

**NORTHWEST FLORIDA STATE COLLEGE
COLLEGIATE HIGH SCHOOL**

**A CHARTER SCHOOL AND RESTRICTED FUND OF
NORTHWEST FLORIDA STATE COLLEGE**

**FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

**NORTHWEST FLORIDA STATE COLLEGE COLLEGIATE HIGH SCHOOL
A CHARTER SCHOOL AND RESTRICTED FUND OF
NORTHWEST FLORIDA STATE COLLEGE**

**ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015**

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Northwest Florida State College Collegiate High School
Niceville, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of Northwest Florida State College Collegiate High School (the "Charter School"), a Charter School and restricted fund of Northwest Florida State College, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Charter 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 an opinion on these financial statements based on our audit. We conducted our audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Charter School as of June 30, 2016 and 2015, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statements present only the Charter School, a restricted fund of Northwest Florida State College, and do not purport to, and do not, present fairly the financial position of Northwest Florida State College as of June 30, 2016 and 2015, the changes in its financial position, or its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A) on pages 4 through 12 and schedule of funding progress for other-post-employment benefits, Schedule of Contributions and Schedule of Proportionate Share of Net Pension Liability on pages 34 to 36, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12 2016, on our consideration of the Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Charter School's internal control over financial reporting and compliance.

Mauldin & Jenkins, LLC

Bradenton, Florida
December 12, 2016

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NORTHWEST FLORIDA STATE COLLEGE
JUNE 30, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

INTRODUCTION

The following discussion and analysis provides an overview of the financial position and activities of the Northwest Florida State College Collegiate High School (the "Charter School") for the years ended June 30, 2016 and 2015. This discussion has been prepared by management and should be read in conjunction with the financial statements and related footnote disclosures that follow this section. Responsibility for the completeness and fairness of this information rests with the Charter School's management. The discussion and analysis includes information relating to the financial position and activities of the Charter School as a restricted fund of Northwest Florida State College (the "College").

FINANCIAL HIGHLIGHTS

The Charter School reported a negative net position balance of \$50,456 at June 30, 2016, with assets and deferred outflow of resources of \$747,534 and liabilities and deferred inflow of resources of \$797,990. Net position, which represents the residual interest in the Charter School's assets and deferred outflow of resources after liabilities and deferred inflow of resources are deducted, increased \$87,037 during the 2015-2016 fiscal year. The negative net position reported is due to the requirement of Governmental Accounting Standards that require the recording of Net Pension Liabilities that will be paid over time and financed by future appropriations. Total revenues increased \$62,381 and expenses decreased \$47,037. The expense to revenue relationship changed from 101.15% in the 2014-2015 fiscal year to 95.68% in the 2015-2016 fiscal year.

The Charter School reported a negative net position balance of \$137,493 at June 30, 2015, with assets and deferred outflow of resources of \$909,855 and liabilities and deferred inflows of resources of \$ 1,047,348. Net position, which represents the residual interest in the Charter School's assets and deferred outflow of resources after liabilities and deferred inflow of resources are deducted, decreased \$204,348 during the 2014-2015 fiscal year. Total revenues increased \$126,651 and expenses increased \$182,534. The revenue to expense relationship changed from 98.23% in the 2013-2014 fiscal year to 101.15% in the 2014-2015 fiscal year.

USING THIS ANNUAL REPORT

This report consists of three basic financial statements: (1) the statements of net position; (2) the statements of revenues, expenses and changes in net position; and (3) the statements of cash flows. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles, which establish standards for external financial reporting for public colleges and universities and require financial statements be presented on a

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(Unaudited)

nonconsolidated basis to focus on the Charter School as a whole. These statements present a long-term view of the Charter School’s finances.

THE STATEMENT OF NET POSITION

The statement of net position presents the financial position of the Charter School at the end of the fiscal year and reflects all assets, deferred outflow of resources, liabilities and deferred inflows of resources of the Charter School. Net position, the difference between total assets plus deferred outflow of resources and total liabilities plus deferred inflows of resources is one indicator of the current financial condition of the Charter School, while the change in net position is an indicator of whether the overall financial condition has improved or declined during the year. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical costs less an allowance for depreciation. A summarized comparison of the Charter School’s assets, liabilities and net position at June 30, 2016 and 2015, is presented in the following table:

	June 30, 2016	June 30, 2015
Assets		
Total current assets	\$ 706,446	\$ 880,207
Total assets	\$ 706,446	\$ 880,207
Deferred outflows of resources	\$ 41,088	\$ 29,648
Total current liabilities	\$ 567,774	\$ 823,374
Total noncurrent liabilities	200,335	144,877
Total liabilities	\$ 768,109	\$ 968,251
Deferred inflows of resources	\$ 29,881	\$ 79,097
Net position		
Restricted	\$ 38,872	\$ 26,985
Unrestricted	(89,328)	(164,478)
Total net position	\$ (50,456)	\$ (137,493)

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The Charter School has no noncurrent assets. A review of the Charter School's Statement of Net Position at June 30, 2016 and 2015, shows that the Charter School's total assets decreased by \$173,761 while total liabilities decreased by \$200,144. Current liabilities decreased by \$255,602 compared to 2014-15. The decrease in current liability is primarily because of decrease in due to college. The Charter School received and paid dual enrollment Spring term invoice for 2015-2016 before June 30, 2016. The same invoice has been paid after year-end for 2014-15 and reported as liability as of June 30, 2015. This invoice amount is significant and is prepared and sent using standard calculation by the College Business Office. The decrease in asset is because of decrease in cash compared to last fiscal year and the cash has been used to pay the invoice mentioned before. There was an increase of \$52,556 in net pension liability that was recorded in accordance with GASB 68 which caused the Net Position balance to a negative \$50,456. But the total net position balance increased by \$87,037 in June 30, 2016 compared to June 30, 2015.

A review of the Charter School's Statement of Net Position at June 30, 2015 and 2014, shows that the Charter School reported a negative net position balance of \$137,493. Total assets increased by \$296,607 while total liabilities increased by \$451,506.

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(Unaudited)

THE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The statement of revenues, expenses and changes in net position presents the Charter School's results of operations. In accordance with GASB reporting principles, revenues and expenses are classified as either operating or nonoperating.

