

**SARASOTA MILITARY ACADEMY PREP  
(A CHARTER SCHOOL UNDER SARASOTA MILITARY ACADEMY, INC.)  
A CHARTER SCHOOL AND COMPONENT UNIT OF  
THE SCHOOL BOARD OF SARASOTA COUNTY**

**INDEPENDENT AUDITORS' REPORT  
FINANCIAL STATEMENTS  
AND  
REQUIRED SUPPLEMENTARY  
INFORMATION**

**JUNE 30, 2015**

**PH PELLEGRINO HONICK  
MM MCFARLAND & MILLER, PA  
CERTIFIED PUBLIC ACCOUNTANTS**

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Sarasota Military Academy Prep

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and General Fund of Sarasota Military Academy Prep (the "Charter School"), a Charter School under Sarasota Military Academy, Inc., which is a Charter School and component unit of the School Board of Sarasota County, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Sarasota Military Academy Prep'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.

### **Auditors' 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 auditors' 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 auditors consider 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 and General Fund of Sarasota Military Academy Prep, as of June 30, 2015, and the respective changes in financial position, and, budgetary comparison for the General fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

As described in Note 1, the accompanying financial statements referred to above present only the respective financial position of the governmental activities and the General Fund of Sarasota Military Academy Prep 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 Sarasota Military Academy, Inc. These financial statements do not purport to and do not present fairly the respective financial position of the governmental activities and the General Fund of Sarasota Military Academy, Inc. as of June 30, 2015 and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison schedule on pages 4-7 and 31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2015, on our consideration of the Sarasota Military Academy, Inc.'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* and should be considered in assessing the results of the audit.

*Pellegrino Horick McFarland & Miller, P.A.*

Sarasota, Florida  
October 29, 2015

SARASOTA MILITARY ACADEMPY PREP  
(A CHARTER SCHOOL UNDER SARASOTA MILITARY ACADEMY, INC.)  
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015  
(UNAUDITED)

The following pages represent Management's Discussion and Analysis (MD&A) of Sarasota Military Academy Prep (the "Charter School"), a charter school under Sarasota Military Academy, Inc. It depicts and reviews the financial picture and activities of the Charter School as of and for the year ended June 30, 2015.

The intent of this MD&A is to present a picture and assessment of the Charter School's financial performance in an effort to more clearly demonstrate to readers the results of this year's financial operations. Readers should also review the basic financial statements and notes to enhance their understanding of the Charter School's financial performance.

Using the Financial Statements

This financial report includes a series of financial statements and notes to those financial statements. These statements are organized so the reader can understand the Charter School as a financial whole, or as an entire operating entity.

The Statement of Net Position and the Statement of Activities provide information about the activities of the Charter School as a whole, presenting both an aggregate view of the Charter School's finances and a longer-term view of those finances. The General Fund statements show how services were financed in the short-term as well as what financial resources remain for future spending.

Financial Highlights

**Statement of Net Position**

	<u>2015</u>	<u>2014</u>	<u>Change</u>
Current and other assets	\$ 150,695	\$ 16,469	\$ 134,226
Capital assets	<u>908,170</u>	<u>475,545</u>	<u>432,625</u>
Total Assets	<u>\$ 1,058,865</u>	<u>\$ 492,014</u>	<u>\$ 566,851</u>
Deferred Outflows of Resources	<u>\$ 64,530</u>	<u>\$ -</u>	<u>\$ 64,530</u>
Current liabilities	\$ 1,141,343	\$ 604,144	\$ 537,199
Non-current liabilities	<u>241,592</u>	<u>-0-</u>	<u>241,592</u>
Total Liabilities	<u>\$ 1,382,935</u>	<u>\$ 604,144</u>	<u>\$ 778,791</u>
Investment in capital assets, net of related debt	\$ 469,830	\$ 475,545	\$ (5,715)
Unrestricted	(731,201)	(587,675)	(143,526)
Restricted	<u>1,831</u>	<u>-0-</u>	<u>1,831</u>
Total Net Position	<u>\$ (259,540)</u>	<u>\$ (112,130)</u>	<u>\$ (147,410)</u>

**Total assets** increased 115% this year due to the completion of the middle school construction for the first school year starting in August 2014.

SARASOTA MILITARY ACADEMPY PREP  
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MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015  
(UNAUDITED)

**Deferred outflows of resources** increased by 100% due to the estimated pension contribution in the current year to the Florida Retirement System (FRS) Pension Plan and the Retiree Health Insurance Subsidy (HIS) Program as required by Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68).

**Total liabilities** increased 129% this year due to an increase in loan proceeds to fund capital assets.

	<b>Statement of Activities</b>		
	<u>2015</u>	<u>2014</u>	<u>Change</u>
<b>Revenues</b>			
Program revenues	\$ 67,995	\$ -	\$ 67,995
Operating grants and contributions	186,278	-	186,278
Capital grants and contributions			
<b>General revenues</b>			
Grants and contributions not restricted to specific programs	3,109,435	-	3,109,435
Other	<u>74,162</u>	<u>-</u>	<u>74,162</u>
Total revenues	<u>3,437,870</u>	<u>-</u>	<u>3,437,870</u>
<b>Expenses</b>			
Basic instruction	1,610,705	9,008	1,601,697
Exceptional instruction	135,794	1,829	133,965
Other instruction	1,485	-	1,485
Pupil personal services	36,789	-	36,789
Instructional media services	249,503	4,981	244,522
School administration	1,183,419	80,415	1,103,004
Fiscal services	13,619	473	13,146
Pupil transportation	68,745	-	68,745
Operation of plant	251,611	15,424	236,607
Maintenance of plant	15,948	-	15,528
Debt service	<u>17,662</u>	<u>-</u>	<u>17,662</u>
Total expenses	<u>3,585,280</u>	<u>112,130</u>	<u>3,473,150</u>
Change in net position	(147,410)	(112,130)	(35,280)
Net position, beginning of year	<u>(112,130)</u>	<u>-</u>	<u>(112,130)</u>
Net position, end of year	<u>\$ (259,540)</u>	<u>\$ (112,130)</u>	<u>\$ (147,410)</u>

**Total revenues and Overall expenses** increased significantly since this was the first year of operation for the Charter School. The Charter School opened on August 22, 2014.

SARASOTA MILITARY ACADEMPY PREP  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

JUNE 30, 2015  
(UNAUDITED)

**Capital Assets**

Below is a schedule of the Charter School's capital assets as of June 30, 2015 and 2014. See Note 4 to the financial statements for a detail of the changes during the fiscal year.

