



Annual Financial Report  
For the Fiscal Year Ended  
June 30, 2010



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**FLORIDA VIRTUAL SCHOOL**

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**FLORIDA VIRTUAL SCHOOL**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
Florida Virtual School  
Orlando, Florida

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Florida Virtual School (the "School"), as of and for the year ended June 30, 2010, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Florida Virtual School's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Florida Virtual School, as of June 30, 2010, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2011, on our consideration of Florida Virtual School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and OPEB schedule of funding progress on pages 3 through 7 and 33 through 34 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Florida Virtual School's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Carla Regis @ STN BMM LLC

January 19, 2011

**FLORIDA VIRTUAL SCHOOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2010**

The management of Florida Virtual School (the "School") has prepared the following discussion and analysis to (a) assist the reader in focusing on significant financial issues; (b) provide an overview and analysis of the School's financial activities; (c) identify changes in the School's financial position; (d) identify material deviations from the approved budget; and (e) highlight significant issues in individual funds for the fiscal year ended June 30, 2010.

Because the information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events and conditions, it should be considered in conjunction with the School's financial statements.

**FINANCIAL HIGHLIGHTS**

- The School's overall financial status has improved since the previous year. Total net assets increased by \$1,780,634 from the prior fiscal year for a total of \$35,411,264.
- During the current year, General Fund revenues increased \$8,130,318. This increase is primarily due to increased FTE of 5,415 Weighted FTE.
- The Unreserved fund balance in the General Fund, representing the net current financial resources available for general appropriation by the Board, totals \$20,437,116 at June 30, 2010, or 21 percent of total General Fund revenues. Because the School has no current mechanism to raise funds for facilities and infrastructure, resources of the General Fund are set aside for the facility and infrastructure needs.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

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

**Government-Wide Financial Statements**

The government-wide financial statements (or school-wide financial statements) provide both short-term and long-term information about the School's overall financial condition in a manner similar to a private-sector business. The statements include a statement of net assets and a statement of activities that are designed to provide consolidated financial information about the activities of the primary government presented on the accrual basis of accounting. The statement of net assets presents information about the School's financial position, its assets and liabilities, using an economic resources measurement focus. The difference between the assets and liabilities, the net assets, is a measure of the financial health of the School. The statement of activities presents information about the change in the School's net assets, the results of operations during the fiscal year.

**FLORIDA VIRTUAL SCHOOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2010**

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

The government-wide statements present the School's activities in two categories:

- Governmental activities – This represents most of the School's services including its educational programs. Support functions such as Curriculum, Technology and Administration are also included. The State's education finance program provides most of the resources that support these activities.
- Business-Type activities – This consists of the School's Global Services Sales and Marketing division and the Florida Franchises, which includes functions that are intended to recover all of their costs through user fees and charges for services and provide for Curriculum development.

**Fund Financial Statements**

Fund financial statements are one of the components of the basic financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements and prudent fiscal management. Fund financial statements provide more detailed information about the School's financial activities, focusing on its most significant or "major" funds rather than fund types. This is in contrast to the entity-wide perspective contained in the government-wide statements.

All of the funds of the School can be divided into two categories:

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

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

The School adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with this budget.

- Proprietary Funds – Proprietary funds may be established to account for activities in which a fee is charged for services. The School uses the proprietary fund to account for its Global Services and Marketing, Florida Franchises, and Self-Insurance.

**FLORIDA VIRTUAL SCHOOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2010**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of a government's financial position. The following is a summary of the School's net assets as of June 30, 2009, and June 30, 2010:

	Net Assets, End of Year					
	Governmental Activities		Business-Type Activities		Total	
	6-30-10	6-30-09	6-30-10	6-30-09	6-30-10	6-30-09
Current Assets	\$ 35,434,153	\$ 39,300,986	\$ 5,702,414	\$ 5,667,116	\$ 41,136,567	\$ 44,968,102
Capital Assets	9,905,423	4,520,387			9,905,423	4,520,387
<b>Total Assets</b>	<b>45,339,576</b>	<b>43,821,373</b>	<b>5,702,414</b>	<b>5,667,116</b>	<b>51,041,990</b>	<b>49,488,489</b>
Other Liabilities	7,487,970	11,585,684	1,820,515	273,212	9,308,485	11,858,896
Long-Term Liabilities	6,225,924	3,936,543	96,317	62,420	6,322,241	3,998,963
<b>Total Liabilities</b>	<b>13,713,894</b>	<b>15,522,227</b>	<b>1,916,832</b>	<b>335,632</b>	<b>15,630,726</b>	<b>15,857,859</b>
Net Assets:						
Invested in Capital Assets	9,905,423	4,520,387			9,905,423	4,520,387
Restricted	1,015,722	192,202			1,015,722	192,202
Unrestricted	20,704,537	23,586,557	3,785,582	5,331,484	24,490,119	28,918,041
<b>Total Net Assets</b>	<b>\$ 31,625,682</b>	<b>\$ 28,299,146</b>	<b>\$ 3,785,582</b>	<b>\$ 5,331,484</b>	<b>\$ 35,411,264</b>	<b>\$ 33,630,630</b>

As noted earlier, net assets may serve as a useful indicator of a government's financial position. In the case of the School's governmental activities, assets exceed liabilities by \$35,411,264 at the end of the fiscal year. The unrestricted net assets may be used to meet the School's ongoing obligations to the students, employees, and creditors. The School's unrestricted net assets decreased in total by \$4,427,922 during the current fiscal year primarily due to an increase in the number of teachers funded through the State of Florida. Under the long-term view provided by the government-wide statements, the School's unrestricted net assets balance is positive indicating the School's ability to sufficiently meet its current obligations.

**FLORIDA VIRTUAL SCHOOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2010**

The School's net assets increased in total by \$1,780,634 during the 2009-10 fiscal year. The increase represents a growth in capital assets, especially the internally created courses. The following is a summary of the School's changes in net assets for the fiscal years ended June 30, 2009, and June 30, 2010, as follows:

	Governmental Activities		Business-Type Activities		Total	
	6-30-10	6-30-09	6-30-10	6-30-09	6-30-10	6-30-09
Program Revenues:						
Charges for Services	\$ 5,517	\$ 225,892	\$ 10,234,815	\$ 5,128,243	\$ 10,240,332	\$ 5,354,135
General Revenues:						
Grants and Contributions Not Restricted to Specific Programs	102,062,191	86,504,967			102,062,191	86,504,967
Investment Earnings	106,767	191,639	8,739	11,010	115,506	202,649
Miscellaneous	55,363	360,692			55,363	360,692
<b>Total Revenues</b>	<b>102,229,838</b>	<b>87,283,190</b>	<b>10,243,554</b>	<b>5,139,253</b>	<b>112,473,392</b>	<b>92,422,443</b>
Functions/Program Expenses:						
Instruction	67,911,987	45,662,854			67,911,987	45,662,854
Pupil Personnel Services	383,191	261,432			383,191	261,432
Instruction and Curriculum Development Services	2,727,925	5,028,013			2,727,925	5,028,013
Instructional Staff Training Services	3,230,007	3,330,623			3,230,007	3,330,623
Instructional Related Technology	1,477,695	2,539,256			1,477,695	2,539,256
Board	380,215	199,603				
General Administration	1,109,580	1,337,629			1,109,580	1,337,629
School Administration	4,927,633	2,152,286			4,927,633	2,152,286
Facilities Acquisition and Construction	57,249	120,697			57,249	120,697
Fiscal Services	1,989,410	1,479,744			1,989,410	1,479,744
Central Services	6,197,234	6,497,886			6,197,234	6,497,886
Operation of Plant	1,729,781	3,097,166			1,729,781	3,097,166
Administrative Technology Services	4,047,269	4,433,442			4,047,269	4,433,442
Community Services	6,531	29,129			6,531	29,129
Unallocated Depreciation Expense	2,727,595	1,152,053			2,727,595	1,152,053
Global Services/Florida Services Expenses			11,789,456	2,774,259	11,789,456	2,774,259
<b>Total Functions/Program Expenses</b>	<b>98,903,302</b>	<b>77,321,813</b>	<b>11,789,456</b>	<b>2,774,259</b>	<b>110,692,758</b>	<b>80,096,072</b>
<b>Changes in Net Assets</b>	<b>3,326,536</b>	<b>9,961,377</b>	<b>(1,545,902)</b>	<b>2,364,994</b>	<b>1,780,634</b>	<b>12,326,371</b>
<b>Net Assets - Beginning</b>	<b>28,299,146</b>	<b>18,337,769</b>	<b>5,331,484</b>	<b>2,966,490</b>	<b>33,630,630</b>	<b>21,304,259</b>
<b>Net Assets - Ending</b>	<b>\$ 31,625,682</b>	<b>\$ 28,299,146</b>	<b>\$ 3,785,582</b>	<b>\$ 5,331,484</b>	<b>\$ 35,411,264</b>	<b>\$ 33,630,630</b>