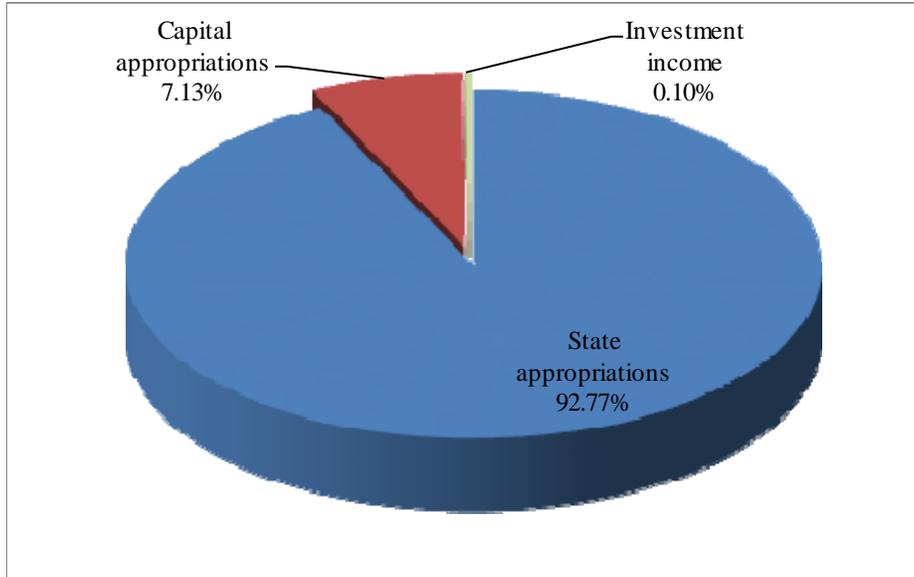
A comparison of the Charter School's revenues, expenses and changes in net position for the fiscal years ended June 30, 2016 and 2015, is shown in the following table:

	For the Year Ended	
	June 30, 2016	June 30, 2015
REVENUES		
Operating revenues	\$ -	-
Total operating revenues	<u>-</u>	<u>-</u>
EXPENSES		
Operating expenses		
Salaries	375,328	399,460
Benefits	79,429	91,170
Contractual services	708,488	722,798
Other services and expenses	598,491	609,692
Materials and supplies	165,836	151,489
Total operating expenses	<u>1,927,572</u>	<u>1,974,609</u>
Operating loss	<u>(1,927,572)</u>	<u>(1,974,609)</u>
NONOPERATING REVENUES		
State appropriations from county school district	1,869,010	1,795,387
Investment income	2,052	1,897
Net nonoperating revenues	<u>1,871,062</u>	<u>1,797,284</u>
Loss before capital contributions	<u>(56,510)</u>	<u>(177,325)</u>
CAPITAL CONTRIBUTIONS		
Capital appropriations	<u>143,547</u>	<u>154,944</u>
Change in net position	<u>87,037</u>	<u>(22,381)</u>
NET POSITION		
Net position, beginning of year	(137,493)	66,855
Adjustment to beginning net position - GASB 68 implementation	<u>-</u>	<u>(181,967)</u>
Net position, end of year	<u>\$ (50,456)</u>	<u>(137,493)</u>

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The following is a graphical presentation of the Charter School's nonoperating revenues for the 2015-2016 fiscal year:



Charter School revenues increased \$62,381 or 3.20%, as a result of the following factors:

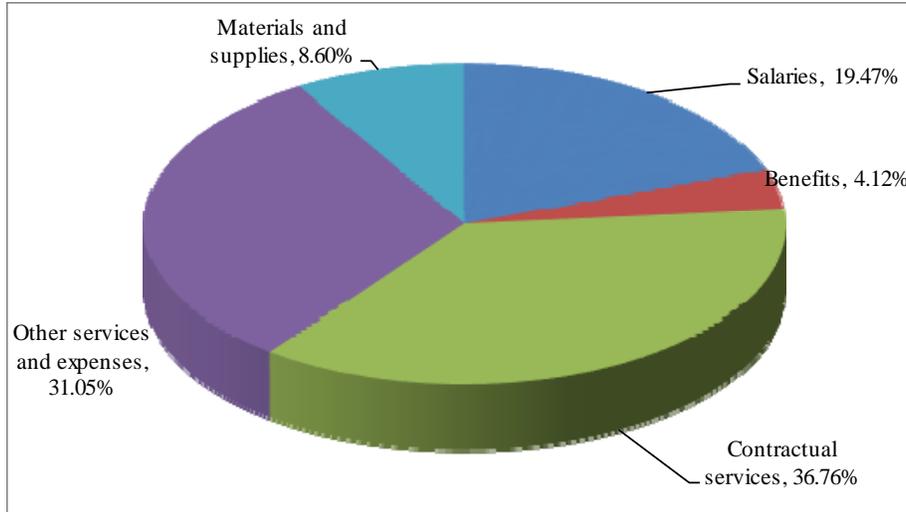
- **State Appropriations increased \$73,623, primarily due to a slight increase in the State's Base Student Allocation rate compared to 2014-2015.**
- **Capital appropriations decreased \$11,397.**
- **Investment Income (Bank Interest) increased \$155.**

Charter School expenses decreased 2.38% during 2015-16. Total personnel expenses including salaries and benefits decreased \$35,873 or 7.31% compared to 2014-15. The decrease in personnel expense is primarily as a result of working with lower number of full-time employees. The Charter School's General operating expenses decreased by \$11,164 or 0.75%. Payroll costs accounted for 23.59% and 24.85% of expenses in fiscal years 2015-2016 and 2014-2015, respectively.

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(Unaudited)

A chart showing the Charter School expenses by percentage of total expenses for fiscal year 2015-2016 follows:



During the year ended June 30, 2015, Charter School revenues increased \$126,651 or 6.94%, as a result of the following factors:

- **State Appropriations increased \$143,173, primarily due to an increase in the State's Base Student Allocation rate and a 3% increase in FTE compared to 2013-2014.**
- **Capital appropriations decreased \$16,611.**
- **Investment Income (Bank Interest) increased \$89.**

Charter School expenses increased 10.19% during 2014-15. Total personnel expenses including salaries and benefits increased \$85,378 or 21.07%. The personnel expense increase is primarily due to benefit expense increase. The benefit expense in 2013-2014 decreased significantly because a considerable portion of Charter School's salaries needed to be moved to College's unrestricted fund starting from 2013-2014 and along with the payroll the accrued leave liability also decreased. As a result accrued leave expense decreased also for Charter School for 2013-2014. Accrued leave liability increased slightly for 2014-2015 but because of last year's significant decrease, the change from 2013-2014 to 2014-2015 was so high. According to amended Florida Statute 2007.271, school districts are required to pay for dual enrolled students, which accounts for the significant current expense increase starting from 2013-2014. To offset the burden, the College transferred a considerable portion of the Charter School's salaries to the College's unrestricted fund starting in 2013-2014. The Charter School's General operating expenses increased \$97,156 or 7%. Payroll costs accounted for 24.85% and 23% of expenses in fiscal years 2014-2015 and 2013-2014, respectively.

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THE STATEMENT OF CASH FLOWS

The statement of cash flows provides additional information about the Charter School’s financial results by reporting the major sources and uses of cash. Its primary purpose is to provide relevant information about the cash receipts and cash payments of an entity during a period. The statement of cash flows also helps users assess:

- **An entity’s ability to generate future net cash flows.**
- **Its ability to meet its obligations as they come due.**
- **Its need for external financing.**

A comparative summary of the statement of cash flows for the Charter School for the fiscal years ended June 30, 2016 and 2015, is shown in the following table. The Charter School’s cash increased during the reporting year.