	<u>2015</u>	<u>2014</u>	<u>Change</u>
Capital assets, not being depreciated			
Construction-in-progress	\$ <u>3,189</u>	\$ <u>475,545</u>	\$ <u>(472,356)</u>
Total capital assets, not being depreciated	\$ <u>3,189</u>	\$ <u>475,545</u>	\$ <u>(472,356)</u>
Capital assets, being depreciated			
Land improvements	\$ 26,349	\$ -	\$ 26,349
Building and improvements	442,067	-	442,067
Computer equipment and software	392,135	-	392,135
Furniture, fixtures and equipment	<u>162,081</u>	<u>-</u>	<u>162,081</u>
Total capital assets being depreciated	<u>1,022,632</u>	<u>-</u>	<u>1,022,632</u>
Less accumulated depreciation	<u>117,651</u>	<u>-</u>	<u>117,651</u>
Total capital assets being depreciated, net	<u>904,981</u>	<u>-</u>	<u>904,981</u>
Capital assets, net	\$ <u>908,170</u>	\$ <u>475,545</u>	\$ <u>432,625</u>

The Charter School has invested in a variety of capital assets including land and building improvements, computer equipment and software, and furniture, fixtures, and other equipment for the first year of operations.

**Long-term Debt**

Below is a schedule of outstanding debt as of June 30, 2015 and 2014. See Note 5 to the financial statements for a detail of changes during the fiscal year and specific debt provisions.

	<u>2015</u>	<u>2014</u>	<u>Change</u>
Notes payable	\$ <u>440,254</u>	\$ <u>-</u>	\$ <u>440,254</u>

Changes in debt during the year included \$600,000 in proceeds from the issuance of new debt used to fund equipment for the first year of operations. The debt was reduced by principal payments of \$159,746.



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MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015  
(UNAUDITED)

**Economic Factors and the Budget**

The Charter School increased overall expenses by \$3,537,680 in total. Revenue increased by \$3,437,870.

During this first year of operations, the Charter School met our projected enrollment and focused on providing educational programs to meet the academic needs of our student body. In addition, we concentrated on ensuring the technology equipment for each classroom and the information & testing centers were purchased, installed, and made operational.

The viability of the Charter School will rest on conservative and innovative financial management, while maintaining the primary focus of meeting the academic needs of our student body. For the year ended June 30, 2015, our fiscal situation remained stable and healthy. Furthermore, the Sarasota County school district continues to provide to their charter schools a share of the local millage for capital improvements which will free up operational resources for other requirements.

**Request for Information**

This financial report is designed to provide a general overview of the Sarasota Military Academy Prep's finances, a charter school under Sarasota Military Academy, Inc. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the CFO and Commandant at 801 Orange Avenue North, Sarasota, Florida 34236.

SARASOTA MILITARY ACADEMY PREP  
(A CHARTER SCHOOL UNDER SARASOTA MILITARY ACADEMY, INC.)

STATEMENT OF NET POSITION

June 30, 2015

<u>Assets</u>	<u>Total</u>
Current assets	
Cash and cash equivalents	\$ 145,781
Total current assets	<u>145,781</u>
Noncurrent assets	
Capital assets, net of accumulated depreciation of \$117,651	908,170
Deposits	3,000
Loan costs, net of accumulated amortization of \$736	1,914
Total noncurrent assets	<u>913,084</u>
Total Assets	1,058,865
<u>Deferred Outflows of Resources</u>	
Deferred outflows related to pension - FRS	52,916
Deferred outflows related to pension - HIS	11,614
Total Deferred Outflows of Resources	<u>64,530</u>
Total Assets and Deferred Outflows of Resources	\$ <u>1,123,395</u>
<u>Liabilities and Net Position</u>	
Current liabilities	
Accounts payable	\$ 1,596
Accrued expenses	116,743
Due to other charter school	824,342
Notes payable, due within one year	198,662
Total current liabilities	<u>1,141,343</u>
Noncurrent liabilities	
Notes payable	241,592
Total noncurrent liabilities	<u>241,592</u>
Total Liabilities	1,382,935
<u>Deferred Inflows of Resources</u>	<u>-</u>
Total Liabilities and Deferred Inflows of Resources	1,382,935
Net position	
Investment in capital assets, net of related debt	469,830
Temporarily restricted	1,831
Unrestricted	<u>(731,201)</u>
Total net position	<u>(259,540)</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ <u>1,123,395</u>

The accompanying notes are an integral part of these financial statements.

SARASOTA MILITARY ACADEMY PREP  
(A CHARTER SCHOOL UNDER SARASOTA MILITARY ACADEMY, INC.)

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2015

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Governmental activities				
Basic instruction	\$ 1,610,705	\$ 51,500	\$ 186,278	\$ (1,372,927)
Exceptional instruction	135,794	16,495	-	(119,299)
Other instruction	1,485	-	-	(1,485)
Pupil personal services	36,789	-	-	(36,789)
Instructional media services	249,503	-	-	(249,503)
School administration	1,183,419	-	-	(1,183,419)
Fiscal services	13,619	-	-	(13,619)
Pupil transportation	68,745	-	-	(68,745)
Operation of plant	251,611	-	-	(251,611)
Maintenance of plant	15,948	-	-	(15,948)
Debt service	17,662	-	-	(17,662)
Total governmental activities	\$ <u>3,585,280</u>	\$ <u>67,995</u>	\$ <u>186,278</u>	\$ <u>(3,331,007)</u>
General revenues				
Grants and contributions not restricted to specific programs				3,109,435
Other				<u>74,162</u>
Total general revenues				<u>3,183,597</u>
Change in net assets				(147,410)
Net position, beginning of year				<u>(112,130)</u>
Net position, end of year				\$ <u><u>(259,540)</u></u>

The accompanying notes are an integral part of these financial statements.

SARASOTA MILITARY ACADEMY PREP  
(A CHARTER SCHOOL UNDER SARASOTA MILITARY ACADEMY, INC.)

BALANCE SHEET - GENERAL FUND

June 30, 2015

<u>Assets</u>	
Cash and cash equivalents	\$ 145,781
Deposit	<u>3,000</u>
Total Assets	<u>\$ 148,781</u>
<u>Liabilities and Fund Balance</u>	
<u>Liabilities</u>	
Accounts payable	\$ 1,596
Accrued expenses	116,743
Due to other charter school	<u>824,342</u>
Total liabilities	942,681
<u>Fund balance</u>	
Nonspendable	3,000
Restricted	1,831
Unassigned	<u>(798,731)</u>
Total fund balance	<u>(793,900)</u>
Total Liabilities and Fund Balance	<u>\$ 148,781</u>

The accompanying notes are an integral part of these financial statements.

