deposits on hand at this financial institution are insured by the Federal Deposit Insurance Company up to \$250,000.

➤ **Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The School does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until then. The School does not have any items that qualify for reporting in this category.

➤ **Net Position and Fund Balance Classification**

Government-wide Financial Statements

Net Position are classified and reported in three components:

- Net Investment in Capital Assets – consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any borrowings that are attributed to the acquisition or improvement of those assets.
- Restricted Net Position – consists of net position with constraints placed on their use either by external groups such as creditors, contributors, or laws or regulations of other governments.
- Unrestricted Net Position – all other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

Fund Financial Statements

GASB Codification Section 1800.142, *Fund Balance Reporting and Governmental Fund Type Definitions*, defines the different types of fund balances that a governmental entity must use for financial reporting purposes. GASB

NOTES TO FINANCIAL STATEMENTS
June 30, 2015

requires the fund balance amounts to be reported within one of the following fund balance categories:

- Nonspendable – fund balance associated with inventories, prepaid expenses, long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed or assigned). All nonspendable fund balances at year end relate to assets that are in nonspendable form.
- Restricted – fund balance that can be spent only for the specific purposes stipulated by the constitution, external resource providers, or through enabling legislation.
- Committed – fund balance that can be used only for the specific purposes determined by a formal action of the School’s Board of Governance.
- Assigned – fund balance that is intended to be used by the School’s management for specific purposes but does not meet the criteria to be classified as restricted or committed.
- Unassigned – fund balance that is the residual amount for the School’s general fund and includes all spendable amounts not contained in the other classifications.

➤ **Order of Fund Balance Spending Policy**

The School’s policy is to apply expenditures against nonspendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance at the end of the fiscal year. First, nonspendable fund balances are determined. Then restricted fund balances for specific purposes are determined (not including nonspendable amounts). Any remaining fund balance amounts for the non-general funds are to be classified as restricted fund balance. It is possible for the non-general funds to be classified as restricted fund balance. It is possible for the non-general funds to have negative unassigned fund balance when nonspendable amounts plus the amount of restricted fund balances for specific purposes exceed the positive fund balance for non-general fund.

➤ **Revenue Sources**

Revenues for current operations are received primarily from the District pursuant to the funding provisions included in the School’s charter. In accordance with the funding provisions of the charter and Section 1002.33(17), Florida Statutes, the School reports the number of full-time equivalent students and related data to the District.

Under provisions of Section 1011.62, Florida Statutes, the District reports the number of full-time equivalent students and related data to the Florida Department of Education (FDOE) for funding through the Florida Education Finance Program (FEFP). Funding for the School is adjusted during the year to

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NOTES TO FINANCIAL STATEMENTS
June 30, 2015

reflect the revised calculations by the FDOE under the FEFP and the actual weighted full-time equivalent students (FTE) reported by the School during designated full-time equivalent student survey periods. 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 basic amount of funding through the FEFP under Section 1011.62 is the product of the (1) unweighted FTE, multiplied by (2) the cost factor for each program, multiplied by (3) the base student allocation established by the legislature. Additional funds for exceptional students who do not have a matrix of services are provided through the guaranteed allocation designated in Section 1011.62(1)(e)2., Florida Statutes. For the fiscal year ended June 30, 2015, the School reported 90.03 unweighted FTE and 98.35 weighted FTE.

FEFP funding may also be adjusted as a result of subsequent FTE audits conducted by the Florida Auditor General pursuant to Section 1010.305, Florida Statutes, and Rule 6A-1.0453, Florida Administrative Code (FAC). Schools are required to maintain the following documentation for three years or until the completion of an FTE audit:

- Attendance and membership documentation (Rule 6A-1.044, FAC).
- Teacher certificates and other certification documentation (Rule 6A-1.0503, FAC).
- Documentation for instructors teaching out-of-field (Rule 6A-1.0503, FAC).
- Procedural safeguards for weighted programs (Rule 6A-6.03411, FAC).
- Evaluation and planning documents for weighted programs (Section 1010.305, Florida Statutes, and Rule 6A-6.03411, FAC).

The School receives federal or state awards for the enhancement of various educational programs. This assistance is generally received based on applications submitted to and approved by various granting agencies. For federal or state awards in which a claim to these grant proceeds is based on incurring eligible expenditures, revenue is recognized to the extent that eligible expenditures have been incurred.