	June 30, 2016	June 30, 2015
Cash provided (used) by		
Operating activities	\$ (2,188,370)	\$ (1,655,621)
Noncapital financing activities	1,869,010	1,795,387
Capital and related financing activities	145,206	155,207
Investing activities	2,052	1,897
Net increase (decrease) in cash	(172,102)	296,870
Cash, beginning of year	866,199	569,329
Cash, end of year	\$ 694,097	\$ 866,199

The following discussion presents an overview of cash flows:

- During the fiscal year ended June 30, 2016, cash decreased \$172,102. The decrease in cash was mainly due to the following:
 - ◆ Usage of cash for operating activities increased by \$532,749 primarily because of the timing of payment of Charter School’s end of the year invoices. Some were paid earlier for 2015-16 compared to 2014-15. Last year two significant amount invoices were received and paid after end of the year and reported as liability as of June 30, 2015. The payment to employees decreased by \$15,989 primarily because of lower number of full-time employee compared to last year and the increase in accrued compensated absences which is also considered when calculating payment to employees.

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- ◆ The payments for benefits decreased by \$15,311 primarily because of the adjustments recorded for deferred inflow of resources, change in net pension liabilities, other post-employment benefits and deferred outflow of resources and lower number of full-time employees for 2015-16.
 - ◆ Noncapital financing sources increased by \$73,623 due to slightly increased funding from the School District compared to 2014-2015. Capital and related financing sources decreased by \$10,001.
 - ◆ Interest Income increased by \$155 during 2015-16.
- During the fiscal year ended June 30, 2015, cash increased \$296,870. The increase in cash was mainly due to the following:
- ◆ Usage of cash for operating activities decreased by \$172,469 primarily because the Charter School paid two significant 2014-2015 due to college invoices after June 30, 2015, which had been reported as liability as of June 30, 2015.
 - ◆ The payment to employees decreased by \$77,155 because of the increase in accrued compensated absences which is also considered when calculating payment to employees.
 - ◆ The payments for benefits increased because of the adjustments recorded for deferred inflow of resources, change in net pension liabilities, other post-employment benefits and deferred outflow of resources.
 - ◆ Noncapital financing sources increased by \$143,173 due to increased funding from the School District compared to 2013-2014. Capital and related financing sources decreased by \$13,724.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Charter School maintains an inventory of all assets with a value of \$1,000 and greater as well as various other items which follows the College policies. Florida colleges have established capitalization guidelines for financial reporting purposes. These guidelines provide that for financial reporting purposes, furniture and equipment with a value less than \$5,000; buildings and other structures valued less than \$25,000; and all library books and computer software are expensed in the year of purchase. The building used by the Charter School is the property of the College and the Charter School does not have any capital assets greater than the capitalization policy.

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Long-term Liabilities

At June 30, 2016, the Charter School had \$200,335 in long-term liabilities outstanding versus \$144,877 in the previous year, representing around 38.28% increase. The long-term liabilities consist of \$23,508 for accrued compensated absences and \$6,312 for other post-employment benefits and \$170,515 for net pension liability. The increase was primarily caused as the net pension liability was recorded in accordance with GASB Pronouncement No. 68, *Accounting and Financial Reporting for Pensions*. GASB Statement No. 68 requires the Charter School to recognize its proportionate share of the net pension liabilities and operating statement activities related to changes in the collective pension liabilities of cost-sharing multiple-employer Florida Retirement System (FRS) and Health Insurance Subsidy (HIS) defined benefit plans.

At June 30, 2015, the Charter School had \$144,877 in long-term liabilities outstanding versus \$14,336 in the previous year, representing a more than 900% increase. The long-term liabilities consist of \$20,367 for accrued compensated absences and \$5,637 for other post-employment benefits and \$118,873 for net pension liability. The increase was primarily caused as the net pension liability was recorded for the first time in accordance with GASB Pronouncement No. 68, *Accounting and Financial Reporting for Pensions*.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The economic position of Northwest Florida State College Collegiate High School is closely tied to that of the State of Florida and the Okaloosa County School District. Because of slightly better funding by State of Florida, the Charter School received a 3.2% increase in funding for the 2015-2016 compared to 2014-2015 fiscal year. Projections for the fiscal year ending June 30, 2017, are not indicating any significant increase in State funding. As a result, intensified management and control of expenses are required.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of finances for those who may be interested. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Vice President of Administrative Services, 100 East College Boulevard, Niceville, Florida 32578.

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STATEMENTS OF NET POSITION

	June 30, 2016	June 30, 2015
ASSETS		
Cash	\$ 694,097	866,199
Accounts receivable	12,349	14,008
Total current assets	<u>706,446</u>	<u>880,207</u>
TOTAL ASSETS	<u>706,446</u>	<u>880,207</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources - pensions	41,088	29,648
Total deferred outflows of resources	<u>41,088</u>	<u>29,648</u>
CURRENT LIABILITIES		
Accounts payable	408	880
Due to College	563,867	819,973
Net pension liability, current portion	3,019	2,105
Accrued compensated absences, current portion	480	416
Total current liabilities	<u>567,774</u>	<u>823,374</u>
NONCURRENT LIABILITIES		
Accrued compensated absences	23,508	20,367
Net pension liability	170,515	118,873
Other post-employment benefits	6,312	5,637
Total noncurrent liabilities	<u>200,335</u>	<u>144,877</u>
TOTAL LIABILITIES	<u>768,109</u>	<u>968,251</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources - pensions	29,881	79,097
Total deferred inflows of resources	<u>29,881</u>	<u>79,097</u>
NET POSITION		
Restricted	38,872	26,985
Unrestricted	<u>(89,328)</u>	<u>(164,478)</u>
Total net position	<u>(50,456)</u>	<u>(137,493)</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 747,534</u>	<u>909,855</u>

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

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STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	For the Year Ended	
	June 30, 2016	June 30, 2015
REVENUES		
Operating revenues	\$ -	-
Total operating revenues	<u>-</u>	<u>-</u>
EXPENSES		
Operating expenses		
Salaries	375,328	399,460
Benefits	79,429	91,170
Contractual services	708,488	722,798
Other services and expenses	598,491	609,692
Materials and supplies	165,836	151,489
Total operating expenses	<u>1,927,572</u>	<u>1,974,609</u>
Operating loss	<u>(1,927,572)</u>	<u>(1,974,609)</u>
NONOPERATING REVENUES		
State appropriations from county school district	1,869,010	1,795,387
Investment income	2,052	1,897
Net nonoperating revenues	<u>1,871,062</u>	<u>1,797,284</u>
Loss before capital contributions	<u>(56,510)</u>	<u>(177,325)</u>
CAPITAL CONTRIBUTIONS		
Capital appropriations	<u>143,547</u>	<u>154,944</u>
Change in net position	<u>87,037</u>	<u>(22,381)</u>
NET POSITION		
Net position, beginning of year	(137,493)	66,855
Adjustment to beginning net position - GASB 68 implementation	<u>-</u>	<u>(181,967)</u>
Net position, end of year	<u>\$ (50,456)</u>	<u>(137,493)</u>