SARASOTA MILITARY ACADEMY PREP  
(A CHARTER SCHOOL UNDER SARASOTA MILITARY ACADEMY, INC.)

RECONCILIATION OF THE BALANCE SHEET - GENERAL FUND  
TO THE STATEMENT OF NET POSITION

June 30, 2015

Fund balance - General Fund		\$	(793,900)
Amounts reported in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the General Fund			
Capital assets	1,025,821		
Less accumulated depreciation	<u>(117,651)</u>		908,170
Other noncurrent assets used in governmental activities are not financial resources and, therefore, are not reported in the General Fund			
Loan costs	2,650		
Less accumulated amortization	<u>(736)</u>		1,914
Deferred inflows and outflows related to net pension liability are based on the differences between actuarially determined actual and expected investment returns, change in the actuarially determined proportion of the Charter School's amount of total pension liability and pension contributions made after the measurement date of the net pension liability. These amounts will be amortized over the estimated remaining average service life of the employees.			
Deferred outflows related to pensions - FRS & HIS	<u>64,530</u>		<u>64,530</u>
Noncurrent liabilities are not due and payable in the current period and, therefore, are not reported in the General Fund			
Notes payable	<u>(440,254)</u>		<u>(440,254)</u>
Net position - statement of net position		\$	<u><u>(259,540)</u></u>

The accompanying notes are an integral part of these financial statements.

SARASOTA MILITARY ACADEMY PREP  
(A CHARTER SCHOOL UNDER SARASOTA MILITARY ACADEMY, INC.)

STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE - GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2015

Revenues	
Intergovernmental	\$ 16,495
Federal through state	2,369,292
State	977,921
Local	74,162
Other	<u>3,437,870</u>
Total revenues	
Expenditures	
Education	1,650,103
Basic instruction	139,311
Exceptional instruction	1,242
Other instruction	37,615
Pupil personal services	167,191
Instructional media services	1,197,385
School administration	13,619
Fiscal services	68,745
Pupil transportation	223,338
Operation of plant	15,948
Maintenance of plant	550,276
Capital outlay	
Debt service	159,746
Principal	16,926
Interest	2,650
Debt issuance costs	<u>4,244,095</u>
Total expenditures	
Excess (deficit) of revenues over expenditures	(806,224)
Other financing sources	<u>600,000</u>
Proceeds from long-term debt	
Net change in fund balance	(206,224)
Fund balance, beginning of year	<u>(587,676)</u>
Fund balance, end of year	<u>\$ (793,900)</u>

The accompanying notes are an integral part of these financial statements.

**SARASOTA MILITARY ACADEMY PREP  
(A CHARTER SCHOOL UNDER SARASOTA MILITARY ACADEMY, INC.)**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - GENERAL FUND  
TO THE STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED JUNE 30, 2015**

Net change in fund balance - General Fund \$ (206,224)

Amounts reported in the statement of activities are different because:

The General Fund reports 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 by which capital outlays exceeded depreciation expense in the current period.

Capital outlay expenditures	550,276	
Less current year depreciation	<u>(117,651)</u>	432,624

The proceeds from long-term debt issuance provide current financial resources to the General Fund, but issuing debt increases long-term liabilities in the Statement of Net Position.

Note proceeds	<u>(600,000)</u>	(600,000)
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Repayment of principal is an expenditure in the General Fund, but the repayment reduces noncurrent liabilities in the Statement of Net Position.

Principal repayments	<u>159,746</u>	159,746
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Pension expenses in the statement of activities differ from the amount reported in the General Fund because pension expenses are recognized on the Statement of Activities based on the Charter School's proportionate share of the expenses of the cost-sharing pension plan, whereas pension expenditures are recognized in the General Fund when a requirement to remit contributions to the plan exists.

	<u>64,530</u>	<u>64,530</u>
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Issuance costs on new debt are reported when issued as expenditures and other financing sources in the General Fund, but are deferred and amortized as expenses over the life of the debt in the Statement of Activities.

Loan costs, net of amortization	<u>1,914</u>	<u>1,914</u>
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Change in net position - statement of activities	\$ <u><u>(147,410)</u></u>
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The accompanying notes are an integral part of these financial statements.

SARASOTA MILITARY ACADEMY PREP.  
(A CHARTER SCHOOL UNDER SARASOTA MILITARY ACADEMY, INC.)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015

NOTE 1 – ORGANIZATION

Sarasota Military Academy Prep (the “Charter School”) is a component unit of the School Board of Sarasota County, Florida (the “School Board”). The Charter School’s charter is held by Sarasota Military Academy, Inc., a not-for-profit corporation formed on March 30, 2001, pursuant to Chapter 617, Florida Statutes, the Florida Not-For-Profit Corporation Act, and Section 228.056, Florida Statutes. The governing body of the Charter School is the board of directors of Sarasota Military Academy, Inc., which is composed of nine members.

The Charter School is dedicated to teaching principles of leadership, high academic standards, patriotism, and honor in a high-quality setting. The Charter School provides a full range of academic middle school classes that follow the Sarasota School District approved curriculum guidelines that in turn follow the School Board’s approved curriculum guidelines.

The general operating authority of the Charter School is contained in Chapter 1002.33, Florida Statutes. The Charter School operates under a charter of the sponsoring school board, the School Board of Sarasota County, Florida (the School Board). The current charter is effective from July 1, 2014 until June 30, 2019, and may be renewed by mutual agreement between the Charter School and the School Board. The Charter School is considered a component unit of the School Board and meets the definition of a governmental entity under the Audit and Accounting Guide – *State and Local Governments* issued by the American Institute of Certified Public Accountants; therefore, for financial reporting purposes, the Charter 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 Charter School’s basic financial statements are described in Governmental Accounting Standards Board (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 Charter School is financially accountable and other organizations for which the nature and significance of their relationship with the Charter School are such that exclusion would cause the Charter 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 Charter School.

NOTE 2 - SUMMARY OF ACCOUNTING PRINCIPLES

A. Basis of Presentation

The Charter School’s accounting policies conform to accounting principles generally accepted in the United States as applicable to state and local governments. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.