The largest revenue source is the State of Florida (90 percent). Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data, and is designed to maintain equity in funding across all Florida school districts. Florida Virtual School is a unique member of the FEFP in that revenues are only earned for students that successfully complete a course.

**FLORIDA VIRTUAL SCHOOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2010**

**FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS**

**Governmental Funds**

The General Fund is the chief operating fund of the School. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$20,437,116. The total unreserved fund balance represents 21 percent of total General Fund revenues, which is down slightly over last year's unreserved fund balance of \$23,274,083 or 27 percent of total General Fund revenues. The School does not have the ability to draw cash in the event of an emergency from other funds, such as capital, so it is necessary to maintain a higher than standard fund balance.

**General Fund Budgetary Highlights**

The General Fund actual revenues are above the budgeted revenues by \$2,453,520. The General Fund revenue was adjusted upward to reflect a receivable in anticipation of an adjustment by the Florida Department of Education due to an increase in actual FTE count. The General Fund actual expenditures were less than the budgeted appropriations by \$19,435,185 due to several unfilled job opportunities as well as projects that were not completed.

**Capital Asset Administration**

**Capital Assets**

The School's investment in capital assets as of June 30, 2010, amounts to \$9,905,423 (net of accumulated depreciation). This investment in capital assets includes fixtures, equipment, and software. The total increase in the School's investment in capital assets (net of accumulated depreciation) for the current fiscal year was \$5,385,036.

**Requests for Information**

This financial report is designed to provide a general overview of the School's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, Florida Virtual School, 2145 MetroCenter Blvd, Suite 200, Orlando, Florida, 32835.

# Basic Financial Statements

**Florida Virtual School  
Statement of Net Assets  
June 30, 2010**

	<u>Primary Government</u>		<u>Total</u>
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	
<b>ASSETS</b>			
Cash	\$ 12,987,068	\$ 3,868,301	\$ 16,855,369
Investments	17,881,464	-	17,881,464
Accounts Receivable	886,467	1,834,113	2,720,580
Due from Other Funds	32,511	-	32,511
Due from Other Agencies	3,646,643	-	3,646,643
Capital Assets:			
Depreciable (Net)	<u>9,905,423</u>	<u>-</u>	<u>9,905,423</u>
<b>TOTAL ASSETS</b>	<u>\$ 45,339,576</u>	<u>\$ 5,702,414</u>	<u>\$ 51,041,990</u>
<b>LIABILITIES</b>			
Wages and Benefits Payable	\$ 4,087,913	\$ 78,034	\$ 4,165,947
Accounts Payable	2,151,816	1,662,712	3,814,528
Due to Other Agencies	47,225	-	47,225
Due to Other Funds	-	32,511	32,511
Deferred Revenue	-	11,373	11,373
Long-Term Liabilities:			
Portion Due and Payable Within One Year:			
Liability for Compensated Absences	564,653	35,885	600,538
Estimated Insurance Claims Payable	636,363	-	636,363
Portion Due and Payable After One Year:			
Liability for Compensated Absences	4,949,260	96,317	5,045,577
Liability for Other Post Employment Benefits	<u>1,276,664</u>	<u>-</u>	<u>1,276,664</u>
<b>Total Liabilities</b>	<u>13,713,894</u>	<u>1,916,832</u>	<u>15,630,726</u>
<b>NET ASSETS</b>			
Invested in Capital Assets	9,905,423	-	9,905,423
Restricted for State Required Carryover Programs	1,015,722	-	1,015,722
Unrestricted	<u>20,704,537</u>	<u>3,785,582</u>	<u>24,490,119</u>
<b>Total Net Assets</b>	<u>31,625,682</u>	<u>3,785,582</u>	<u>35,411,264</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 45,339,576</u>	<u>\$ 5,702,414</u>	<u>\$ 51,041,990</u>

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

Florida Virtual School  
Statement of Activities  
For the Fiscal Year Ended June 30, 2010

FUNCTIONS/ PROGRAMS	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Business-type Activities	Total
					Governmental Activities		
<b>Governmental Activities:</b>							
Instruction	\$ 67,911,987	\$	\$	\$	\$ (67,911,987)	\$	\$ (67,911,987)
Pupil Personnel Services	383,191				(383,191)		(383,191)
Instruction and Curriculum Development Services	2,727,925	5,517			(2,722,408)		(2,722,408)
Instructional Staff Training Services	3,230,007				(3,230,007)		(3,230,007)
Instructional Related Technology	1,477,695				(1,477,695)		(1,477,695)
Board	380,215				(380,215)		(380,215)
General Administration	1,109,580				(1,109,580)		(1,109,580)
School Administration	4,927,633				(4,927,633)		(4,927,633)
Facilities Acquisition and Construction	57,249				(57,249)		(57,249)
Fiscal Services	1,989,410				(1,989,410)		(1,989,410)
Central Services	6,197,234				(6,197,234)		(6,197,234)
Operation of Plant	1,729,781				(1,729,781)		(1,729,781)
Administrative Technology Services	4,047,269				(4,047,269)		(4,047,269)
Community Services	6,531				(6,531)		(6,531)
Unallocated Depreciation/Amortization Expense	2,727,595				(2,727,595)		(2,727,595)
<b>Total Governmental Activities</b>	<b>98,903,302</b>	<b>5,517</b>			<b>(98,897,785)</b>		<b>(98,897,785)</b>
<b>Business-type Activities:</b>							
Global Services & Florida Services	11,789,456	10,234,815				(1,554,641)	(1,554,641)
<b>Total Primary Government</b>	<b>\$ 110,692,758</b>	<b>\$ 10,240,332</b>	<b>\$</b>	<b>\$</b>	<b>(98,897,785)</b>	<b>(1,554,641)</b>	<b>(100,452,426)</b>
General Revenues:							
Grants and Contributions Not Restricted to Specific Programs					102,062,191		102,062,191
Unrestricted Investment Earnings					106,767	8,739	115,506
Miscellaneous					55,363		55,363
<b>Total General Revenues</b>					<b>102,224,321</b>	<b>8,739</b>	<b>102,233,060</b>
<b>Change in Net Assets</b>					<b>3,326,536</b>	<b>(1,545,902)</b>	<b>1,780,634</b>
Net Assets - July 1, 2009					28,299,146	5,331,484	33,630,630
<b>Net Assets - June 30, 2010</b>					<b>\$ 31,625,682</b>	<b>\$ 3,785,582</b>	<b>\$ 35,411,264</b>