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

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STATEMENTS OF CASH FLOWS

	For the Year Ended	
	June 30, 2016	June 30, 2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers for goods and services	\$ (1,729,393)	(1,165,346)
Payments to employees	(372,123)	(388,112)
Payments for benefits	(86,854)	(102,163)
Net cash used by operating activities	(2,188,370)	(1,655,621)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations from county school district	1,869,010	1,795,387
Net cash provided by noncapital financing activities	1,869,010	1,795,387
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations	145,206	155,207
Net cash provided by capital and related financing activities	145,206	155,207
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	2,052	1,897
Net cash provided by investing activities	2,052	1,897
Net increase (decrease) in cash	(172,102)	296,870
Cash, beginning of year	866,199	569,329
Cash, end of year	\$ 694,097	866,199
Reconciliation of operating loss to net cash used by operating activities		
Operating loss	\$ (1,927,572)	(1,974,609)
Adjustments to reconcile operating loss to net cash used by operating activities		
(Increase) in deferred outflows of resources	(11,440)	(11,921)
Increase (decrease) in accounts payable	(472)	474
Increase (decrease) in due to College	(256,106)	318,159
Increase (decrease) in net pension liability	52,556	(78,716)
Increase in accrued compensated absences	3,205	11,348
Increase in other post-employment benefits	675	547
Increase (decrease) in deferred inflows of resources	(49,216)	79,097
	\$ (2,188,370)	(1,655,621)

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

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NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: Northwest Florida State College Collegiate High School (the “Charter School”) is a restricted fund of Northwest Florida State College (“NWFS”). The financial statements present only the financial position, changes in financial position and cash flows of only that portion of the business-type activities of NWFS applicable to the operations of the Charter School. The general operating authority of the Charter School is contained in Section 1002.33, Florida Statutes. The Charter School operates under a charter with the sponsoring school district, the School Board of Okaloosa County, Florida (“Sponsor”). The initial charter, effective until June 30, 2005, has been renewed and is effective until June 30, 2027. At the end of the term of the charter, the Sponsor may choose not to renew the charter under grounds specified in the charter, in which case the Sponsor is required to notify the Charter School, in writing, at least 90 days prior to the charter’s expiration. During the term of the charter, the Sponsor may also terminate the charter if good cause is shown.

Basis of Presentation: The Charter School’s accounting policies conform to accounting principles generally accepted in the United States of America applicable to public colleges and universities as prescribed by the Governmental Accounting Standards Board (GASB). The National Association of College and University Business Officers (NACUBO) also provide NWFS and the Charter School with recommendations prescribed in accordance with generally accepted accounting principles promulgated by GASB and the Financial Accounting Standards Board (FASB). GASB allows public colleges various reporting options. The Charter School has elected to report as an entity engaged in only business-type activities. This election requires the adoption of the accrual basis of accounting and entity-wide reporting including the following components:

- Management’s Discussion and Analysis
- Basic Financial Statements:
 - Statement of Net Position
 - Statement of Revenues, Expenses and Changes in Net Position
 - Statement of Cash Flows
 - Notes to Financial Statements
- Required Supplementary Information

The Charter School follows the same basis of presentation as NWFS.

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NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting: Basis of accounting refers to when revenues, expenses and related assets and liabilities are recognized in the accounts and reported in the financial statements. Specifically, it relates to the timing of the measurements made, regardless of the measurement focus applied. The Charter School's financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from non-exchange activities are generally recognized when all applicable eligibility requirements, including time requirements, are met.

The Charter School's principal operating activity is instruction. Since student fees are not assessed for instruction, no operating revenue is reported. Operating expenses generally include all transactions directly related to instruction as well as administration, support, student services, and operations. Non-operating revenues include state noncapital appropriations and investment income.

The statement of net position is presented in a classified format to distinguish between current and noncurrent assets and liabilities. When both restricted and unrestricted resources are available to fund certain programs, it is the Charter School's policy to first apply the restricted resources to such programs followed by the use of the unrestricted resources.

Cash and Cash Equivalents: The amount reported as cash consists of cash on hand and cash in demand deposit accounts. Cash deposits of the Charter School are held by banks designated as qualified public depositories under Florida Statute Chapter 280. All such deposits are insured by Federal depository insurance or collateralized with securities held in Florida's multiple financial institution collateral pool.

Capital Assets: NWFSC and, therefore, the Charter School, have a capitalization threshold of \$5,000 for tangible personal property. There were no capital assets reported at June 30, 2016 or 2015.

Net Position: Net position represents the difference between assets and liabilities. Net position is reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, laws or regulations. Net position not reported as restricted net position is reported as unrestricted net position.

Revenue Sources: Revenue for current operations is received primarily from the School Board of Okaloosa County, Florida, pursuant to the funding provisions included in the Charter.

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NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 amounts could differ from the estimates.

Reclassification: Certain amounts have been reclassified from their 2015 presentation to comply with revised presentation in 2016.

NOTE 2 – CURRENT LIABILITIES

The Charter School’s Due to College includes contractual service expenses for direct instruction provided by NWFSC for Charter School students dual enrolled in college credit courses for the Spring term 2015-2016 because of late availability of the invoice. In addition to that, the Due to College includes reimbursement for the Charter School’s partial payroll expense processed through College payroll. This amount for reimbursement to the College is based on available fund balance at year-end. For 2015-2016, Charter School paid the full amount to the College. The Due to College also includes the final facilities capital outlay allocation for the year from the Okaloosa County School District. This capital outlay allocation is usually transferred to NWFSC in lieu of rent for the building occupied by the Charter School.

NOTE 3 – LONG-TERM LIABILITIES

The Charter School’s long-term liability activity for the year ended June 30, 2016 and 2015, is as follows:

	Balance June 30, 2015	Additions	Reductions	Balance June 30, 2016	Due Within One Year
Compensated absences	\$ 20,782	3,622	416	23,988	480
Other post-employment benefits	5,637	675	-	6,312	-
Net pension liability	120,978	113,984	61,428	173,534	3,019
	<u>\$ 147,397</u>	<u>118,281</u>	<u>61,844</u>	<u>203,834</u>	<u>3,499</u>
	Balance June 30, 2014	Additions	Reductions	Balance June 30, 2015	Due Within One Year
Compensated absences	\$ 9,435	11,536	189	20,782	416
Other post-employment benefits	5,090	547	-	5,637	-
Net pension liability	-	181,967	60,989	120,978	2,105
	<u>\$ 14,525</u>	<u>194,050</u>	<u>61,178</u>	<u>147,397</u>	<u>2,521</u>

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NOTES TO FINANCIAL STATEMENTS

NOTE 3 – LONG-TERM LIABILITIES (CONTINUED)

Compensated Absences: NWFSC employees accrue annual and sick leave based upon length of service. Limitations exist regarding the amount that will be paid upon termination. The Charter School reported a liability for the accrued leave in the amount of \$23,988 and \$20,782 at June 30, 2016 and 2015, respectively. This includes the Charter School’s share of FICA contributions.