SARASOTA MILITARY ACADEMY PREP.  
(A CHARTER SCHOOL UNDER SARASOTA MILITARY ACADEMY, INC.)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015

**NOTE 2 - SUMMARY OF ACCOUNTING PRINCIPLES (CONTINUED)**

**B. Implementation of New Governmental Accounting Standards**

For the year ended June 30, 2015, the Charter School adopted new accounting guidance and implemented the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* GASB Statement No. 63 identifies net position, rather than net assets, as the residual of all other elements presented in a Statement of Financial position. Deferred outflows of resources represent consumption of resources that is applicable to future reporting periods that will be reported in a separate section after assets. Deferred inflows of resources represent acquisition of resources that is applicable to future reporting period that will be reported in a separate section after liabilities. Although the Charter School does not have any deferred outflows/inflows of resources, the Statement of Net Position is presented in the new format.

Additionally, the School implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities.* GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. For the year ended June 30, 2015, Statement No. 65 was incorporated in the Charter School's financial statements.

During the year ended June 30, 2015, the Charter School implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date.* GASB Statement No. 68 establishes standards for recognizing net pension liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures related to pension benefits provided through defined benefit pension plans. GASB Statement No. 71 amends GASB Statement No. 68 and addresses an issue regarding the application of the transition provisions in the year of implementation. It requires that in the year of implementation, the state or local government recognize a beginning deferred outflow for contributions for its pension contributions made after the date of measurement.

**C. Government-Wide and Fund 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 and the Charter School's fund financial statements report on the General Fund only. Both the government-wide and fund financial statements present only governmental activities as the Charter School does not engage in any business type activities.

In the government-wide statement of net position, the Charter School reports on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt obligations. The Charter School's net position are reported in three parts (as applicable): investment in capital assets; restricted net position; and unrestricted net position.

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**NOTE 2 - SUMMARY OF ACCOUNTING PRINCIPLES (CONTINUED)**

**C. Government-Wide and Fund Financial Statements (continued)**

The government-wide statement of activities demonstrates the degree to which the direct expenses of a given function (or segment) are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function or segment. Other revenues not properly included with program revenues are reported as general revenues.

The financial transactions of the Charter School are reported in individual funds in the fund financial statements. The operations of the funds are accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues, and expenditures.

The individual generic fund types in the Charter School's financial statements are governmental funds. The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income.

The only governmental fund utilized by the Charter School is the General Fund. The fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues and expenditures. The General Fund is the general operating fund of the Charter School and is used to account for all its financial resources.

**D. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The financial statements of the Charter School are prepared in accordance with generally accepted accounting principles (GAAP). The Charter School's reporting entity applies all relevant GASB *Codification of Accounting and Financial Reporting Guidance*.

The government-wide financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

The Charter School recognizes assets of non-exchange transactions in the period when the underlying transaction occurs, when an enforceable legal claim has arisen, or when all eligibility requirements are met. Revenues are recognized, on a modified accrual basis, when they are measurable and available. Non-exchange transactions occur when the school provides (or receives) value to (from) another party without receiving (or giving) equal or nearly equal value in return. Most donations are examples of non-exchange transactions. Revenues from grants and donations are recognized on the accrual basis, in the fiscal year in which all eligibility requirements have been satisfied.

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NOTE 2 - SUMMARY OF ACCOUNTING PRINCIPLES (CONTINUED)

D. Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. "Measurable" means the amount of the transaction can be determined. "Available" means collectible with the current period or soon enough thereafter to pay liabilities of the current period. The Charter School considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Florida Education Finance Program (FEFP) revenues are recognized when received.

A one-year availability period is used for revenue recognition for all other governmental fund revenues. Charges for services and fees are recognized when cash is collected as amounts are not measurable.

When grant terms provide that the expenditure of funds is the prime factor for determining eligibility for Federal, State and other grant funds, revenue is recognized at the time the expenditure is made. Expenditures generally are recorded when the related fund liability is incurred, except for long-term debt principal and interest which are reported as expenditures in the year due.

E. Budgetary Basis of Accounting

In compliance with the Florida Statutes, the Board of Directors adopts an annual budget using the modified accrual basis of accounting. The schedule of revenues, expenditures, and changes in fund balance – actual compared to budget uses the budget adopted by the Charter School. Revisions to the annual budget are approved by the Board of Directors.

F. Cash Deposits

All deposits are held in a major bank and consist primarily of demand deposits at June 30, 2015. For financial reporting purposes, cash and cash equivalents include all highly liquid investments with a maturity of three months or less.

G. Capital Assets

Capital assets, which include property and equipment, are reported in the total column in the government-wide financial statements and are not reported in the fund financial statements. Capital assets are defined by the Charter School as assets with an initial cost of more than \$750 and an estimated useful life in excess of one year. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. All capital assets are depreciated using the straight-line method over their estimated useful lives.

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NOTE 2 - SUMMARY OF ACCOUNTING PRINCIPLES - CONTINUED

G. Capital Assets – Continued

Useful lives vary from 5 to 39 years for buildings and improvements and 3 to 10 years for furniture, fixtures and equipment, and computer equipment and software.

H. Deferred Outflows and Inflows of Resources

The statement of net position and balance sheet include separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future periods that will be recognized as an expense or expenditure in future periods. Deferred inflows of resources represent an acquisition of net position or fund balance that applies to future periods and will be recognized as revenues in the future periods.

I. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the pension plan's fiduciary net position and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

J. Long-term Debt

In the governmental-wide fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. In the fund financial statements, governmental fund types report the face amount of the debt issued as other financing sources.

K. Net Position and Fund Balance Classifications

Equity is classified and reported in three components, as applicable:

Net Investment in Capital Assets - consists of capital assets, net of accumulated depreciation reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets.

Restricted Net Position – consists of net position with constraints placed on their use either by external groups such a 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.”

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NOTE 2 - SUMMARY OF ACCOUNTING PRINCIPLES - CONTINUED

K. Net Position and Fund Balance Classifications - continued

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

Nonspendable – This component includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted – This component consists of amounts that have constraints placed on them either externally by third-parties (creditors, grantors, contributors, or laws or regulations of other governments) or by law through constitutional provisions or enabling legislation.

Committed – This component consists of amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Charter School's highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the Charter School removes or changes the specified use by taking the same type of action it employed previously to commit those amounts.

Assigned – This component consists of amounts that are constrained by the Charter School's intent to be used for specific purposes, but are neither restricted nor committed. The authority for assigning fund balance is expressed by the Board of Directors.

Unassigned – This classification represents amounts that have not been restricted, committed or assigned to a specific purpose within the general fund. The general fund is the only fund that reports a positive assigned fund balance amount. Other governmental funds besides the general fund can only report a negative unassigned fund balance.

When both restricted and unrestricted resources are available for use, it is the Charter School's policy to use restricted resources first, then unrestricted resources (committed, assigned and unassigned) as they are needed. When unrestricted resources (committed, assigned and unassigned) are available for use it is the Charter School's policy to use committed resources first, then assigned, and then unassigned as they are needed.