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

**Florida Virtual School**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2010**

	General Fund	ARRA Economic Stimulus Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash	\$ 9,900,494	\$ 200,426	\$ 10,100,920
Investments	17,881,464		17,881,464
Accounts Receivable, Net	4,000		4,000
Due from Other Agencies	3,479,502		3,479,502
Due from Other Funds	32,511		32,511
<b>Total Assets</b>	<b>\$ 31,297,971</b>	<b>\$ 200,426</b>	<b>\$ 31,498,397</b>
<b>LIABILITIES AND FUND BALANCE</b>			
Liabilities:			
Salaries, Benefits, and Payroll Taxes Payable	\$ 3,887,487	\$ 200,426	\$ 4,087,913
Accounts Payable	580,245		580,245
Due to Other Agencies	47,225		47,225
<b>Total Liabilities</b>	<b>4,514,957</b>	<b>200,426</b>	<b>4,715,383</b>
Fund Balances:			
Reserved for:			
Encumbrances	5,330,176		5,330,176
State Required Carryover Programs	1,015,722		1,015,722
Unreserved, Reported in:			
Undesignated	20,437,116		20,437,116
<b>Total Fund Balance</b>	<b>26,783,014</b>	<b>-</b>	<b>26,783,014</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 31,297,971</b>	<b>\$ 200,426</b>	<b>\$ 31,498,397</b>

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

**Florida Virtual School  
 Reconciliation of the Governmental Funds  
 Balance Sheet to the Statement of Net Assets  
 For the Fiscal Year Ended June 30, 2010**

<b>Total Fund Balances - Governmental Funds</b>	\$	26,783,014
 Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		9,905,423
Compensated Absences are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		(5,513,913)
Other Post Employment Benefits are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		(1,276,664)
Internal service funds are used by management to charge the costs of its self-insurance program. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		1,727,822
<b>Net Assets - Governmental Activities</b>	<b>\$</b>	<b>31,625,682</b>

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

**Florida Virtual School**  
**Statement of Revenues, Expenditures and**  
**Changes in Fund Balances - Governmental Funds**  
**For the Fiscal Year Ended June 30, 2010**

	General Fund	ARRA Economic Stimulus Funds	Total Governmental Funds
<b>REVENUES</b>			
Federal Direct Sources:			
Miscellaneous Federal Direct	\$ 465,144	\$ -	\$ 465,144
Total Federal Direct Sources	465,144	-	465,144
Federal Through State Sources:			
Other Federal Through State Sources (ARRA)	-	6,812,826	6,812,826
Total Federal Through State	-	6,812,826	6,812,826
State Sources:			
Florida Education Finance Program	94,730,451	-	94,730,451
District Discretionary Lottery Funds	53,769	-	53,769
Total State Sources	94,784,220	-	94,784,220
Local Sources:			
Other Local Sources	163,966	-	163,966
Total Local Sources	163,966	-	163,966
<b>Total Revenues</b>	<b>95,413,330</b>	<b>6,812,826</b>	<b>102,226,156</b>
<b>EXPENDITURES</b>			
Current:			
Instruction	59,652,970	6,812,826	66,465,796
Pupil Personnel Services	374,716	-	374,716
Instruction and Curriculum Development Services	2,679,295	-	2,679,295
Instructional Staff Training Services	3,180,727	-	3,180,727
Instruction Related Technology	1,477,479	-	1,477,479
School Board	380,928	-	380,928
General Administration	1,097,446	-	1,097,446
School Administration	4,754,148	-	4,754,148
Facilities Acquisition and Construction	57,356	-	57,356
Fiscal Services	1,979,012	-	1,979,012
Central Services	6,260,622	-	6,260,622
Operation of Plant	1,733,044	-	1,733,044
Administrative Technology Services	4,052,324	-	4,052,324
Community Services	6,544	-	6,544
Other Capital Outlay	8,112,631	-	8,112,631
<b>Total Expenditures</b>	<b>95,799,242</b>	<b>6,812,826</b>	<b>102,612,068</b>
<b>Deficit of Revenues Over Expenditures</b>	<b>(385,912)</b>	<b>-</b>	<b>(385,912)</b>
<b>Net Change in Fund Balance</b>	<b>(385,912)</b>	<b>-</b>	<b>(385,912)</b>
Fund Balance, July 1, 2009	27,168,926	-	27,168,926
<b>Fund Balance, June 30, 2010</b>	<b>\$ 26,783,014</b>	<b>\$ -</b>	<b>\$ 26,783,014</b>

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

**Florida Virtual School  
 Reconciliation of the Governmental Funds Statement of Revenues,  
 Expenditures, and Changes in Fund Balances  
 to the Statement of Activities  
 For the Fiscal Year Ended June 30, 2010**

<b>Net Change in Fund Balances - Governmental Funds</b>	<b>\$</b>	<b>(385,912)</b>
 Amounts reported for <i>governmental activities</i> in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital outlays, \$8,112,631 in excess of depreciation/amortization expense, (\$2,727,595) in the current period.		5,385,036
In the statement of activities, the cost of compensated absences is measured by the amounts earned during the year, while in the governmental funds expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences earned in excess of the amount paid in the current period.		(1,853,920)
Other Post Employment Benefits (OPEB) costs are recorded in government funds under the pay-as-you-go method, but under the full accrual method for government-wide statements.		(657,300)
Internal service funds are used by management to charge the cost of certain activities, such as insurance to individual funds. The net revenue of internal service funds is reported with governmental activities plus the depreciation reported above.		838,632
<b>Change in Net Assets - Governmental Activities</b>	<b>\$</b>	<b>3,326,536</b>

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

**Florida Virtual School**  
**Statement of Net Assets**  
**Proprietary Fund**  
**June 30, 2010**

		<b>Governmental Activities</b> <b>Internal Service Fund</b>
<b>Assets</b>		
Current Assets:		
Cash	\$	2,886,148
Accounts Receivable		1,049,608
<b>Total Assets</b>	<b>\$</b>	<b>3,935,756</b>
<b>Liabilities</b>		
Current Liabilities:		
Accounts Payable	\$	1,571,571
Est Unpaid Claims - Self Insurance		636,363
<b>Total Liabilities</b>		<b>2,207,934</b>
<b>Net Assets</b>		
Unrestricted		1,727,822
<b>Total Net Assets</b>		<b>1,727,822</b>
<b>Total Liabilities and Net Assets</b>	<b>\$</b>	<b>3,935,756</b>

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

**Florida Virtual School**  
**Statement of Revenues, Expenditures and**  
**Changes in Fund Net Assets**  
**Proprietary Fund**  
**For the Fiscal Year Ended June 30, 2010**

	<b>Governmental Activities</b> <b>Internal Service Fund</b>
<b>OPERATING REVENUES</b>	
Premium Revenues	\$ 9,848,115
<b>Total Operating Revenue</b>	9,848,115
<b>OPERATING EXPENSES</b>	
Other Expenses	9,013,165
<b>Total Operating Expenses</b>	9,013,165
<b>Operating Income</b>	834,950
<b>NONOPERATING REVENUES</b>	
Interest	3,682
Income Before Operating Transfers	838,632
<b>Change in Net Assets</b>	838,632
Net Assets - July 1, 2009	889,190
<b>Net Assets - June 30, 2010</b>	\$ 1,727,822

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

**Florida Virtual School**  
**Statement of Cash Flows**  
**Proprietary Fund**  
**For the Fiscal Year Ended June 30, 2010**