Other Post-employment Benefits Payable: NWFSC, including the Charter School, follows Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*, for certain other post-employment healthcare benefits provided by the Florida College System Risk management Consortium (“Consortium”).

Plan Description: NWFSC, including the Charter School, contributes to an agent, multiple-employer, defined benefit plan administered by the Consortium (the “Plan”). Pursuant to the provisions of Section 112.0801, Florida Statutes, former employees who retire from NWFSC, including the Charter School, are eligible to participate in NWFSC’s healthcare plan. The NWFSC subsidizes the premium rates paid by retirees by allowing them to participate in the Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the Plan on average than those of active employees. NWFSC does not offer any explicit subsidies for retiree coverage. Retirees are required to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible. Neither NWFSC, including the Charter School, nor the Consortium, issues a stand-alone report, and the Plan is not included in the annual report of a public employee retirement system or another entity.

Funding Policy: The Board of Trustees has established and can amend plan benefits and contribution rates. NWFSC has not advance-funded or established a funding methodology for the annual other post-employment benefit (“OPEB”) costs or the net OPEB obligation, and the plan is financed on a pay-as-you-go basis. As of July 1, 2015, 16 retirees and surviving/covered spouses related to the Charter School received post-employment healthcare benefits. Required contributions are based on a projected pay-as-you-go basis. The Charter School provided required contributions of \$11,014 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees for claims expenses (net of reinsurance), administrative expenses and reinsurance premiums. Retiree contributions totaled \$75,148.

Annual OPEB Cost and Net OPEB Obligation: Annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

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NOTES TO FINANCIAL STATEMENTS

NOTE 3 – LONG-TERM LIABILITIES (CONTINUED)

NWFSC’s annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation as of June 30, 2016, and for the two preceding years was as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2014	44,180	38.1%	254,482
6/30/2015	46,419	43.1%	281,841
6/30/2016	44,759	24.6%	315,586

The following table shows the NWFSC’s annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the net OPEB obligation:

Description	Amount
Normal cost (service cost for one year)	\$ 29,502
Amortization of unfunded actuarial accrued liability	14,397
Annual required contribution	\$ 43,899
Interest on Normal Cost and Amortization	4%
Annual required contribution	\$ 43,899
Interest on net OPEB obligation	11,274
Adjustment to annual required contribution	(10,414)
Annual OPEB cost (expense)	44,759
Contribution toward OPEB cost	(11,014)
Increase in net OPEB obligation	33,745
Net OPEB obligation, beginning of year	281,841
Net OPEB obligation, end of year	\$ 315,586

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NOTES TO FINANCIAL STATEMENTS

NOTE 3 – LONG-TERM LIABILITIES (CONTINUED)

Funded Status and Funding Progress: As of July 1, 2015, the most recent actuarial valuation date, the unfunded actuarial accrued liability for benefits was \$389,633, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$389,633 and a funded ratio of 0%. The covered payroll (annual payroll of active participating employees) was \$15,210,998, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 2.56%.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	Payroll
7/1/2015	\$ -	389,633	389,633	0%	15,210,998	2.56%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and termination, mortality and healthcare cost trends. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to financial statements, presents multiyear trend information that shows whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive Plan provisions, as understood by the employer and participating members, and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and participating members. In addition, the projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

NWFSC's, including the Charter School, OPEB actuarial valuation as of July 1, 2015, used the entry age normal, actuarial cost method to estimate the unfunded actuarial liability and annual required contribution. This method was selected because it is the same method used in the private sector for determination of retiree medical liabilities. Although the OPEB liability is currently unfunded, the actuarial assumptions included a 4% rate of return on invested assets that are valued based on market value.

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NOTES TO FINANCIAL STATEMENTS

NOTE 3 – LONG-TERM LIABILITIES (CONTINUED)

The actuarial assumptions also included an annual 7.5% Pre-Medicare healthcare cost trend rate and 5.50% Medicare healthcare cost trend rate, reducing to an ultimate trend rate of 5% for fiscal year ending June 30, 2020 (Pre-Medicare) and 2017 (Medicare), respectively. The unfunded actuarial accrued liability is being amortized as a level percentage of projected pay, open over 30 years.

The Charter School allocation of the net OPEB obligation was calculated as 2% of the NWFSC net OPEB obligation based on the ratio of Charter School total health insurance expense to total NWFSC health insurance expense.

NWFS Total Health Insurance	Charter School's Total Health Insurance	Charter School's Percentage of NWFS Total	NWFS Net OPEB Obligation	Charter School's Net OPEB Obligation
FY 2015-2016 \$ 1,589,350	31,787	2.00%	315,586	6,312

Special Termination Benefits: The Board has established a retirement incentive program that is available to certain NWFS employees. Under the program, eligible employees receive payment for accumulated sick leave based on years of service as defined by Section 1012.865, Florida Statutes, and a salary bonus equal to no more than 10% of the final year's annual contract salary. Retirement pay incentives will be paid out over three years, as specified in the Retirement Incentive Agreement. As of June 30, 2016 and 2015, no Charter School employees were participating in the program.

NOTE 4 – STATE RETIREMENT PROGRAMS

State Community College System Optional Retirement Program

Pursuant to Section 1012.875, Florida Statutes, the Florida Legislature created an Optional Retirement Program (Program) for eligible community college instructors and administrators. The Program is designed to aid community colleges in recruiting employees by offering more portability to employees not expected to vest in the Florida Retirement System.

The Program is a defined contribution plan, which provides full and immediate vesting of all contributions submitted to the participating companies on behalf of the participant. Employees in eligible positions can make an irrevocable election to participate in the Program, rather than the Florida Retirement System, and purchase retirement and death benefits through contracts provided by certain insurance carriers. The employing Community College contributes on behalf of the participant 5.15% of the participant's salary, less a small amount used to cover administrative costs. Employees are required to contribute 3% of the employee's salary.

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NOTES TO FINANCIAL STATEMENTS

NOTE 4 – STATE RETIREMENT PROGRAMS (CONTINUED)

Additionally, the participant may contribute, by payroll deduction, an amount not to exceed the percentage contributed by the community college to the participant's annuity account. The contributions are invested in the company or companies selected by the participant to create a fund for the purchase of annuities at retirement.

There was one charter high school participant during the 2014-2015 fiscal year and 2015-2016 fiscal year. Required employer contributions made to the program totaled \$3,062 and \$3,711 for the years ended June 30, 2016 and 2015, respectively.

Florida Retirement System Defined Benefit Pension Plans

The Florida Retirement System (FRS) was created by Chapter 121, Florida Statutes, to provide a defined benefit pension plan for participating public employees. The FRS was amended in 1998 to add the Deferred Retirement Option Program under the defined benefit plan and amended in 2000 to provide a defined contribution plan alternative to the defined benefit plan for FRS members effective July 1, 2002. This integrated defined contribution pension plan is the FRS Investment Plan. Chapter 112, Florida Statutes, established the Retiree Health Insurance Subsidy (HIS) Program, a cost-sharing multiple-employer defined benefit pension plan, to assist retired members of any State-administered retirement system in paying the costs of health insurance.