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NOTE 2 - SUMMARY OF ACCOUNTING PRINCIPLES - CONTINUED

L. Revenue Sources

Revenues for current operations are received primarily from the School Board of Sarasota County (School Board) pursuant to the funding provisions included in the Charter School's charter. In accordance with the funding provisions of the charter and Chapter 1002.33(17), Florida Statutes, the Charter School reports the number of full-time equivalent (FTE) students and related data to the School Board. Under the provisions of Chapter 1011.62, Florida Statutes, the School Board reports the number of FTE students and related data to the Florida Department of Education (FDOE) for funding through the Florida Education Finance Program (FEFP). Funding for the Charter School is adjusted during the year to reflect the revised calculations by the FDOE under the FEFP and the actual weighted FTE students reported by the Charter School during the designated FTE student survey periods. The Department may also adjust subsequent fiscal period allocations based upon an audit of the Charter 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 Charter School also receives Federal Awards for the enhancement of various educational programs. Federal awards are generally received based on applications submitted to and approved by various granting agencies. For Federal Awards in which a claim to these grant proceeds is based on incurring eligible expenditures, revenue is recognized to the extent that eligible expenditures have been incurred. Any excess amounts are recorded as deferred revenues until expended.

Additional revenues are derived from various fundraising activities, contributions and interest earned.

M. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employee's right to receive compensation is attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. The criteria for determining the vacation leave liability is derived from board policy, negotiated agreements, and state law. At June 30, 2015, there was no accrued compensated absences.

N. Income Taxes

The Charter School is not a separate legal entity and operates within the legal structure of Sarasota Academy Military, Inc., which is a Florida not-for-profit organization that is exempt from state and federal income taxes under Internal Revenue Code Section 501(c)(3). Years subject to examination by the taxing authorities are 2013 to 2015.

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**NOTE 2 - SUMMARY OF ACCOUNTING PRINCIPLES - CONTINUED**

**N. Income Taxes – continued**

The Charter School’s status as a tax exempt not-for-profit entity is considered a tax position subject to reporting requirements under FASB Accounting Standards Codification 740-10. Entities are required to examine all tax positions and determine if it is more likely than not that the positions would be sustained upon examination by taxing authorities. The Charter School has not recorded any accruals for uncertain income tax positions at June 30, 2015.

**O. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**NOTE 3 – CASH AND CASH EQUIVALENTS**

Custodial credit risk is the risk that in the event of bank failure, the Charter School’s deposits may not be returned. The Charter School can mitigate this risk by depositing funds in financial institutions insured by Federal depository insurance. The deposits are insured by the FDIC up to \$250,000 per bank institution. At June 30, 2015, the carrying amount of the Charter School’s deposits was \$145,781 and bank balances totaled \$234,380. The Charter school had no uninsured balances at June 30, 2015.

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2015 was as follows:

	Balance July 1, <u>2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	Balance June 30, <u>2015</u>
Capital assets, not being depreciated					
Construction-in-progress	\$ <u>475,545</u>	\$ <u>3,189</u>	\$ <u>-</u>	\$ <u>(475,545)</u>	\$ <u>3,189</u>
	475,545	3,189	-	(475,545)	3,189
Capital assets, being depreciated					
Land improvements	-	26,349	-	-	26,349
Buildings and improvements	-	311,447	-	130,620	442,067
Computer equipment and software	-	124,492	-	267,643	392,135
Furniture, fixtures and equipment	-	84,799	-	77,282	162,081
Total capital assets being depreciated	<u>-</u>	<u>547,087</u>	<u>-</u>	<u>475,545</u>	<u>1,022,632</u>

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**NOTE 4 - CAPITAL ASSETS - CONTINUED**

	Balance July 1, <u>2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	Balance June 30, <u>2015</u>
Less accumulated depreciation					
Land improvements	-	659	-	-	659
Buildings and improvements	-	17,726	-	-	17,726
Furniture, fixtures and equipment	-	21,788	-	-	21,788
Computer equipment and software	-	<u>77,478</u>	-	-	<u>77,478</u>
Total accumulated depreciation	-	<u>117,651</u>	-	-	<u>117,651</u>
Total capital assets being depreciated, net	-	<u>429,436</u>	-	-	<u>904,981</u>
Capital Assets, net	\$ <u>475,545</u>	\$ <u>432,625</u>	\$ -	\$ -	\$ <u>908,170</u>

Depreciation expense was \$117,651 for the year ended June 30, 2015 and expenses were charged to the following functions:

	<u>June 30, 2015</u>
Basic instruction	\$ 5,663
Other instruction	243
Instructional media services	82,312
School administration	1,160
Operation of plant	<u>28,273</u>
Total	\$ <u>117,651</u>

**NOTE 5 - LONG-TERM DEBT**

The Charter School is obligated on long-term debt in the form of a \$600,000 promissory note due to Wells Fargo Equipment Finance, Inc. for the purchase of various equipment. The note is payable at 3.73% interest in monthly principal and interest installments of \$17,642 until the maturity date on August 31, 2017. Interest and related charges paid during the year ended June 30, 2015 were \$16,926.

A summary of changes in noncurrent liabilities for the year ended June 30, 2015 is as follows:

	Balance July 1, <u>2014</u>	<u>Additions</u>	<u>Reductions</u>	Balance June 30, <u>2015</u>	Due Within <u>One Year</u>
Governmental activities:					
Promissory note payable	\$ -	\$ <u>600,000</u>	\$ <u>159,746</u>	\$ <u>440,254</u>	\$ <u>198,661</u>



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**NOTE 5 – LONG-TERM DEBT - CONTINUED**

Future maturities of long-term debt are as follows:

Fiscal Year Ending <u>June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 198,661	\$ 13,048	\$ 211,709
2017	206,199	5,510	211,709
2018	<u>35,394</u>	<u>166</u>	<u>35,560</u>
Total	<u>\$ 440,254</u>	<u>\$ 18,724</u>	<u>\$ 458,978</u>

**NOTE 6 – TRANSACTIONS WITH SARASOTA MILITARY ACADEMY, INC.**

Sarasota Military Academy, Inc. loaned the Charter School funds for capital improvements and equipment. Management of Sarasota Military Academy, Inc. allocates a proportionate share of salaries and other shared expenses to the Charter School. Management of Sarasota Military Academy, Inc. will also occasionally make various expense payments on behalf of the Charter School and bill the Charter School for subsequent reimbursements. As of June 30, 2015, there was a due to Sarasota Military Academy, Inc. for \$824,342.