	<b>Governmental Activities</b> <b>Internal Service Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from Customers and Users	\$ 9,440,822
Payments to Suppliers of Goods and Services	(8,798,592)
Net Cash Provided by Operating Activities	642,230
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest on Investments	3,682
Net Cash Provided by Investing Activities	3,682
Net Change in Cash	645,912
Cash at Beginning of Year	2,240,236
Cash at End of Year	\$ 2,886,148
 <b>Reconciliation of Operating Income to Net Cash Provided by operating activities:</b>	
Operating Income	\$ 834,950
Change in Assets and Liabilities	
Decrease (Increase) in Accounts Receivable	(407,293)
Increase (Decrease) in Accounts Payable	786,750
Increase (Decrease) in Est Unpaid Claims	70,138
Increase (Decrease) in Due to Other funds	(642,315)
Total adjustments	(192,720)
Net Cash Used by Operating Activities	\$ 642,230

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

Florida Virtual School  
Statement of Net Assets  
Proprietary Funds  
June 30, 2010

	Business-type Activities Florida Services Fund	Business-type Activities Other Enterprise Funds	Business-type Activities Total Funds
<b>Assets</b>			
Current Assets:			
Cash	\$ 508,433	\$ 3,359,868	\$ 3,868,301
Accounts Receivable	1,244,336	589,777	1,834,113
<b>Total Assets</b>	<b>\$ 1,752,769</b>	<b>\$ 3,949,645</b>	<b>\$ 5,702,414</b>
<b>Liabilities</b>			
Current Liabilities:			
Wages and Benefits Payable	\$ 6,077	\$ 71,957	\$ 78,034
Accounts Payable	1,461,114	201,598	1,662,712
Liability for Compensated Absences	316	35,569	35,885
Due to Other Funds	-	32,511	32,511
Deferred Revenue	-	11,373	11,373
Total Current Liabilities	1,467,507	353,008	1,820,515
Long Term Liabilities:			
Liability for Compensated Absences	3,029	93,288	96,317
<b>Total Liabilities</b>	<b>1,470,536</b>	<b>446,296</b>	<b>1,916,832</b>
<b>Net Assets</b>			
Restricted	-	97,310	97,310
Unrestricted	282,233	3,406,039	3,688,272
<b>Total Net Assets</b>	<b>282,233</b>	<b>3,503,349</b>	<b>3,785,582</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 1,752,769</b>	<b>\$ 3,949,645</b>	<b>\$ 5,702,414</b>

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

**Florida Virtual School**  
**Statement of Revenues, Expenses and**  
**Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2010**

	Business-type Activities Florida Services Fund	Business-type Activities Other Enterprise Funds	Business-type Activities Total Funds
<b>OPERATING REVENUES</b>			
Charges for Sales or Services	\$ 6,201,780	\$ 4,033,035	\$ 10,234,815
<b>Total Operating Revenue</b>	<b>6,201,780</b>	<b>4,033,035</b>	<b>10,234,815</b>
<b>OPERATING EXPENSES</b>			
Salaries	1,349,732	1,288,773	2,638,505
Employee Benefits	350,811	311,980	662,791
Purchased Services	4,778,298	3,636,142	8,414,440
Materials and Supplies	2,810	46,298	49,108
Capital Outlay	200	316	516
Other Expenses	403	23,693	24,096
<b>Total Operating Expenses</b>	<b>6,482,254</b>	<b>5,307,202</b>	<b>11,789,456</b>
<b>Operating Income (Loss)</b>	<b>(280,474)</b>	<b>(1,274,167)</b>	<b>(1,554,641)</b>
<b>NONOPERATING REVENUES</b>			
Interest	-	8,739	8,739
Income (Loss) Before Operating Transfers	(280,474)	(1,265,428)	(1,545,902)
Transfers In		3,339,890	3,339,890
Transfers Out	-	(3,339,890)	(3,339,890)
<b>Change in Net Assets</b>	<b>(280,474)</b>	<b>(1,265,428)</b>	<b>(1,545,902)</b>
Net Assets - July 1, 2009	562,707	4,768,777	5,331,484
<b>Net Assets - June 30, 2010</b>	<b>\$ 282,233</b>	<b>\$ 3,503,349</b>	<b>\$ 3,785,582</b>

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

**Florida Virtual School**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2010**

	Business-type Activities Florida Services Fund	Business-type Activities Other Enterprise Funds	Business-type Activities Total Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from Customers and Users	\$ 5,410,169	\$ 4,437,394	\$ 9,847,563
Payments to Suppliers of Goods and Services	(3,319,634)	(3,675,458)	(6,995,092)
Payments to Employees	(1,692,812)	(1,508,948)	(3,201,760)
Net Cash Provided (Used) by Operating Activities	397,723	(747,012)	(349,289)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest on Investments	-	8,739	8,739
Net Cash Provided by Investing Activities	-	8,739	8,739
Net Change in Cash	397,723	(738,273)	(340,550)
Cash at Beginning of Year	110,710	4,098,141	4,208,851
Cash at End of Year	\$ 508,433	\$ 3,359,868	\$ 3,868,301
<b>Reconciliation of Operating Income to Net Cash Provided by operating activities:</b>			
Operating Income (Loss)	\$ (280,474)	\$ (1,274,167)	\$ (1,554,641)
Change in Assets and Liabilities			
Decrease (Increase) in Accounts Receivable	(791,611)	404,359	(387,252)
Increase (Decrease) in Accounts Payable	1,461,114	(11,961)	1,449,153
Increase (Decrease) in Salaries and Benefits Payable	4,386	42,625	47,011
Increase (Decrease) in Compensated Absence Payable	3,345	37,807	41,152
Increase (Decrease) in Due to Other funds	963	42,952	43,915
Increase (Decrease) in Deferred Revenue	-	11,373	11,373
Total adjustments	678,197	527,155	1,205,352
Net Cash Provided (Used) by Operating Activities	\$ 397,723	\$ (747,012)	\$ (349,289)

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

**FLORIDA VIRTUAL SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2010**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

➤ **Reporting Entity**

Florida Virtual School (the School) was established by an act of the Florida Legislature, as specified under Title XLVIII, Chapter 1002, Section 1002.37, Florida Statutes, to develop and deliver online and distance learning education. The School initiated online activities in August 1997 in partnership with the School Board of Alachua County and Orange County Public Schools with the name of Florida Online High School. As a result of legislative activity in 2001, the Florida Online High School changed its name to the Florida Virtual School and ended its partnership with the School Board of Alachua and Orange County Public Schools.

The School is governed by a board of trustees consisting of seven members appointed by the Governor. Members have experience working in a variety of fields such as education, business and government. The board of trustees is required to meet a minimum of four times each year. The board members and the President who served during the 2009-10 fiscal year are shown in the following tabulation:

<u>Board Member</u>	<u>County</u>
Mr. Robert C. Muni, Chair	Alachua
Dr. Nicholas Gledich	Orange
Ms. Kay A. Young-Middlemas	Leon
Mr. Robert D. Williams	Orange
Ms. Renee A. Benton-Gilmore	Hillsborough
Dr. Dhyana Ziegler	Leon
Mrs. Suzanne O. Martin	Leon

Julie E. Young, President, Chief Executive Officer

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

➤ **Basis of Presentation**

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

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

**FLORIDA VIRTUAL SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2010**

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

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

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

The School reports the following major governmental fund:

- General Fund – to account for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.
- Special Revenue – American Recovery and Reinvestment Act (ARRA) Funds – to account for proceeds received through the American Recovery and Reinvestment Act.

Additionally, the School reports the following proprietary fund types:

- Internal Service Fund – to account for the self insurance activities.
- Enterprise Fund – to account for the activities of the Florida Services, Global Services Sales and Marketing.

➤ **Basis of Accounting**

Basis of accounting refers to when revenues and expenditures, or expenses, are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide financial statements are prepared using the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of the related cash flows.