Essentially all regular employees of the Charter School are eligible to enroll as members of the State-administered FRS. Provisions relating to the FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and FRS Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. Such provisions may be amended at any time by further action from the Florida Legislature. The FRS is a single retirement system administered by the Florida Department of Management Services, Division of Retirement, and consists of the two cost-sharing, multiple-employer defined benefit plans and other nonintegrated programs. A comprehensive annual financial report of the FRS, which includes its financial statements, required supplementary information, actuarial report, and other relevant information, is available from the Florida Department of Management Services' Web site (www.dms.myflorida.com).

The Charter School's pension expense totaled \$11,197 and \$8,091 for both the FRS Pension Plan and HIS Plan for the fiscal years ended June 30, 2016 and 2015, respectively.

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NOTES TO FINANCIAL STATEMENTS

NOTE 4 – STATE RETIREMENT PROGRAMS (CONTINUED)

Florida Retirement System Defined Benefit Pension Plan

Plan Description

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

- Regular Class – Members of the FRS who do not qualify for membership in the other classes.
- Senior Management Service Class (SMSC) – Members in senior management level positions.

Benefits Provided

Benefits under the FRS Plan are computed on the basis of age and/or years of service, average final compensation, and service credit. Credit for each year of service is expressed as a percentage of the average final compensation. For members initially enrolled before July 1, 2011, the average final compensation is the average of the 5 highest fiscal years' earnings; for members initially enrolled on or after July 1, 2011, the average final compensation is the average of the 8 highest fiscal years' earnings. The total percentage value of the benefit received is determined by calculating the total value of all service, which is based on the retirement class to which the member belonged when the service credit was earned. Members are eligible for in-line-of-duty or regular disability and survivors' benefits.

The following chart shows the percentage value for each year of service credit earned:

<u>Class, Initial Enrollment, and Retirement Age/Years of Service:</u>	<u>% value</u>
Regular Class members initially enrolled before July 1, 2011	
Retirement up to age 62 or up to 30 years of service	1.60
Retirement up to age 63 or up to 31 years of service	1.63
Retirement up to age 64 or up to 32 years of service	1.65
Retirement up to age 65 or up to 33 years of service	1.68
Regular Class members initially enrolled on or after July 1, 2011	
Retirement up to age 65 or up to 33 years of service	1.60
Retirement up to age 66 or up to 34 years of service	1.63
Retirement up to age 67 or up to 35 years of service	1.65
Retirement up to age 68 or up to 36 years of service	1.68
Senior Management Service Class	2.00
Special Risk Regular	
Service on and after October 1, 1974	3.00

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NOTES TO FINANCIAL STATEMENTS

NOTE 4 – STATE RETIREMENT PROGRAMS (CONTINUED)

As provided in Section 121.101, Florida Statutes, if the member is initially enrolled in the FRS before July 1, 2011, and all service credit was accrued before July 1, 2011, the annual cost-of-living adjustment is 3% per year. If the member is initially enrolled before July 1, 2011, and has service credit on or after July 1, 2011, there is an individually calculated cost-of-living adjustment. The annual cost-of-living adjustment is a proportion of 3% determined by dividing the sum of the pre-July 2011 service credit by the total service credit at retirement multiplied by 3%. FRS Plan members initially enrolled on or after July 1, 2011, will not have a cost-of-living adjustment after retirement.

Contributions

The Florida Legislature establishes contribution rates for participating employers and employees. Effective July 1, 2011, all FRS Plan members (except those in DROP) are required to make 3% employee contributions on a pretax basis. The contribution rates attributable to the Charter School, effective July 1, 2016, were applied to employee salaries as follows: regular employees 7.26%, county elected officials 45.80%, senior management 21.43%, and DROP participants 12.88%. The Charter School's contributions to the FRS Plan were \$24,102 and \$18,934 for the years ended June 30, 2016 and 2015, respectively.

Pension Costs

At June 30, 2016, the Charter School reported a liability of \$86,767 for its proportionate share of the FRS Plan's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015. The School's proportion of the net pension liability was based on the Charter School's contributions received by FRS during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of FRS's participating employers. At the June 30, 2015, measurement date, the Charter School's proportion was 0.000006718%.

At June 30, 2015, the Charter School reported a liability of \$41,240 for its proportionate share of the FRS Plan's 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 an actuarial valuation as of July 1, 2014. The School's proportion of the net pension liability was based on the Charter School's contributions received by FRS during the measurement period for employer payroll paid dates from July 1, 2013, through June 30, 2014, relative to the total employer contributions received from all of FRS's participating employers. At the June 30, 2014, measurement date, the Charter School's proportion was 0.000006759%.

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NOTES TO FINANCIAL STATEMENTS

NOTE 4 – STATE RETIREMENT PROGRAMS (CONTINUED)

For the year ended June 30, 2016, the Charter School recognized pension expense of \$5,454 for its proportionate share of FRS' pension expense. In addition, the Charter School reported its proportionate share of FRS' deferred outflows of resources and deferred inflows of resources from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 9,160	\$ (2,058)
Changes in actuarial assumptions	5,759	-
Net difference between projected and actual earnings on pension plan investments	-	(20,718)
Changes in proportion and differences between Charter School contributions and proportionate share of contributions	-	(3,327)
Charter School contributions subsequent to the measurement date	15,095	-
Total	\$ 30,014	\$ (26,103)

The deferred outflows totaling \$15,095 was related to pensions resulting from Charter School contributions to the FRS Plan subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized as an increase (decrease) in pension expense as follows:

Year Ended June 30	Amount
2017	\$ (2,237)
2018	(2,237)
2019	(2,237)
2020	(2,237)
2021	(2,236)

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NOTES TO FINANCIAL STATEMENTS

NOTE 4 – STATE RETIREMENT PROGRAMS (CONTINUED)

Actuarial Assumptions

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

Inflation	2.60% per year
Salary Increases	3.25%, Average, Including Inflation
Investment Rate of Return	7.65%, Net of Pension Plan Investment Expense, Including Inflation

Mortality rates were based on the Generational RP-2000 with Projection Scale BB. The actuarial assumptions used in the July 1, 2015, valuation were based on the results of an actuarial experience study for the period July 1, 2008, through June 30, 2014.