**NOTE 7 – FACILITY LEASE**

The Charter School leases its facilities under a fifteen year operating lease agreement with the SMA Prep, LLC starting September 1, 2014. The lease calls for monthly rental payments starting at \$45,000 in the first and second year. In year's three to five, monthly payments are calculated at the base rent plus 1/3 of the base rent shortfall in years one and two. The base rent shall be determined by multiplying the landlord's investment by a factor of 9.5% and increased by to an amount equal to 102% of the base rent applicable during the immediately preceding lease year. The landlord's investment is \$6,250,000. In year six through fifteen, monthly rental payments should be equal to the base rent. The Charter School has the option to extend the term of the lease at the escalated rate for up to three successive five year periods following the initial term.

Rental expense totaled \$455,982 for the year ended June 30, 2015.

Approximate future minimum lease payments as of June 30, 2015 are as follows:

2016	\$ 540,000
2017	637,941
2018	667,825
2019	680,385
2020	660,037
Thereafter	<u>6,631,777</u>
Total	<u>\$ 9,817,965</u>

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**NOTE 8 – DEFINED BENEFIT PENSION PLAN – FRS**

**Plan Description**

All part-time and full-time permanent employees of the Charter School are covered by the Florida Retirement System. The Florida Retirement System (FRS) is a cost-sharing, multiple-employer, defined benefit retirement plan available to governmental units within the State of Florida. The plan was created by the Florida Legislature and is administered by the State of Florida, Department of Administration.

The plan provisions 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. Senate Bill 2100, effective July 1, 2011 made a number of substantial changes to the FRS, including requiring 3% employee contributions on all compensation on or after July 1, 2011. The following are brief descriptions of the Plan in effect as of June 30, 2015.

For a more complete description, refer to the Florida Retirement System Pension Plan and Other State Administered Systems Comprehensive Annual Financial report. The report may be obtained by writing to the Florida Retirement System, Division of Retirement, P.O. Box 9000, Tallahassee, Florida 32315-9000.

**Benefits Provided**

Benefits in the plan vest at six years of service for those enrolled in the FRS prior to July 1, 2011 and eight years of service for those enrolled in the FRS on or after July 1, 2011. The plan also includes an early retirement provision, but imposes a penalty 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, as well as supplements for certain employees to cover social security benefits lost by virtue of retirement system membership.

The plan provides vesting of benefits after six years for those enrolled in the FRS prior to July 1, 2011 and eight years for those enrolled in the FRS on or after July 1, 2011. Members who were enrolled prior to July 1, 2011 are eligible for normal retirement after they have met one of the following: (1) thirty years of service, regardless of age, or (2) age 62 and six years of service. Members who were enrolled on or after July 1, 2011 are eligible for normal retirement after they have met one of the following: (1) thirty-three years of service, regardless of age or (2) age 65 and eight years of service.

Early retirement may be taken any time after completing six years of service for those enrolled in the FRS prior to July 1, 2011 and eight years for those enrolled in the FRS on or after July 1, 2011; however, there is a 5% benefit reduction for each year prior to normal retirement. The normal retirement age is sixty-two for those enrolled in the FRS prior to July 1, 2011 and sixty-five for those enrolled in the FRS on or after July 1, 2011. Benefits are computed on the basis of age, average final compensation, and service credit. Average final compensation is the average of the five highest years of earnings.

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**NOTE 8 – DEFINED BENEFIT PENSION PLAN – FRS - CONTINUED**

**Benefits Provided – Continued**

The plan also provides death and disability benefits. Benefits are estimated by Florida Statutes and include cost of living adjustments.

**Contributions**

Effective July 1, 2011, both employees and employers of the FRS are required to make contributions to establish service credit for work performed in a regularly established position. Effective July 1, 2002, the Florida Legislature established a uniform contribution rate system for the FRS, covering both the Pension Plan and the Investment Plan. The uniform employer contribution rate for regular class members for the fiscal year 2014-2015 was 7.37%. These rates include the 1.26 percent contribution for the Retiree Health Insurance Subsidy, the fee of 0.04 percent for administration of the FRS Investment Plan and provision of educational tools for both plans, and unfunded actuarial liability rates. The employee contribution rate was 3% for the fiscal year ended June 30, 2015.

The Charter School's contributions to the plan for the year ended June 30, 2015 was \$110,940.

**FRS Pension Liability and Expense and Deferred Outflows and Inflows of Resources**

At June 30, 2015, the School reported a liability of \$-0- for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by rolling forward the Plan's total pension liability as of June 30, 2013 to June 30, 2014. The School's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2014, the School's proportion was 0.00 percent.

For the year ended June 30, 2015, the Charter School recognized pension expense of \$-0-. At June 30, 2015, the Charter school reported deferred outflows of resources and deferred inflows of resources related to FRS pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Contributions subsequent to the date of measurement	\$ <u>52,916</u>	\$ <u>          -</u>

An amount of \$52,916 is reported as deferred outflows of resources resulting from the Charter School's contributions subsequent to the June 30, 2014 measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

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**NOTE 8 – DEFINED BENEFIT PENSION PLAN – FRS – CONTINUED**

**Actuarial Assumptions for Defined Benefit Pension Plan**

The total pension liability for the cost-sharing multiple-employer defined benefit pension plan was determined by an actuarial valuation as of the valuation date, calculated based on the discount rate and actuarial assumptions below. The total pension liability is calculated using the Individual Entry Age Normal cost allocation method, which differs from the Ultimate Entry Age Normal cost allocation method used in the funding valuation for the System. Additionally, the net pension liability above adjusted upward to reflect any balance in the Contribution Clearing Trust Fund as of the measurement date.

The discount rate and long term expected rate of return, net of investment expense for the fiscal year ended June 30, 2013 and June 30, 2014 was 7.75% and 7.65%, respectively. The plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return.

The other key actuarial assumptions that determined the total pension liability as of June 30, 2014, were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013. The other key actuarial assumptions for the year ended June 30, 2013 and 2014 are as follows:

	<u>June 30, 2013</u>	<u>June 30, 2014</u>
Valuation date	July 1, 2013	July 1, 2014
Measurement date	June 30, 2013	June 30, 2014
Inflation	3.00%	2.60%
Salary increases including inflation	4.00%	3.25%
Mortality	Generational RP-2000 Projection Scale AA	Generation RP-2000 Projection Scale AA
Actuarial cost method	Entry Age Normal	Entry Age Normal

**Long-Term Expected Rate of Return**

To develop an analytical basis for the selection of the long-term expected rate of return assumption, in September 2014 the FRS Actuarial Assumptions conference reviewed long-term assumptions developed by both Milliman’s capital market assumptions team and by a capital market assumptions team from Hewitt EnnisKnupp, which consults to the Florida State Board of Administration. The table below shows Milliman’s assumptions for each of the asset classes in which the plan was invested at that time based on the long-term target asset allocation.