Governmental fund financial statements are prepared using the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The School considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Revenues from the Enterprise Fund are recognized at the gross value earned. Commissions related to the sales are recorded as an expense. Under the modified accrual basis of accounting, expenditures are generally recognized when the related fund liability is incurred, except for claims and judgments, and compensated absences, which are recognized when due. Allocations of cost, such as depreciation, are not recognized in governmental funds.

**FLORIDA VIRTUAL SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2010**

The Proprietary Funds are accounted for as proprietary activities under standards issued by the Financial Accounting Standards Board through November 1989 and applicable standards issued by the Governmental Accounting Standards Board. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds' principal ongoing operations. The principal operating revenues and expenses of the School's proprietary funds relate to the sales and services provided by the Florida Services, Global Services Sales and Marketing. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the School's policy to use restricted resources first, then unrestricted resources as they are needed.

➤ **Deposits and Investments**

Cash deposits are held by banks qualified as public depositories under Florida law. All deposits are insured by Federal depository insurance and collateralized with securities held in Florida's multiple financial institution collateral pool as required by Chapter 280, Florida Statutes. The statement of cash flows considers cash as those accounts used as demand deposit accounts and investments.

Investments consist of amounts placed with the State Board of Administration for participation in the Local Government Surplus Funds Trust Fund and the Fund B Surplus Trust Fund investment pools created by Sections 218.405 and 218.417, Florida Statutes. These investment pools operate under investments guidelines established by Section 215.47, Florida Statutes. The School's investments in the Local Government Surplus Funds Trust Fund, a Securities and Exchange Commission Rule 2a7-like external investment pool, are reported at fair value, which is amortized cost. The School's investment in the Fund B Surplus Trust Fund are accounted for as a fluctuating net asset value pool, with a Fair Value factor of 0.673531 at June 30, 2010.

➤ **Capital Assets**

Expenditures for capital assets acquired or constructed for general School purposes are reported in the governmental fund that financed the acquisition or construction. The capital assets so acquired are reported at cost in the government-wide statement of net assets but are not reported in the governmental fund financial statements. Capital assets are defined by the School as those costing more than \$1,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at fair value at the date of donation.

Interest costs incurred during the construction of capital assets are not considered material and are not capitalized as part of the cost of construction.

Internally generated software, such as coursework for the School, is recognized as an intangible asset. Expenditures relating to the creation of intangible assets are capitalized and reported at cost in the government-wide statement of net assets but are reported as expenditures in the governmental fund financial statements. The statement requires that an intangible asset be recognized in the statement of net assets only if it is considered identifiable.

**FLORIDA VIRTUAL SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2010**

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

<u>Description</u>	<u>Estimated Lives</u>
Furniture, Fixtures, and Equipment & Purchased Software	3 years
Internally Created Course Software	4 years

Current-year information relative to changes in capital assets is described in a subsequent note.

➤ **Long-Term Liabilities**

Long-term obligations that will be financed from resources to be received in the future by governmental funds are reported as liabilities in the government-wide statement of net assets.

In the government-wide financial statements, compensated absences (i.e., paid absences for employee vacation leave and sick leave) are accrued as liabilities to the extent that it is probable that the benefits will result in termination payments. A liability is reported in the governmental fund financial statements only for the current portion of compensated absences expected to be paid using expendable available resources.

Changes in long-term liabilities for the current year are reported in a subsequent note.

➤ **State Revenue Sources**

Revenues from State sources for current operations are primarily from the Florida Education Finance Program administered by the Florida Department of Education (Department) under the provisions of Section 1011.62, Florida Statutes. In accordance with this law, the School determines and reports the number of full-time equivalent (FTE) students and related data to the Department. The Department performs certain edit checks on the reported number of FTE and related data, and calculates the allocation of funds to the School. The School is permitted to amend its original reporting for a period of six months following the date of the original reporting. Such amendments may impact funding allocations for subsequent years. The Department may also adjust subsequent fiscal period allocations based upon an audit of the School's compliance in determining and reporting FTE and related data. Normally, such adjustments are treated as reductions or additions of revenue in the year when the adjustments are made.

The State provides financial assistance to administer certain categorical educational programs. State Board of Education rules require that revenue earmarked for certain programs be expended only for the program for which the money is provided, and require that the money not expended as of the close of the fiscal year be carried forward into the following year to be expended for the same categorical educational programs. The Department generally requires that categorical educational program revenues be accounted for in the General Fund. A portion of the fund balance of the General Fund is reserved in the governmental fund financial statements for the unencumbered balance of categorical educational program resources.

A schedule of revenue from State sources for the current year is presented in a subsequent note.

**FLORIDA VIRTUAL SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2010**

**2. BUDGETARY COMPLIANCE AND ACCOUNTABILITY**

The Board follows procedures established by State statutes and State Board of Education rules in establishing budget balances for governmental funds, as described below:

- Budgets are prepared, public meetings are held, and original budgets are adopted annually for all governmental fund types in accordance with procedures and time intervals prescribed by law and State Board of Education rules.
- Appropriations are controlled at the object level (e.g., salaries, purchased services, and capital outlay) within each function (e.g., instruction, pupil personnel services, and school administration) and may be amended by resolution at any School Board meeting prior to the due date for the annual financial report.
- Budgets are prepared using the same modified accrual basis as is used to account for governmental funds.
- Budgetary information is integrated into the accounting system and, to facilitate budget control, budget balances are encumbered when purchase orders and other commitments, such as construction contracts, are issued. Appropriations lapse at fiscal year-end and encumbrances outstanding are honored from the subsequent year's appropriations.

**3. INVESTMENTS**

Section 218.415(17), Florida Statutes, authorizes the District to invest in the Local Government Surplus Funds Trust Fund, any intergovernmental investment pool, money market funds registered with the Securities and Exchange Commission, interest-bearing time deposits or savings accounts, and direct obligations of the U.S. Treasury.

The School's investment policy provides that an attempt will be made to match investment maturities with known cash needs and anticipated cash flow requirements. The policy limits current short-term fund investments to a maximum of twelve (12) months, and investments of core funds shall have a term appropriate to the need for monies and in accordance with debt covenants, but not to exceed two (2) years.

Investments with a fair value of \$17,591,694 at June 30, 2010, are in the State Board of Administration investment pool with a weighted average maturity (WAM) of 46 days. A portfolio's WAMP reflects the average maturity in days based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the portfolio to interest rate changes. The School's investment in the Local Government Surplus Funds Trust Fund investment pool, effective July 1, 2009 known as Florida PRIME, is rated AAAM by Standard and Poor's. Investments with a fair value of \$289,770 at June 30, 2010, are in the State Board of Administration Fund B Surplus Funds Trust Fund with a weighted average life (WAL) of 8.05 years. A portfolio's WAL is the dollar weighted average length of time until securities held reach maturity. WAL, which also measures the sensitivity of the portfolio to interest rate changes, is based on legal final maturity dates for Fund B as of June 30, 2010. However, because Fund B consists of restructured or defaulted securities, there is considerable uncertainty regarding the WAL. The School's investment in the Fund B Surplus Funds Trust Fund is unrated.