The School receives state funds through the District under charter school capital outlay funding pursuant to Section 1013.62, Florida Statutes. Funds are based upon a capital outlay plan submitted to the District and are to be used for lease, rent or construction of school facilities. The School also receives funding through donations and fundraising efforts, school lunch sales and local property tax collections.

The School follows the policy of applying restricted resources prior to applying unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted assets are available.

NOTES TO FINANCIAL STATEMENTS
June 30, 2015

➤ **Income Taxes**

The School is exempt from Federal tax under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been included in the accompanying financial statements. Additionally, no uncertain tax positions have been made requiring disclosure in the related notes to financial statements. The School's income tax returns for the past three years are subject to examination by tax authorities and may change upon examination.

➤ **Use of Estimates**

In preparing the financial statements in conformity with generally accepted accounting principles in the United States management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statement of net position and affect revenues and expenditures for the period presented. Actual results could differ from those estimates.

➤ **Subsequent Events**

Management has evaluated all events subsequent to the balance sheet date and through the report date, which is the date these financial statements were available to be issued. Management determined there are no subsequent events which require disclosure.

2. CASH DEPOSITS

Custodial Credit Risk – Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the School's deposits may not be returned to the School. The School does not have a custodial credit risk policy. All cash deposits are held in banks that qualify as public depositories under Florida law. All such deposits are insured by federal depository insurance and/or collateralized with securities held in Florida's multiple financial institution collateral pool as required by Chapter 280, Florida Statutes.

3. DUE FROM OTHER AGENCY

The amount due from other agency on the School's Statement of Net Position and Balance Sheet – Governmental Funds represents FEFP revenue due from the District for the May 2015 allocation. This receivable is considered fully collectible and therefore, no allowance for uncollectible accounts has been established.

FIVE FLAGS ACADEMY

(A CHARTER SCHOOL UNDER 21ST CENTURY ACADEMY OF PENSACOLA, INC.)
A Charter School and Component Unit of the District School Board of Escambia County, Florida

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

4. ACCOUNTS PAYABLE

The School received cash advances from Newpoint Education Partners, LLC to fund operating costs during the year. The cash advances in the amount of \$67,000 are included in the amount of accounts payable in the accompanying financial statements. The amount was an advance with no repayment stipulations such as no interest rate and is expected to be repaid within one year. See also note 8 to the financial statements regarding related party transactions.

5. SCHEDULE OF STATE REVENUE SOURCES

The following is a schedule of the School's State revenue.

Source	Amount
Florida Education Finance Program	\$ 383,999
Class Size Reduction	116,011
Discretionary Local Effort	25,604
Supplementary Academic Instruction	20,797
Discretionary Millage	10,829
ESE Guaranteed Allocation	10,015
Instructional Materials	7,936
Florida Teachers' Lead Program	1,750
Discretionary Lottery Allocation	319
Total State Revenue	<u>\$ 577,260</u>

As provided in the charter school contract, the District has charged the School an administrative fee equal to \$28,591.

6. OPERATING AGREEMENTS

Management Agreement – The School entered into a management agreement for the period July 1, 2014, to June 30, 2019, with Newpoint Education Partners, LLC (the "Company"). Thereafter the agreement will automatically renew for additional, successive three (5) year terms unless one party notifies the other party at least six (6) months prior to the expiration of the then-current term of its intention not to renew the agreement. The contract calls for the Company to be responsible and accountable to the School Board for the administration, operation and performance of the School in accordance with the School's contract, the statement of mission and purpose and the laws of the State of Florida. The agreement includes various other responsibilities of the Company involving school operations and reporting requirements. The contract provides for an Educational Model Development fee defined as the sum of any grants intended to cover start-up costs of the School to the extent permitted by the terms of such grants, which shall be non-refundable and deemed fully earned when paid. The contract further provides for a continuing fee defined as 18 percent of the School's qualified gross revenues, less the amount of any outstanding default costs and expenses. Qualified gross

FIVE FLAGS ACADEMY

(A CHARTER SCHOOL UNDER 21ST CENTURY ACADEMY OF PENSACOLA, INC.)
A Charter School and Component Unit of the District School Board of Escambia County, Florida

NOTES TO FINANCIAL STATEMENTS **June 30, 2015**

revenues shall mean revenues and income received by the School from Basic State Funding, FEFP Funding, Special Education Funding, Class Size Funding, Safety Funding, and income sources provided by state, federal and local law and/or obtained through the Company's efforts.

Under this contract, the School incurred \$98,436 of expenses for the 2014-15 fiscal years.

