

Management's Discussion and Analysis

As management of Okaloosa Academy, Inc. (the "School"), which is a component unit of the Okaloosa County School District, Florida, we offer readers of the School's financial statements this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2017 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 (d) highlight significant issues in individual funds.

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 basic financial statements found listed on the table of content of this report.

Financial Highlights

- The assets of the School exceeded its liabilities at the close of the most recent fiscal year by \$1,823,104.
- The government's total net position decreased by \$342,030.
- As of the close of the current fiscal year, the School's governmental funds reported combined ending fund balance of \$217,633, a decrease of \$178,705 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$182,528.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the School's basic financial statements. The School's basic financial statements comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements.

The School as a Whole

The information in the government-wide financial statements includes all assets and liabilities using the accrual basis of accounting (and reports depreciation on capital assets), which is similar to the basis of accounting used by most private-sector companies.

The change in net position (assets, liabilities, and deferred outflows/inflows of resources) over time is one indicator of whether the School's financial health is improving or deteriorating. However, other nonfinancial factors need to be considered in making an assessment of the

School's health, such as changes in enrollment, changes in the State's funding of educational costs, changes in the economy, etc., to assess the overall health of the School.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the School's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the School's assets, liabilities, and deferred outflows/inflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the School is improving or deteriorating.

The statement of activities presents information showing how the School's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected funding and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the School that are principally supported by District, State, and Federal funding (governmental activities). Basic instruction, exceptional instruction, and school administration are examples of the School's governmental activities.

The government-wide financial statements include only the School itself, which is a component unit of the Okaloosa County School District, Florida. The Okaloosa County School District, Florida includes the operations of Okaloosa Academy, Inc. as a component unit in their operations.

The government-wide financial statements can be found listed on the table of contents of this report.

Fund 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, like state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the operations of Okaloosa Academy, Inc. are presented in governmental funds only.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented in the governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the School's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The School maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, and capital outlay fund which are considered to be major funds.

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

The basic governmental fund financial statements can be found listed on the table of contents of this report.

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found listed on the table of contents of this report.

Government-Wide Financial Analysis

As noted previously, net position may serve over time as a useful indicator of a government's financial position. In the case of the School, assets exceeded liabilities by \$1,823,104 at the close of the most recent fiscal year.

A majority of the School's net position is reflected in its net investment in capital assets (e.g., land, buildings, improvement other than buildings, furniture, fixtures and equipment, computer software, and vehicles) less any related outstanding debt used to acquire those assets that is still outstanding. The School uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the School's net investment in its capital assets is reported net of related outstanding debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Comparison of the condensed statement of net position and the statement of activities are provided below.

	<u>2017</u>	<u>2016</u>	<u>Variance</u>
ASSETS			
Current assets	\$ 236,554	\$ 434,567	\$ (198,013)
Capital assets - net	<u>1,605,471</u>	<u>1,761,721</u>	<u>(156,250)</u>
Total assets	<u>1,842,025</u>	<u>2,196,288</u>	<u>(354,263)</u>
LIABILITIES			
Current liabilities	18,921	38,229	(19,308)
NET POSITION			
Net investment in capital assets	1,605,471	1,761,721	(156,250)
Restricted for capital outlay	35,105	76,339	(41,234)
Restricted for food service	1,394	-	1,394
Unrestricted	<u>181,134</u>	<u>319,999</u>	<u>(138,865)</u>
Total net position	<u>\$ 1,823,104</u>	<u>\$ 2,158,059</u>	<u>\$ (334,955)</u>

Current assets decrease of \$198,013 is primarily due to decrease in cash and the timing of payroll liability payments. Capital assets decrease of \$156,250 was due to current year depreciation offset by current year additions.

Current liabilities decreased due to the timing of vendor payments for payroll liabilities at June 30, 2017. The overall decrease in net position was caused primarily by the decrease in enrollment.

Changes in the School's revenues were as follows:

	<u>2017</u>	<u>2016</u>	<u>Variance</u>
Revenues			
Program revenues			
Charges for services	\$ 16,855	\$ 20,162	\$ (3,307)
Operating grants and contributions	320,259	313,295	6,964
Capital grants and contributions	93,983	142,700	(48,717)
General revenues	<u>1,837,376</u>	<u>2,180,447</u>	<u>(343,071)</u>
	<u>\$ 2,268,473</u>	<u>\$ 2,656,604</u>	<u>\$ (388,131)</u>

The decrease in capital grants and contributions and general revenues is due to the decrease in enrollment.