**FLORIDA VIRTUAL SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2010**

**Third-Party Custodial Agreements**

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

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

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

**FLORIDA VIRTUAL SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2010**

**4. CHANGES IN CAPITAL ASSETS**

Changes in capital assets are presented in the table below:

	Balance 7-1-09	Additions	Deletions	Balance 6-30-10
GOVERNMENTAL ACTIVITIES				
Capital Assets Being Depreciated:				
Furniture, Fixtures, and Equipment	\$ 3,884,964	\$ 226,887	\$ 76,700	\$ 4,035,151
Less Accumulated Depreciation	1,848,146	1,008,064	76,700	2,779,510
Total Furniture, Fixtures, and Equipment	<u>2,036,818</u>	<u>(781,177)</u>	<u>-</u>	<u>1,255,641</u>
Capital Software - LMS	-	646,197	-	646,197
Less Accumulated Amortization	-	66,007	-	66,007
Total Capital Software - LMS	<u>-</u>	<u>580,190</u>	<u>-</u>	<u>580,190</u>
Internally Created Software	2,727,319	7,239,547	-	9,966,866
Less Accumulated Amortization	243,750	1,653,524	-	1,897,274
Total Internally Created Software	<u>2,483,569</u>	<u>5,586,023</u>	<u>-</u>	<u>8,069,592</u>
Governmental Activities Capital Assets, Net	<u>\$ 4,520,387</u>	<u>\$ 5,385,036</u>	<u>\$ -</u>	<u>\$ 9,905,423</u>

The School's capital assets serve multiple functions; therefore, depreciation expense was not allocated to the various expense functions in the Statement of Activities, but is shown as unallocated depreciation expense.

**5. OPERATING LEASES**

The School is obligated under a lease agreement for office facilities. The initial lease term is 84 months with a provision for early termination after month 48 for a termination fee of \$1,377,000. Monthly lease payments are \$99,590 increasing three percent each year.

Annual remaining rent payments are shown in the table below:

Fiscal Year Ending June 30	Payment
2011	\$ 1,300,852
2012	1,339,978
2013	1,380,163
2014	1,421,408
2015	<u>721,941</u>
	<u>\$ 6,164,342</u>

**FLORIDA VIRTUAL SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2010**

**6. CHANGES IN LONG-TERM LIABILITIES**

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

Description	Balance 7-1-09	Additions	Deductions	Balance 6-30-10	Due in One Year
Governmental Activities	\$ 3,317,179	\$ 1,853,920	\$ 221,839	\$ 4,949,260	\$ 564,653
Business-Type Activities	62,420	41,152	7,255	96,317	35,885
Compensated Absences Payable	3,379,599	1,895,072	229,094	5,045,577	600,538
Other Post Employment Benefits	619,364	657,300	-	1,276,664	-
Total	<u>\$ 3,998,963</u>	<u>\$ 2,552,372</u>	<u>\$ 229,094</u>	<u>\$ 6,322,241</u>	<u>\$ 600,538</u>

For the governmental activities, compensated absences are generally liquidated with resources of the General Fund.

**7. RESERVE FOR ENCUMBRANCES**

Appropriations in governmental funds are encumbered upon issuance of purchase orders for goods and services. Even though appropriations lapse at the end of the fiscal year, unfilled purchase orders of the current year are carried forward and the next year's appropriations are likewise encumbered.

The Florida Department of Education requires that fund balances be reserved at fiscal year-end to report an amount likely to be expended from the 2010-11 fiscal year budget as a result of purchase orders outstanding at June 30, 2010.

**8. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

The following is a summary of interfund receivables and payables reported in the fund financial statements at June 30, 2010:

Funds	Interfund	
	Receivables	Payables
	Due From	Due To
Major Funds		
General	\$ 32,511	\$ -
Nonmajor Governmental Funds		
Business-type Activities	-	32,511
Total	<u>\$ 32,511</u>	<u>\$ 32,511</u>

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

**FLORIDA VIRTUAL SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2010**

The following is a summary of interfund transfers reported in the fund financial statements at June 30, 2010:

<b>Funds</b>	<b>Interfund</b>	
	<b>Transfer In</b>	<b>Tranfer Out</b>
Proprietary Funds		
Global Services	\$ -	\$ 2,800,000
Global School	-	519,890
Global Services - Use of Profits	3,319,890	20,000
School Store	20,000	-
<b>Total</b>	<b>\$ 3,339,890</b>	<b>\$ 3,339,890</b>

The interfund transfers represent the payment of expenditures by one fund to another fund. The transfers were to Global Services – Use of Profits to pay for additional staffing needs and consulting fees and to the school store to pay for school store inventory.

**9. SCHEDULE OF STATE REVENUE SOURCES**

The following is a schedule of the School’s State revenue for the 2009-10 fiscal year:

<u>Source</u>	<u>2009-10</u>
Florida Education Finance Program	\$ 94,730,451
Other State Sources:	
Discretionary Lottery Funds	53,769
Miscellaneous	-
<b>Total Other State Sources</b>	<b>53,769</b>
<b>Total State Revenues</b>	<b>\$ 94,784,220</b>

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

**10. STATE RETIREMENT PROGRAM**

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

**FLORIDA VIRTUAL SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2010**

Benefits in the Plan vest at six years of service. All vested members are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, which may include up to 4 years of credit for military service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, and death benefits and annual cost-of-living adjustments.

DROP, subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with an FRS employer. An employee may participate in DROP for a period not to exceed 60 months after electing to participate, except that certain instructional personnel may participate for up to 96 months. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest.

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in PEORP in lieu of the Plan. School employees participating in DROP are not eligible to participate in PEORP. Employer contributions are defined by law; however, the ultimate benefit depends in part on the performance of investment funds. PEORP is funded by employer contributions that are based on salary and membership class. Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Benefits in PEORP vest after one year of service. There were 178 School participants during the 2009-10 fiscal year. Required contributions made to PEORP totaled \$1,461,986.

**FRS Retirement Contribution Rates**

The Florida Legislature establishes, and may amend, contribution rates for each membership class of the FRS. During the 2009-10 fiscal year, contribution rates were as follows:

Class or Plan	<u>Percent of Gross Salary</u>	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	9.85
Florida Retirement System, Senior Management Service	0.00	13.12
Deferred Retirement Option Program - Applicable to Members from all of the Above Classes or Plans	0.00	10.91
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.11 percent for the post-employment health insurance supplement. Also, employer rates, other than for DROP participants, include 0.05 percent for administrative costs of the Public Employee Optional Retirement Program.

(B) Contribution rates are dependent upon the retirement class in which reemployed.

The School's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the School. The School's contributions for the fiscal years ended June 30, 2008, June 30, 2009, and June 30, 2010, totaled \$2,765,553, \$4,089,127, and \$5,979,280, respectively, which were equal to the required contributions for each fiscal year.

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

**FLORIDA VIRTUAL SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2010**

**11. RISK MANAGEMENT PROGRAMS**

The School is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Florida Virtual School is a member of the North East Florida Educational Consortium (NEFEC) under which several district school boards have established a combined limited self-insurance program for property protection, general liability, automobile liability, workers' compensation, and other coverage deemed necessary by the members of the Consortium. However, workers' compensation for employees who reside in states other than Florida is provided through fully insured plans that are not part of NEFEC. Section 1001.42(10)(k), Florida Statutes, provides the authority for the School to enter in such a risk management program. The Consortium is self-sustaining through member assessments (premiums), and purchases coverage through commercial companies for claims in excess of specified amounts. Reinsurance from commercial companies provided excess property coverage of up to \$50 million during the 2009-10 fiscal year. The Board of Directors of the Consortium is composed of superintendents of all participating districts and schools. The Putnam County District School Board serves as fiscal agent for the Consortium.

The School provides both group health and life insurance to benefited employees. There are two health plans offered, one is a health maintenance organization (HMO) plan and the other is a preferred provider organization (PPO) plan. Under these plans, the Board contributes premiums as fringe benefits to employees. These plans provide for maximum premiums based on the number of participants which includes employee, employee plus spouse, employee plus dependent and family coverages. The two plans are administered by Blue Cross Blue Shield of Florida. The School reported an estimated unpaid claims liability of \$636,363.