Professional Accounting Services Company – The School has a contract with a professional accounting services company which provides accounting and financial services and other assistance to the School at a fixed percentage (3%) of the net FEFP revenue collected from the District. Approximately \$15,769 was paid for these professional services during the fiscal year. The contract may be cancelled by either party with 30 days advance notice.

7. RELATED PARTY TRANSACTIONS

During the current fiscal year, Newpoint High Pensacola made payments for expenditures on behalf of Five Flags Academy, a charter school under the same organization. As of June 30, 2015, \$168,232 is due to Newpoint High Pensacola for these expenditures. This amounts is reported in the account title Due to Other Charter Schools.

During the current fiscal year, Newpoint Academy Pensacola made payments for expenditures on behalf of Five Flags Academy, a charter school under the same organization. As of June 30, 2015, \$47,095 is due to Newpoint Academy Pensacola for these expenditures. This amounts is reported in the account title Due to Other Charter Schools.

During the current fiscal year, Newpoint Education Partners, LLC, the Five Flags Academy management company, made payments for expenditures on behalf of Five Flags Academy and made cash advances to the School to be used for operational expenditures. As of June 30, 2015, \$287,170 is due toward the expenditures paid on behalf of the School and \$67,000 is due toward the cash advances as more fully described in note 5 to the financial statements.

During the current fiscal year, the School shared its facilities with Newpoint High Pensacola. Rent paid by the School for the 2014-15 fiscal year totaled \$125,747. A lease exists between 21st Century Academy of Pensacola, Inc. and Governmental Facilities Leasing Company for this shared facility.

8. TERMINATION OF CHARTER OPERATIONS

On May 8, 2015, the District School Board of Escambia County submitted notification of the intent to terminate the charter school agreement effective June 30, 2015. The School did not open for the 2015-16 school year. As required by the charter school agreement all assets of the School revert to the District School Board of Escambia County.

NOTES TO FINANCIAL STATEMENTS
June 30, 2015

9. DEFICIT FUND BALANCE

The School reported a deficit total fund balance in its General Fund of \$514,481 at June 30, 2015. The School also reported a deficit total net position balance of \$514,481 in the Statement of Net Position. This is a result of a deteriorating financial condition which may have contributed to the School's closure as of June 30, 2015.

10. 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; and natural disasters for which the School carries commercial insurance. There have been no significant reductions in insurance coverage and settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

11. FUNDING AND CREDIT RISK CONCENTRATIONS

The School receives substantially all of its support and revenue from federal, state and local funding sources, passed through the District, in the form of performance and budget based contracts. Continuing operation of the School is greatly dependent upon the continued support of these governmental agencies.

12. COMMITMENTS AND CONTINGENT LIABILITIES

The School participates in state grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies, therefore, to the extent that the School has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivables at June 30, 2015, may be impaired.

In the opinion of the School, there are no significant liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

13. LEGAL MATTERS

In the normal course of conducting its operations, the School occasionally becomes party to various legal actions and proceedings. In the opinion of management, the ultimate resolution of such legal matters will not have a significant adverse effect on the accompanying financial statements

FIVE FLAGS ACADEMY
(A CHARTER SCHOOL UNDER 21ST CENTURY ACADEMY OF PENSACOLA, INC.)
A CHARTER SCHOOL AND COMPONENT UNIT OF THE DISTRICT SCHOOL BOARD OF
ESCAMBIA COUNTY, FLORIDA

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND - (UNAUDITED)

For the Fiscal Year Ended June 30, 2015

	General Fund			Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues:				
Intergovernmental:				
State Sources	\$ 817,256	\$ 577,207	\$ 577,260	\$ 53
Local and Other	20,190	11,959	11,959	-
Total Revenues	<u>837,446</u>	<u>589,166</u>	<u>589,219</u>	<u>53</u>
Expenditures:				
Current - Education:				
Instruction	312,313	448,733	448,733	-
Student Personnel Services	10,950	1,910	1,910	-
Instructional Staff Training	2,548	650	650	-
Instructional Related Technology	2,421	61,722	61,722	-
Board of Education	181,284	155,548	155,548	-
School Administration	145,999	233,585	233,585	-
Facilities Acquisition & Construction	162,165	127,247	127,247	-
Fiscal Services	21,812	15,769	15,769	-
Food Services	5,447	8,582	8,582	-
Operation of Plant	50,420	39,494	39,494	-
Maintenance of Plant	3,552	2,150	2,150	-
Community Service		5	5	-
Total Expenditures	<u>898,911</u>	<u>1,095,395</u>	<u>1,095,395</u>	<u>-</u>
Net Change in Fund Balances	(61,465)	(506,229)	(506,176)	53
Fund Balance, July 1, 2014	(8,305)	(8,305)	(8,305)	-
Fund Balance, June 30, 2015	<u>\$ (69,770)</u>	<u>\$ (514,534)</u>	<u>\$ (514,481)</u>	<u>\$ 53</u>

See Independent Auditor's Report.