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

The target allocation, as outlined in the FRS Plan's investment policy and best estimates of arithmetic and geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Annual Arithmetic Return	Compound Annual (Geometric) Return	Standard Deviation
Cash	1.00%	3.20%	3.10%	1.70%
Fixed income	18.00%	4.80%	4.70%	4.70%
Global equity	53.00%	8.50%	7.20%	17.70%
Real estate (property)	10.00%	6.80%	6.20%	12.00%
Private equity	6.00%	11.90%	8.20%	30.00%
Strategic investments	12.00%	6.70%	6.10%	11.40%

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NOTE 4 – STATE RETIREMENT PROGRAMS (CONTINUED)

Discount Rate

The discount rate used to measure the total pension liability was 7.65% for the FRS Plan. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension 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 long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Pension Liability Sensitivity

The following presents the School’s proportionate share of the net pension liability for the FRS Plan, calculated using the discount rate disclosed in the preceding paragraph, as well as what the Charter School’s proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

Description	1% Decrease (6.65%)	Current Discount rate (7.65%)	1% Increase (8.65%)
Collegiate School's proportionate share of the FRS plan net pension liability	\$ 224,834	\$ 86,767	\$ (28,127)

Pension Plan Fiduciary Net Position

Detailed information about the FRS Plan’s fiduciary’s net position is available in a separately-issued FRS Pension Plan and Other State-Administered Systems Comprehensive Annual Financial Report. That report may be obtained through the Florida Department of Management Services website at <http://www.dms.myflorida.com>.

Retiree Health Insurance Subsidy Program

Plan Description

The Retiree Health Insurance Subsidy Program (HIS Plan) is a cost-sharing multiple-employer defined benefit pension plan established under Section 112.363, Florida Statutes, and may be amended by the Florida Legislature at any time. The benefit is a monthly payment to assist retirees of State-administered retirement systems in paying their health insurance costs and is administered by the Florida Department of Management Services, Division of Retirement.

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NOTES TO FINANCIAL STATEMENTS

NOTE 4 – STATE RETIREMENT PROGRAMS (CONTINUED)

Benefits Provided

For the fiscal year ended June 30, 2016, eligible retirees and beneficiaries received a monthly HIS payment of \$5 for each year of creditable service completed at the time of retirement, with a minimum HIS payment of \$30 and a maximum HIS payment of \$150 per month, pursuant to Section 112.363, Florida Statutes. To be eligible to receive a HIS Plan benefit, a retiree under a State-administered retirement system must provide proof of health insurance coverage, which may include Medicare.

Contributions

The HIS Plan is funded by required contributions from FRS participating employers as set by the Florida Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the fiscal year ended June 30, 2016, the contribution rate was 1.66 percent of payroll pursuant to section 112.363, Florida Statutes. The Charter School contributed 100 percent of its statutorily required contributions for the current and preceding 3 years. HIS Plan contributions are deposited in a separate trust fund from which payments are authorized. HIS Plan benefits are not guaranteed and are subject to annual legislative appropriation. In the event the legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or canceled. The Charter School's contributions to the HIS Plan were \$4,201 and \$3,252 for the years ended June 30, 2016 and 2015, respectively.

Pension Costs

At June 30, 2016, the Charter School reported a liability of \$86,767 for its proportionate share of the HIS Plan's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015. The Charter School's proportion of the net pension liability was based on the Charter School's contributions received during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all participating employers. At June 30, 2015, the Charter School's proportion was 0.000008508%.

At June 30, 2015, the Charter School reported a liability of \$79,739 for its proportionate share of the HIS Plan's 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 an actuarial valuation as of July 1, 2014. The Charter School's proportion of the net pension liability was based on the Charter School's contributions received during the measurement period for employer payroll paid dates from July 1, 2013, through June 30, 2014, relative to the total employer contributions received from all participating employers. At June 30, 2014, the Charter School's proportion was 0.000008528%.

**NORTHWEST FLORIDA STATE COLLEGE COLLEGIATE HIGH SCHOOL
A CHARTER SCHOOL AND RESTRICTED FUND OF
NORTHWEST FLORIDA STATE COLLEGE**

NOTES TO FINANCIAL STATEMENTS

NOTE 4 – STATE RETIREMENT PROGRAMS (CONTINUED)

For the year ended June 30, 2016, the Charter School recognized pension expense of \$5,742 for its proportionate share of HIS’s pension expense. In addition, the Charter School reported its proportionate share of HIS’s deferred outflows of resources and deferred inflows of resources from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Change of assumptions	\$ 6,826	\$ -
Net difference between projected and actual earnings on pension plan investments	47	-
Change in proportion and differences between Charter School contributions and proportionate share of contributions	-	(3,778)
Charter School contributions subsequent to the measurement date	4,201	-
Total	<u>\$ 11,074</u>	<u>\$ (3,778)</u>

\$4,201 reported as deferred outflows of resources related to pensions resulting from Charter School contributions to the FRS Plan subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized as an increase (decrease) in pension expense as follows:

Year End June 30	Amount
2017	\$ 619
2018	619
2019	619
2020	619
2021	619

**NORTHWEST FLORIDA STATE COLLEGE COLLEGIATE HIGH SCHOOL
A CHARTER SCHOOL AND RESTRICTED FUND OF
NORTHWEST FLORIDA STATE COLLEGE**

NOTES TO FINANCIAL STATEMENTS

NOTE 4 – STATE RETIREMENT PROGRAMS (CONTINUED)

Actuarial Assumptions

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

Inflation	2.60% per year
Salary Increases	3.25%, Average, Including Inflation
Municipal Bond Rate	3.80%

Mortality rates were based on the Generational RP-2000 with Projection Scale BB. The actuarial assumptions used in the July 1, 2015, valuation were based on the results of an actuarial experience study for the period July 1, 2008, through June 30, 2014.

Discount Rate

The discount rate used to measure the total pension liability was 3.80% for the HIS Plan. In general, the discount rate for calculating the total pension liability 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 HIS Plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable municipal bond index. The discount rate used to determine the total pension liability decreased from 4.29% from the prior measurement date.

Pension Liability Sensitivity

The following presents the Charter School's proportionate share of the net pension liability for the HIS Plan, calculated using the discount rate disclosed in the preceding paragraph, as well as what the Charter School's proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

Description	1% Decrease (2.80%)	Current Discount rate (3.80%)	1% Increase (4.80%)
Collegiate School's proportionate share of the HIS net pension liability	\$ 98,867	\$ 86,767	\$ 76,677

**NORTHWEST FLORIDA STATE COLLEGE COLLEGIATE HIGH SCHOOL
A CHARTER SCHOOL AND RESTRICTED FUND OF
NORTHWEST FLORIDA STATE COLLEGE**

NOTES TO FINANCIAL STATEMENTS

NOTE 4 – STATE RETIREMENT PROGRAMS (CONTINUED)

Pension Plan Fiduciary Net Position

Detailed information about the HIS Plan's fiduciary's net position is available in a separately-issued FRS Pension Plan and Other State-Administered Systems Comprehensive Annual Financial Report. That report may be obtained through the Florida Department of Management Services website at <http://www.dms.myflorida.com>.

NOTE 5 – LEASES

The Charter School entered into a lease for laptop computers for the students. The lease is for a four year rolling term with a monthly rental ranging from \$29.00 to \$35.00 per month, per laptop. The lease expense for the years ended June 30, 2016 and 2015, was \$74,915 and \$79,220, respectively. This lease provides a laptop computer for each Charter School student from the time they are enrolled in the school and is considered an operating lease.