**12. OTHER POSTEMPLOYMENT BENEFITS**

**Plan Description.** Pursuant to the provision of the Section 112.0801, Florida Statutes, former employees who retire from the School, and eligible dependents, may continue to participate in the School's health and hospitalization plan for medical and prescription coverages. The School subsidizes the premium rates paid by the retirees by allowing them to participate in the plan at the blended group premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the School on average than those of active employees. Retirees are required to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible. The rates by retirees eligible for Medicare are reduced by the Medicare premium. Separate stand-alone financial statements for the plan are not prepared.

**Funding Policy.** The School funds the postemployment benefit on a pay-as-you-go basis. For fiscal year 2009-10, 3 retirees received health care benefits. The School provided required contributions estimated at \$3,157 toward the annual Other Post Employment Benefits ("OPEB") cost, comprised of benefit payments made on behalf of retirees net of retiree contributions.

**FLORIDA VIRTUAL SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2010**

**Annual OPEB Cost and Net OPEB Obligations.** The following table shows the School's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the School's net OPEB obligation:

Description	Amount
Normal Cost (service cost for one year)	\$ 455,292
Amortization of Unfunded Actuarial Accrued Liability	192,201
Interest on Normal Cost and Amortization	8,834
Annual Required Contribution (ARC)	656,327
Interest on Net OPEB Obligation (NOO)	24,775
Adjustment to Annual Required Contribution	(20,645)
Annual OPEB Cost (Expense)	660,457
Estimated Contribution Toward the OPEB Cost	(3,157)
Increase in Net OPEB Obligation	657,300
Net OPEB Obligation, Beginning of Year	619,364
Net OPEB Obligation, End of Year	\$ 1,276,664

The School's annual OPEB Cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, was as follows:

Fiscal Year Ended	Annual OPEB Cost	Estimated Amount Contributed	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2009	\$ 640,101	\$ 20,737	3.24%	\$ 619,364
June 30, 2010	\$ 660,457	\$ 3,157	0.48%	\$ 1,276,664

**FLORIDA VIRTUAL SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2010**

**Funded Status and Funding Progress.** As of June 30, 2010, the most recent valuation date, the actuarial accrued liability for benefits was \$5,436,618, and the actuarial value of assets was \$0, resulting in an unfunded actuarial liability of \$5,436,618 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$40,581,732 for the 2009-2010 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 13.4 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and termination, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress is presented as required supplementary information following the notes to the financial statements.

**Actuarial Methods and Assumptions.** Projection of benefits for financial reporting purposes are based on the substantive plan provisions, as understood by the employer and participating members, and include the type of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and the participating members. The actuarial methods and assumptions used include techniques that are designed to reduce the effect of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on a closed basis.

The School's OPEB actuarial valuation as of June 30, 2010, used the Entry Age actuarial method with amortization on a level percentage basis, to estimate the unfunded and funded actuarial liability as of June 30, 2010 and to estimate the School's 2009-2010 fiscal year ARC. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent discount rate, compounded annually. The actuarial assumptions also included a payroll growth rate of 4 percent per year, and projected salary increases of 4.5% through 9.75%. The unfunded actuarial accrued liability is being amortized as a level percentage of expected payroll on a closed basis. The remaining amortization period at June 30, 2010, is 29 years.

**13. LITIGATION**

From time to time, the School may be involved in litigation. Currently, the School is not aware of any pending and threatened legal actions.

**14. SUBSEQUENT EVENTS**

On January 1, 2011 Florida Virtual School intends to enter into a Sales and Marketing agreement with a Third party designed to increase Sales outside of the State of Florida. Once effective, existing operating expenses will be offset by the Third Party. The resulting Statement of Revenues, Expenses, and Changes in Fund Net Assets Proprietary Funds will only consist of distribution payments from the Third party to Florida Virtual School.

# Required Supplementary Information

**FLORIDA VIRTUAL SCHOOL  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
For the Fiscal Year Ended June 30, 2010**

	General Fund			
	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		Positive / (Negative)
<b>REVENUES</b>				
Federal Direct Sources:				
Miscellaneous Federal Direct	\$ -	\$ 983,419	\$ 465,144	\$ (518,275)
Total Federal Direct Sources	-	983,419	465,144	(518,275)
State Sources:				
Florida Education Finance Program	103,171,531	87,851,984	94,730,451	6,878,467
Instructional Materials	3,051,122	3,051,122	-	(3,051,122)
District Discretionary Lottery Funds	-	-	53,769	53,769
Reading Programs	848,285	848,285	-	(848,285)
Total State Sources	107,654,196	91,751,391	94,784,220	3,032,829
Local Sources:				
Other Local Sources	225,000	225,000	163,966	(61,034)
Total Local Sources	225,000	225,000	163,966	(61,034)
<b>Total Revenues</b>	<b>107,879,196</b>	<b>92,959,810</b>	<b>95,413,330</b>	<b>2,453,520</b>
<b>EXPENDITURES</b>				
Current:				
Instruction	62,504,188	62,660,050	59,652,970	3,007,080
Pupil Personnel Services	312,553	385,247	374,716	10,531
Instruction and Curriculum Development Services	14,107,593	8,585,830	2,679,295	5,906,535
Instructional Staff Training Services	4,175,277	5,615,810	3,180,727	2,435,083
Instruction Related Technology	2,478,370	2,690,763	1,477,479	1,213,284
Board	187,400	229,211	380,928	(151,717)
General Administration	1,334,874	1,375,391	1,097,446	277,945
School Administration	4,494,875	5,043,882	4,754,148	289,734
Facilities Acquisition and Construction	-	63,949	57,356	6,593
Fiscal Services	3,530,087	3,627,869	1,979,012	1,648,857
Central Services	18,563,152	8,687,915	6,260,622	2,427,293
Operation of Plant	1,584,613	1,834,905	1,733,044	101,861
Administrative Technology Services	6,288,919	6,320,974	4,052,324	2,268,650
Community Services	-	-	6,544	(6,544)
Capital Outlay:				
Other Capital Outlay	-	8,112,631	8,112,631	-
<b>Total Expenditures</b>	<b>119,561,901</b>	<b>115,234,427</b>	<b>95,799,242</b>	<b>19,435,185</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(11,682,705)</b>	<b>(22,274,617)</b>	<b>(385,912)</b>	<b>21,888,705</b>
<b>Net Change in Fund Balance</b>	<b>(11,682,705)</b>	<b>(22,274,617)</b>	<b>(385,912)</b>	<b>21,888,705</b>
Fund Balance, July 1, 2009	14,347,752	27,168,926	27,168,926	-
Fund Balance, June 30, 2010	<u>\$ 2,665,047</u>	<u>\$ 4,894,309</u>	<u>\$ 26,783,014</u>	<u>\$ 21,888,705</u>

**FLORIDA VIRTUAL SCHOOL  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS  
OTHER POST EMPLOYMENT BENEFITS PLAN  
For the Fiscal Year Ended June 30, 2010**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
June 30, 2009	\$ -	\$ 5,436,618	\$ 5,436,618	0.00%	\$ 40,581,732	13.40%
June 30, 2010	\$ -	\$ 5,436,618	\$ 5,436,618	0.00%	\$ 40,581,732	13.40%

# Other Reports

**FLORIDA VIRTUAL SCHOOL  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Fiscal Year Ended June 30, 2010**

Federal Pass-Through Entity Federal Program	CFDA Number	Contract/ Grant Number	Contract Period	Expenditures	Amount Provided to Sub-Recipients
<u>Federal Awards</u>					
Federal Direct:					
Turning Points in American History	84.215X	N/A	7/15/09-7/14/12	\$ 272,943	\$ -
Department of Education Passed through the State of Florida Department of Education:					
ARRA-State Fiscal Stabilization	84.394	48C-5910S-0CZ01	7/01/09-6/30/10	6,142,092	-
ARRA-State Fiscal Stabilization	84.397	48C-5920S-0CZ01	7/01/09-6/30/10	230,896	-
ARRA-Excellent Teaching Program	84.397	48C-5920S-0CD01	7/01/09-6/30/10	439,838	-
				<hr/>	<hr/>
Total Department of Education Indirect				6,812,826	-
				<hr/>	<hr/>
Total Federal Awards				\$ 7,085,769	\$ -

*See Accompanying Notes to Schedule*

**FLORIDA VIRTUAL SCHOOL**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2010**

**NOTE 1. GENERAL**

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards and of Florida Virtual School. The School reporting entity is defined in Note 1 to the School's Basic Financial Statements for the year ended June 30, 2010. All federal awards passed through to other government agencies are included in the schedule.