Changes in the School's expenses were as follows:

	2017	2016	Variance
Basic instruction	\$ 1,015,133	\$ 1,072,361	\$ (57,228)
Exceptional instruction	37,671	36,643	1,028
Curriculum development	1,028	13,363	(12,335)
Staff development	-	3,585	(3,585)
Board of directors	17,453	11,363	6,090
School administration	320,675	353,379	(32,704)
Facilities	294,623	270,982	23,641
Fiscal services	210,981	223,143	(12,162)
Food services	134,438	142,852	(8,414)
Staff services	196,062	211,153	(15,091)
Transportation	208,959	213,324	(4,365)
Operation of plant	157,241	156,310	931
Maintenance of plant	372	-	372
Administrative technology	15,867	15,096	771
	<u>\$ 2,610,503</u>	<u>\$ 2,723,554</u>	<u>\$ (113,051)</u>

Basic instruction and school administration decreased due to the decrease in enrollment resulting in a decrease in staff salaries. Facilities increased is due to the purchase of non-capital furniture and equipment. Food services decreased due to reduced enrollment. Staff and fiscal services decreased as the School's management fee decreased due to the decrease in enrollment.

Financial Analysis of the Government's Funds

As previously noted, the School uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the School's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the School's financial requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the current fiscal year, the School's governmental funds reported a combined ending fund balance of \$217,633.

The general fund is the main operating fund of the School. At the end of the current fiscal year, the unassigned fund balance of the general fund was \$169,934.

During the current fiscal year, the fund balance of the School's general fund decreased by \$137,471.

General Fund Budgetary Highlights

Actual revenues and expenditures were less than the final budget. The School's expenditures were lower than budgeted because the School spent slightly less on salaries and related expenses than were budgeted.

The budgetary information can be found listed on the table of content of this report.

Capital Asset and Debt Administration

Capital Assets. The School's net investment in capital assets for its governmental type activities as of June 30, 2017 amounts to \$1,605,471 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements other than buildings, and furniture, fixtures, and equipment.

Debt. At the end of the current fiscal year, the School had no debt.

Economic Factors

A majority of the School's funding is determined by the number of enrolled students. For the 2017-2018 school year, the School is forecasting an enrollment increase to 300 students from the 2016-2017 actual enrollment of 267 students.

Request for Information

This financial report is designed to provide a general overview of Okaloosa Academy, Inc.'s finances for those with an interest in the School's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to The Rader Group, 101-A Business Centre, Miramar Beach, FL 32550.

Okaloosa Academy, Inc.
STATEMENT OF NET POSITION
June 30, 2017

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ASSETS

CURRENT ASSETS

Cash	\$ 230,308
Accounts receivable	792
Due from other agencies	<u>5,454</u>
Total current assets	<u>236,554</u>

CAPITAL ASSETS

Capital assets not being depreciated:	
Land	7,126
Capital assets, net of accumulated depreciation:	
Buildings	1,562,539
Improvements other than buildings	20,709
Furniture, fixtures and equipment	<u>15,097</u>
Total capital assets, net	<u>1,605,471</u>
Total assets	<u>1,842,025</u>

LIABILITIES

Accounts payable	1,473
Accrued payroll liabilities	<u>17,448</u>
Total liabilities	<u>18,921</u>

NET POSITION

Net investment in capital assets	1,605,471
Restricted for:	
Capital outlay	35,105
Food service	1,394
Unrestricted	<u>181,134</u>
Total net position	<u>\$ 1,823,104</u>