NOTE 6 – RISK MANAGEMENT PROGRAMS

NWFSC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. NWFSC provided coverage for these risks primarily through the Consortium, which was created under authority of Section 1001.64(27), Florida Statutes, by the Boards of Trustees for Florida public colleges for the purpose of joining a cooperative effort to develop, implement and participate in a coordinated statewide college risk management program. The Consortium is self-sustaining through member assessments (premiums) and is reinsured through commercial companies for claims in excess of specified amounts. Insurance coverage obtained through the Consortium included health, life, fire and extended property, general and automobile liability, workers' compensation, and other liability coverage. Settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

**NORTHWEST FLORIDA STATE COLLEGE COLLEGIATE HIGH SCHOOL
A CHARTER SCHOOL AND RESTRICTED FUND OF
NORTHWEST FLORIDA STATE COLLEGE**

NOTES TO FINANCIAL STATEMENTS

NOTE 7 – NET POSITION

Net position is restricted for the following purposes as of June 30:

	<u>2016</u>	<u>2015</u>
A+ School Recognition	\$ 35,105	23,267
Teacher Lead	<u>3,767</u>	<u>3,718</u>
	<u>\$ 38,872</u>	<u>26,985</u>

NOTE 8 – SUBSEQUENT EVENTS

The Charter School has evaluated all subsequent events through December 12, 2016, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

**NORTHWEST FLORIDA STATE COLLEGE COLLEGIATE HIGH SCHOOL
A CHARTER SCHOOL AND RESTRICTED FUND OF
NORTHWEST FLORIDA STATE COLLEGE
REQUIRED SUPPLEMENTARY INFORMATION
OTHER POST-EMPLOYMENT BENEFITS - SCHEDULE OF FUNDING PROGRESS**

Actuarial Valuation Date	Value of Assets (a)	Accrued Liability (AAL) (b)	AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Payroll [(b-a)/c]
7/1/2015	\$ -	389,633	389,633	0%	15,210,998	2.56%
7/1/2013	\$ -	404,125	404,125	0%	14,787,636	2.73%
7/1/2011	\$ -	366,500	366,500	0%	15,489,857	2.37%
7/1/2009	\$ -	666,384	666,384	0%	15,345,303	4.34%
7/1/2007	\$ -	679,082	679,082	0%	15,065,797	4.51%

Note: This schedule of funding progress—other post-employment benefits represents NWFSC. Northwest Florida State College Collegiate High School recognizes 2% of Northwest Florida State College's liability as disclosed in Note 3 of the financial statements.

Valuation date	July 1, 2015	
Actuarial cost method	Entry Age Normal	
Amortization method	Level of percent of pay, open	
Remaining amortization method	30 years	
Asset valuation method	Market value of assets	
Actuarial assumptions:		
Investment rate of return*	4.00%	
*Includes inflation at	2.60%	
	<u>Pre-Medicare</u>	<u>Medicare</u>
Health care cost trend rate	7.50%	5.50%
Ultimate trend rate	5.00%	5.00%
Year of ultimate trend rate	2020	2017

**NORTHWEST FLORIDA STATE COLLEGE COLLEGIATE HIGH SCHOOL
A CHARTER SCHOOL AND RESTRICTED FUND OF
NORTHWEST FLORIDA STATE COLLEGE
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS**

	2016	2015
Florida Retirement System Pension Plan (FRS)		
Contractually required contribution (actuarially determined)	\$ 15,095	16,378
Contributions in relation to the actuarially determined contributions	15,095	16,378
Contribution deficiency (excess)	\$ -	-
Covered-employee payroll	269,524	257,305
Contributions as a percentage of covered-employee payroll	5.60 %	6.37 %
Retiree Health Insurance Subsidy Program (HIS)		
Contractually required contribution (actuarially determined)	\$ 4,201	3,252
Contributions in relation to the actuarially determined contributions	4,201	3,252
Contribution deficiency (excess)	\$ -	-
Covered-employee payroll	269,524	257,305
Contributions as a percentage of covered-employee payroll	1.50 %	1.26 %

Notes to the Schedule:

The schedule will present 10 years of information once it is accumulated.

**NORTHWEST FLORIDA STATE COLLEGE COLLEGIATE HIGH SCHOOL
A CHARTER SCHOOL AND RESTRICTED FUND OF
NORTHWEST FLORIDA STATE COLLEGE
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**

	<u>2016</u>	<u>2015</u>
Florida Retirement System Pension Plan (FRS)		
Proportion of the net pension liability	0.000006718 %	0.000006759 %
Proportionate share of the net pension liability	\$ 86,767	\$ 41,240
Covered - employee payroll	\$ 269,524	\$ 257,305
Proportionate share of the net pension liability as percentage of covered-employee payroll	32.19 %	16.03 %
Plan's fiduciary net position as a percentage of the total pension liability	92.00 %	96.09 %
Retiree Health Insurance Subsidy Program (HIS)		
Proportion of the net pension liability	0.000008508 %	0.000008528 %
Proportionate share of the net pension liability	\$ 86,767	\$ 79,738
Covered - employee payroll	\$ 269,524	\$ 257,305
Proportionate share of the net pension liability as percentage of covered-employee payroll	32.19 %	30.99 %
Plan's fiduciary net position as a percentage of the total pension liability	0.50 %	0.99 %

Notes to the Schedule:

The schedule will present 10 years of information once it is accumulated.



**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***

Board of Trustees
Northwest Florida State College Collegiate High School
Niceville, 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 Northwest Florida State College Collegiate High School (the "Charter School"), a Charter School and restricted fund of Northwest Florida State College, as of and for the year ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Charter School's basic financial statements, and have issued our report thereon dated December 12, 2016.

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 (internal control) 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.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mauldin & Jenkins, LLC

Bradenton, Florida
December 12, 2016



MANAGEMENT LETTER

Board of Trustees
Northwest Florida State College Collegiate High School
Niceville, Florida

Report on the Financial Statements

We have audited the financial statements of Northwest Florida State College Collegiate High School (the Charter School), a Charter School and restricted fund of Northwest Florida State College, as of and for the fiscal year ended June 30, 2016 and 2015, and have issued our report thereon dated December 12, 2016.

Auditor's Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 10.850, Rules of the Auditor General.

Other Reports and Schedules

We have issued our 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*. Disclosures in that report, dated December 12, 2016, 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. No findings or audit recommendations were made in the preceding annual financial 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 Northwest Florida State College Collegiate High School.

Financial Condition

Section 10.854(1)(e)2., Rules of the Auditor General, requires that we report the results of our determination as to whether or not the Charter 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 Charter School did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

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 Charter School. It is management's responsibility to monitor the Charter 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(e)7 and 10.855(13), Rules of the Auditor General, require that we report the results of our determination as to whether the Charter School maintains on its website the information specified in Section 1002.33(9)(p), Florida Statutes. In connection with our audit, as reported in Finding 2014-03, we determined that the Charter 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 Trustees, applicable management, and the School District of Okaloosa County, Florida, and is not intended to be and should not be used by anyone other than these specific parties.

Mauldin & Jenkins, LLC

Bradenton, Florida
December 12, 2016