**NOTE 2. BASIS OF ACCOUNTING**

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note 1 to the School's Basic Financial Statements for the year ended June 30, 2010.

FLORIDA VIRTUAL SCHOOL  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - FEDERAL PROGRAMS  
YEAR ENDED JUNE 30, 2010

Section A – Summary of Auditors' Results

1. The independent auditors' report expresses an unqualified opinion on the financial statements of Florida Virtual School.
2. No significant deficiencies were reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of Florida Virtual School were disclosed during the audit.
4. No significant deficiencies in internal control over major federal award programs were reported in the Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for Florida Virtual School expresses an unqualified opinion.
6. There were no audit findings relative to the major federal award programs for Florida Virtual School.
7. Identification of major programs:

<u>Name of Federal Program</u>	<u>Federal CFDA Number</u>
ARRA – State Fiscal Stabilization	84.394
ARRA – State Fiscal Stabilization	84.397
ARRA – Excellent Teaching Program	84.397

8. The threshold for distinguishing Type A and Type B programs was \$300,000 for major federal programs. In addition, grants of any amounts received under the American Recovery and Reinvestment Act were considered Type A programs.
9. Florida Virtual School did not qualify as a low-risk auditee pursuant to OMB Circular A-133 for the year ended June 30, 2010 due to the fact that Single Audits have not been performed for the previous two years.

Section B – Financial Statement Findings

No matters were reported.

Section C – Findings and Questioned Costs – Major Federal Programs

No matters were reported.

FLORIDA VIRTUAL SCHOOL  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - FEDERAL PROGRAMS - CONTINUED  
YEAR ENDED JUNE 30, 2010

Section D – Other Issues

1. No summary schedule of prior audit findings is presented because there were no prior audit findings.
2. No corrective action plan is presented because there are no current audit findings.

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

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To the Board of Trustees  
Florida Virtual School  
Orlando, Florida

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Florida Virtual School, as of and for the year ended June 30, 2010, which collectively comprise the Florida Virtual School's basic financial statements and have issued our report thereon dated January 19, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Florida Virtual School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Florida Virtual School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Florida Virtual School's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Florida Virtual 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*.

We noted certain matters that we reported to management of Florida Virtual School, in a separate letter dated January 19, 2011.

This report is intended solely for the information and use of management, the Board of Trustees, others within the entity, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Carr Riggs & Ingram LLC*

January 19, 2011

INDEPENDENT AUDITOR'S REPORT  
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH OMB CIRCULAR A-133

To the Board of Trustees  
Florida Virtual School  
Orlando, Florida

Compliance

We have audited the compliance of Florida Virtual School, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2010. Florida Virtual School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Florida Virtual School's management. Our responsibility is to express an opinion on Florida Virtual School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Florida Virtual School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Florida Virtual School's compliance with those requirements.

In our opinion, Florida Virtual School, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

Management of Florida Virtual School is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Florida Virtual School's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Florida Virtual School's internal control over compliance.

*A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.*

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Trustees, others within the entity, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Carla Riggs, STN LLC

January 19, 2011

## INDEPENDENT AUDITOR'S MANAGEMENT LETTER

To the Board of Trustees  
Florida Virtual School  
Orlando, Florida

We have audited the financial statements of the governmental activities, the business-type activities and each major fund of Florida Virtual School (the "School"), as of and for the year ended June 30, 2010, which collectively comprise the School's basic financial statements and have issued our report thereon dated January 19, 2011.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and Chapter 10.800, *Rules of the Auditor General*. We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters, Independent Auditor's Report on Compliance with Requirements Applicable to each Major Federal Program and on Internal Control over Compliance, and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated January 19, 2011, should be considered in conjunction with this management letter.

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

- Section 10.804(1)(f)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report.
- Section 10.804(1)(f)3., Rules of the Auditor General, requires our audit to include a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit we determined that the School complied with Section 218.415, Florida Statutes.
- Section 10.804(1)(f)4., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.
- Section 10.804(1)(f)5., Rules of the Auditor General, requires that we address violations of 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 more than inconsequential. In connection with our audit, we did not have any such findings.
- Section 10.804(1)(f)6., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on the financial statements considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, and (2) deficiencies in internal control that are not significant deficiencies. In connection with our audit, we note the following matter and recommendation:

### Proper Recording of Accounts Receivable and Accounts Payable

It was noted during our testing of accounts receivable that adjustments needed to be made in order to accurately reflect the ending balance at June 30, 2010. These adjustments were a result of three invoices being cancelled, but not removed from the accounts receivable listing. In addition, an audit adjustment was proposed to record accounts payable for purchased services and for a bonus accrual.

We recommend the School review the accounts receivable detail for old or unusual items and further investigate a sample of these items on a periodical basis. There should be a process in place to ensure that cancelled invoices are removed from the accounts receivable detail. For accounts payable, we recommend that each invoice that is received by the School is reviewed to determine the timing of when the amount needs to be recorded as accounts payable.

- Section 10.804(1)(f)2., Rules of the Auditor General, requires a statement be included as to whether or not the district school board has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the School did not meet any of the conditions described in Section 218.503(1), Florida Statutes.
- Pursuant to Sections 10.804(1)(f)7.a. and 10.805(6), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the School's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of the Board of Trustees, applicable management, applicable federal and state agencies, and is not intended to be and should not be used by anyone other than these specified parties.

*Carla Ruggs @ STHGM LLC*

January 19, 2011



January 19, 2011

Mr. Victor J. Incinelli  
Carr, Riggs & Ingram, LLC  
1031 W. Morse Blvd., Suite 200  
Winter Park, FL 32789

Mr. Incinelli:

After a thorough review of the Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters as well as the Independent Auditor's Management Letter, the following are our responses.

**Accounts Receivable:** It was noted during the testing of accounts receivable that adjustments needed to be made in order to accurately reflect the ending balance at June 30, 2010. These adjustments were a result of three invoices being cancelled, but not removed from the accounts receivable listing.

In regard to the three invoices that were cancelled but not removed from the accounts receivable listing, Florida Virtual School will review accounts receivable detail on a monthly basis to ensure that all invalid invoices are cancelled and removed from the accounts receivable detail.

**Accounts Payable/Bonuses:** An audit adjustment was proposed to record accounts payable for purchased services and for a bonus accrual.

One invoice for a commission payment was discovered that was not accrued at fiscal year ending June 30, 2010. Florida Virtual School will review each invoice that is received to determine the timing and will record the invoices appropriately. In regard to the bonus accrual, teacher bonuses are now paid quarterly; Florida Virtual School will calculate and accrue the final quarterly payment appropriately.

Sincerely,

A handwritten signature in blue ink that reads "Julie E. Young".

Julie E. Young  
President and CEO