The allocation policy’s description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes an adjustment for the inflation assumption. These assumptions are not based on historical returns, but instead are based on a forward-looking capital market economic model.

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**NOTE 8 – DEFINED BENEFIT PENSION PLAN – FRS – CONTINUED**

**Long-Term Expected Rate of Return – Continued**

Asset Class	Target Allocation*	Annual Arithmetic Return	Compound Annual (Geometric) Return	Standard Deviation
Cash	1.00%	3.11%	3.10%	1.65%
Intermediate-Term Bonds	18.00%	4.18%	4.05%	5.15%
High Yield Bonds	3.00%	6.79%	6.25%	10.95%
Broad US Equities	26.50%	8.51%	6.95%	18.90%
Developed Foreign Equities	21.20%	8.66%	6.85%	20.40%
Emerging Market Equities	5.30%	11.58%	7.60%	31.15%
Private Equity	6.00%	11.80%	8.11%	30.00%
Hedge Funds/Absolute Return	7.00%	5.81%	5.35%	10.00%
Real Estate (Property)	12.00%	7.11%	6.35%	13.00%
Assumed Inflation - Mean		2.60%		2.00%

\*as outlined in the Plan's investment policy.

**Sensitivity Analysis**

The following presents the net pension liability, calculated using the discount rate of 7.65 percent, as well as what net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.65 percent) or one percentage point higher (8.65 percent) than the current rate.

	1% Decrease <u>6.65%</u>	Current Discount Rate <u>7.65%</u>	1% Increase <u>8.65%</u>
Total FRS net pension liability	\$26,096,800,064	\$6,101,470,575	\$(10,530,828,277)
Charter School's proportionate share of the net pension liability	\$ -	\$ -	\$ -

**NOTE 9 - DEFINED BENEFIT PLAN - HEALTH INSURANCE SUBSIDY PROGRAM**

The Retiree Health Insurance Subsidy (HIS) Program is a cost-sharing multiple-employer defined benefit pension plan established under section 112.363, Florida Statutes. The benefit is a monthly payment to assist retirees of state-administered retirement systems in paying their health insurance costs and is administered by the Division of Retirement within the Department of Management Services. For the fiscal year ended June 30, 2014, eligible retirees and beneficiaries received a monthly HIS payment equal to the number of years of creditable service completed at the time of retirement multiplied by \$5. The payments are at least \$30 but not more than \$150 per month, pursuant to section 112.363, Florida Statutes. To be eligible to receive a HIS benefit, a retiree under a state-administered retirement system must provide proof of health insurance coverage, which can include Medicare.

SARASOTA MILITARY ACADEMY PREP.  
 (A CHARTER SCHOOL UNDER SARASOTA MILITARY ACADEMY, INC.)  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2015

**NOTE 9 - DEFINED BENEFIT PLAN - HEALTH INSURANCE SUBSIDY PROGRAM -  
 CONTINUED**

The HIS Program is funded by required contributions from FRS participating employers as set by the Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the fiscal year ended June 30, 2015, the contribution rate was 1.26 percent of payroll pursuant to section 112.363, Florida Statutes. The state contributed 100 percent of its statutorily required contributions for the current and preceding two years. HIS contributions are deposited in a separate trust fund from which HIS payments are authorized.

HIS benefits are not guaranteed and are subject to annual legislative appropriation. In the event the legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or canceled.

**HIS Pension Liability and Expense and Deferred Outflows and Inflows of Resources**

At June 30, 2015, the School reported a liability of \$1,481,279 for its proportionate share of the HIS net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by rolling forward the Plan's total pension liability as of June 30, 2013 to June 30, 2014. The Charter School's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2014, the Charter School's proportion was 0.0145848 percent, which was a decrease of .001257348 percent from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the Charter School recognized pension expense of \$-0-. At June 30, 2015, the Charter school reported deferred outflows of resources and deferred inflows of resources related to FRS pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Contributions subsequent to the date of measurement	\$ <u>11,614</u>	\$ <u>          -</u>

An amount of \$11,614 is reported as deferred outflows of resources resulting from the Charter School's contributions subsequent to the June 30, 2014 measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

SARASOTA MILITARY ACADEMY PREP.  
(A CHARTER SCHOOL UNDER SARASOTA MILITARY ACADEMY, INC.)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015

**NOTE 9 - DEFINED BENEFIT PLAN - HEALTH INSURANCE SUBSIDY PROGRAM -  
CONTINUED**

**Actuarial Assumptions for Defined Benefit Health Insurance Premium Benefit Plan**

The total pension liability for the cost-sharing multiple-employer defined benefit health insurance premium benefit plan was determined by an actuarial valuation as of the valuation date, calculated based on the discount rate and actuarial assumptions below, and then was projected to the measurement date. Any significant changes during this period have been reflected as prescribed by GASB 67.

The discount rate and municipal bond rate for the fiscal year ended June 30, 2013 and June 30, 2014 was 4.63% and 4.29%, respectively. In general, the discount rate for calculating the total pension liability under GASB 67 is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the plan sponsor.

The other key actuarial assumptions that determined the total pension liability as of June 30, 2014, were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013. The other key actuarial assumptions for the year ended June 30, 2013 and 2014 are as follows:

	<u>June 30, 2013</u>	<u>June 30, 2014</u>
Valuation date	July 1, 2014	July 1, 2014
Measurement date	June 30, 2013	June 30, 2014
Inflation	2.60%	2.60%
Salary increases including inflation	3.25%	3.25%
Mortality	Generational RP-2000 Projection Scale BB	Generation RP-2000 Projection Scale BB
Actuarial cost method	Entry Age Normal	Entry Age Normal

**Sensitivity Analysis**

The following presents the net pension liability of the health insurance premium benefit plan calculated using the discount rate of 4.29 percent, as well as what net pension liability would be if it were calculated using a discount rate that is one percentage point lower (3.29 percent) or one percentage point higher (5.29 percent) than the current rate.

	1% Decrease <u>3.29%</u>	Current Discount Rate <u>4.29%</u>	1% Increase <u>5.29%</u>
Total net pension liability - HIS	\$10,635,145,404	\$9,350,244,011	\$8,277,719,058
Charter School's proportionate share of the net pension liability	\$ -	\$ -	\$ -

SARASOTA MILITARY ACADEMY PREP.  
(A CHARTER SCHOOL UNDER SARASOTA MILITARY ACADEMY, INC.)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015

**NOTE 10 – RISK MANAGEMENT**

The Charter 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 Charter School has purchased commercial insurance. The Charter School has not had any reduction in insurance coverage and settlements have not exceeded coverage for each of the past three fiscal years.