NEWPOINT HIGH PENSACOLA
(A CHARTER SCHOOL UNDER 21ST CENTURY ACADEMY OF PENSACOLA, INC.)
A Charter School and Component Unit of the District School Board of Escambia County, Florida

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2015

1. BUDGETARY BASIS OF ACCOUNTING

Budgets are presented on the modified accrual basis of accounting. During the fiscal year, expenditures were controlled at the object level (e.g., salaries and benefits, purchased services, materials and supplies and capital outlay) within each activity (e.g., instruction, pupil personnel services and school administration). Budgets may be amended by resolution at any Board meeting prior to the date for the annual report.

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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors of the Five Flags Academy
(A charter school under 21st Century Academy of Pensacola, Inc.),
a Charter School and Component Unit of the District
School Board of Escambia County, 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, each major fund, and the aggregate remaining fund information of Five Flags Academy, a charter school under 21st Century Academy of Pensacola, Inc. ("School"), and a component unit of the District School Board of Escambia County, Florida, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated August 17, 2015.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or 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 School's financial statements are free from material misstatement, we performed tests of 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 School'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 School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in black ink that reads "King & Walker, CPAs". The signature is written in a cursive, professional style.

August 17, 2015
Tampa, Florida

Members:
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Government Audit Quality Center

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**Management Letter as Required by Rules of the Florida Auditor General,
Chapter 10.850, Florida Statutes, *Charter School Audits***

To the Board of Directors of Five Flags Academy
(A charter school under 21st Century Academy of Pensacola, Inc.)
a Charter School and Component Unit of the
District School Board of Escambia County, Florida

Report on the Financial Statements

We have audited the financial statements of the Five Flags Academy (A charter school under 21st Century Academy of Pensacola, Inc.) (“School”), a Charter School and Component Unit of the District School Board of Escambia County Florida, as of and for the fiscal year ended June 30, 2015, and have issued our report thereon dated August 17, 2015.

Auditor’s Responsibility

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 10.850 Rules of the Auditor General.

Other Reporting Required by *Government Auditing Standards*

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*. Disclosures in those reports and schedule, which are dated August 17, 2015, should be considered in conjunction with this management letter.

Prior Audit Findings

Section 10.854(1)(e)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. This was the initial year of the School’s operations; therefore, there was not prior audit report.

Official Title

Section 10.854(1)(e)5, Rules of the Auditor General, requires the name or official title of the entity. The official title of the entity is Five Flags Academy.

Financial Condition

Sections 10.854(1)(e)2., Rules of the Auditor General, requires that we report the results of our determination as to whether or not the School has met one or more of the conditions described in

Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the School did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

2014-01 – Financial Emergency: The Rules of the Auditor General (Section 10.854(1)(e)2.), require that we make a statement as to whether or not the School has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific conditions met. In connection with our audit, we determined that the School did meet the conditions described in Section 218.503(1), Florida Statutes. The School failed to pay short-terms loans and failed to pay uncontested claims from creditors when due as a result of lack of funds.

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

Transparency

Sections 10.854(1)(e)7. and 10.855(13), Rules of the Auditor General, require that we report the results of our determination as to whether the School maintains on its Web site the information specified in Section 1002.33(9)(p), Florida Statutes. Due to the School's closure prior to performance of the audit, we were unable to determine that the School maintained on its Web site the information specified in Section 1002.33(9)(p), Florida Statutes.

Other Matters

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

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

Purpose of this Letter

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

Respectfully submitted,



August 17, 2015
Tampa, Florida

FIVE FLAGS ACADEMY
(A CHARTER SCHOOL UNDER 21ST CENTURY ACADEMY OF PENSACOLA, INC.)
A Charter School and Component Unit of the District School Board of Escambia County, Florida

MANAGEMENT'S RESPONSE TO AUDIT FINDINGS
Year Ended June 30, 2015

The following is the School's response to the item in the Management Letter dated August 17, 2015 as required by Rule 10.857, Rules of the Auditor General:

The School and its management acknowledge the findings as they are presented.