**NOTE 11 – OPERATING LEASE**

In May 2012, the Charter School entered into an agreement to lease printers and copiers for 60 months at \$2,200 per month, with a buy-out at fair market value at the end of the lease. Lease payments for the year ended June 30, 2015 were \$64,500.

Approximate future minimum lease payments as of June 30, 2015 are as follow:

2016	\$ 64,500
2017	64,500
2018	64,500
2019	<u>24,725</u>
Total	\$ <u>218,225</u>

**NOTE 12 – LITIGATION**

The School Board is contingently liable with respect to lawsuits and other claims that arise in the ordinary course of its operations. Management believes that any liability arising from such claims would be immaterial to the financial statements.

**NOTE 13 – FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE**

Certain of the Charter School's financial instruments are not measured at fair value on a recurring basis but nevertheless are recorded at amounts that approximate fair value due to their liquid or short-term nature. Such financial assets and financial liabilities include: cash and cash equivalents, due from Sarasota Military Academy, Inc., accounts payable, and accrued expenses.

**NOTE 14 – EVALUATION OF SUBSEQUENT EVENTS**

After the year ended June 30, 2015, a former employee of the Charter School is pursuing claims against the Charter School relating to the employee's hiring. At the time the financial statement was available to be issued, it was not possible to predict the outcome or the potential financial impact on the Charter School.

The Charter School has evaluated subsequent events through November 3, 2015, the date the financial statements were available for issuance, and has determined that there are no additional subsequent events that require disclosure.



**REQUIRED SUPPLEMENTARY INFORMATION**

**SARASOTA MILITARY ACADEMY PREP  
(A CHARTER SCHOOL UNDER SARASOTA MILITARY ACADEMY, INC.)**

**REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE**

**FOR THE YEAR ENDED JUNE 30, 2015  
UNAUDITED**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Over / (Under)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Federal through state	\$ 19,000	\$ 16,495	\$ 16,495	\$ -
State and local	3,382,558	3,347,214	3,347,214	-
Other	17,000	74,161	74,161	-
Total revenues	<u>3,418,558</u>	<u>3,437,870</u>	<u>3,437,870</u>	<u>-</u>
<b>Expenses</b>				
Basic instruction	1,437,840	1,650,103	1,650,103	-
Exceptional instruction	92,346	139,311	139,311	-
Other instruction	1,052	1,242	1,242	-
Pupil personal services	28,241	37,615	37,615	-
Instructional media services	343,173	167,191	167,191	-
School administration	961,399	1,197,385	1,197,385	-
Fiscal services	10,737	13,619	13,619	-
Pupil transportation	56,857	68,745	68,745	-
Operation of plant	797,820	223,338	223,338	-
Maintenance of plant	7,248	15,948	15,948	-
Capital Outlay	-	550,276	550,276	-
Debt service	116,524	179,322	179,322	-
Total expenses	<u>3,853,237</u>	<u>4,244,095</u>	<u>4,244,095</u>	<u>-</u>
Excess (deficit) of revenues over expenditures	(434,679)	(806,224)	(806,224)	-
<b>Other financing sources</b>				
Proceeds from long-term debt	-	600,000	600,000	-
Change in net assets	<u>\$ (434,679)</u>	<u>\$ (206,224)</u>	<u>\$ (206,224)</u>	<u>\$ -</u>

**Notes to Required Supplementary Information:**

The budget was prepared on the modified accrual basis of accounting. All annual appropriations lapse at fiscal year end.

**INDEPENDENT AUDITORS' 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  
Sarasota Military Academy Prep

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 and General Fund of Sarasota Military Academy Prep (the "Charter School"), as of, and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Sarasota Military Academy Prep School's basic financial statements and have issued our report thereon dated October 29, 2015.

**Internal Control Over Financial Reporting**

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

To the Board of Directors  
Sarasota Military Academy Prep

Compliance and Other Matters

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

Purpose of this Report

This purpose of this report is intended 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 the 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.

*Pellegrino Honick McFarland & Miller, P.A.*

Sarasota, Florida  
October 29, 2015

## MANAGEMENT LETTER

To the Board of Directors  
Sarasota Military Academy Prep

### Report on the Financial Statements

We have audited the financial statements of the governmental activities and General Fund of Sarasota Military Academy Prep (the "Charter School"), a Charter School and component unit of the School Board of Sarasota County, as of and for the year ended June 30, 2015, which collectively comprise Sarasota Military Academy Prep's basic financial statements and have issued our report thereon dated October 29, 2015.

### Auditors' Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

### Other Reporting Required by *Government Auditing Standards*

We have issued our Independent Auditors' 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 this report, which is dated September 14, 2015, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.850, Rules of the Auditor General, which governs the conduct of charter school audits and similar entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned report.

### 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. There were no prior year findings as noted below under the heading *Status of Prior Year Findings and Recommendations* since this was the first year under audit.

### Official Title

Section 10.854(1)(e)5, Rules of the Auditor General, required name or official title of the school. The official title of the school is Sarasota Military Academy Prep.

To the Board of Directors  
Sarasota Military Academy Prep

### **Financial Condition**

Section 10.854(1)(e)2. and 10.855(11), Rules of the Auditor General, require that we report the resulted of our determination as to whether or not the Sarasota Military Academy Prep 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 Sarasota Military Academy Prep did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Sections 10.854(1)(e)6.a. and 10.855(12), Rules of the Auditor General, require that we apply 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 their review of financial information provided by the same. We have applied such procedures of the fiscal year end and no deteriorating financial condition has been noted.

### **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 Sarasota Military Academy Prep maintains on its Web site the information specified in Section 1002.33(9)(p), Florida Statutes. In connection with our audit, we determined that the Sarasota Military Academy Prep 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, matters required to be disclosed are included under the heading *Status of Prior Year Findings and Recommendations* and *Current Year Findings and 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, applicable management, and the School Board of Sarasota County, Florida, and it is not intended to be and should not be used by anyone other than these specified parties.

*Pellegrino Honick McFarland & Miller, P.A.*

Sarasota, Florida  
October 29, 2015

To the Board of Directors  
Sarasota Military Academy Prep

**Status of Prior Year Findings and Recommendations**

There were no prior year findings.

**Current Year Findings and Recommendations**

There were no current year findings.