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

Okaloosa Academy, Inc.
STATEMENT OF ACTIVITIES
For the year ended June 30, 2017

Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Governmental Activities:					
Basic instruction	\$ 1,015,133	\$ -	\$ 201,774	\$ -	\$ (813,359)
Exceptional instruction	37,671	-	-	-	(37,671)
Curriculum development	1,028	-	-	-	(1,028)
Board of directors	17,453	-	-	-	(17,453)
School administration	320,675	-	-	-	(320,675)
Facilities	294,623	-	-	93,983	(200,640)
Fiscal services	210,981	-	-	-	(210,981)
Food services	134,438	16,855	118,485	-	902
Staff services	196,062	-	-	-	(196,062)
Transportation	208,959	-	-	-	(208,959)
Operation of plant	157,241	-	-	-	(157,241)
Administrative technology	15,867	-	-	-	(15,867)
Maintenance of plant	372	-	-	-	(372)
Total governmental activities	<u>\$ 2,610,503</u>	<u>\$ 16,855</u>	<u>\$ 320,259</u>	<u>\$ 93,983</u>	<u>(2,179,406)</u>
General revenues:					
Florida education finance program					1,805,989
Federal impact aid					3,246
Gain on disposal of assets					2,000
Other revenues					<u>26,141</u>
Total general revenues					<u>1,837,376</u>
Change in net position					(342,030)
Net position at July 1, 2016, before restatement					2,158,059
Prior period adjustment					<u>7,075</u>
Net position at July 1, 2016, after restatement					<u>2,165,134</u>
Net position at June 30, 2017					<u>\$ 1,823,104</u>

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

Okaloosa Academy, Inc.
BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2017

	General Fund	Capital Outlay Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash	\$ 230,308	\$ -	\$ -	\$ 230,308
Accounts receivable	792	-	-	792
Due from other agencies	5,454	-	-	5,454
Due from other funds	-	35,105	1,394	36,499
Total assets	<u>\$ 236,554</u>	<u>\$ 35,105</u>	<u>\$ 1,394</u>	<u>\$ 273,053</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 1,473	\$ -	\$ -	\$ 1,473
Accrued payroll liabilities	17,448	-	-	17,448
Due to other funds	36,499	-	-	36,499
Total liabilities	<u>55,420</u>	<u>-</u>	<u>-</u>	<u>55,420</u>
FUND BALANCES				
Restricted for:				
Capital outlay	-	35,105	-	35,105
Food service			1,394	1,394
Unassigned	181,134	-	-	181,134
Total fund balances	<u>181,134</u>	<u>35,105</u>	<u>1,394</u>	<u>217,633</u>
Total liabilities and fund balances	<u>\$ 236,554</u>	<u>\$ 35,105</u>	<u>\$ 1,394</u>	<u>\$ 273,053</u>

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

Okaloosa Academy, Inc.
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS TO THE STATEMENT OF
NET POSITION
June 30, 2017

Fund balance - total governmental funds		\$ 217,633
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds. Those assets consist of:		
Capital assets	2,492,752	
Accumulated depreciation	<u>(887,281)</u>	1,605,471
Total net position of governmental activities		<u><u>\$ 1,823,104</u></u>

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

Okaloosa Academy, Inc.
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
For the year ended June 30, 2017

	General Fund	Capital Outlay Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Federal passed through state and local	\$ 3,246	\$ -	\$ 318,140	\$ 321,386
State passed through local school district	1,805,989	93,983	2,119	1,902,091
Lunch program	-	-	16,855	16,855
Other revenues	26,141	-	-	26,141
Total revenues	1,835,376	93,983	337,114	2,266,473
Expenditures				
Current:				
Basic instruction	811,712	-	201,775	1,013,487
Exceptional instruction	37,671	-	-	37,671
Curriculum development	1,028	-	-	1,028
Board of directors	17,453	-	-	17,453
School administration	320,675	-	-	320,675
Facilities	-	74,052	-	74,052
Fiscal services	210,981	-	-	210,981
Food services	-	-	133,945	133,945
Staff services	196,062	-	-	196,062
Transportation	208,745	-	-	208,745
Operation of plant	157,241	-	-	157,241
Maintenance of plant	372	-	-	372
Administrative technology	14,301	-	-	14,301
Capital outlay	-	61,165	-	61,165
	1,976,241	135,217	335,720	2,447,178
Excess (deficiency) of revenues over (under) expenditures	(140,865)	(41,234)	1,394	(180,705)
Other financing sources and (uses)				
Proceeds from sale of capital assets	2,000	-	-	2,000
Total other financing sources and (uses)	2,000	-	-	2,000
Net change in fund balance	(138,865)	(41,234)	1,394	(178,705)
Fund balances at July 1, 2016	319,999	76,339	-	396,338
Fund balances at June 30, 2017	\$ 181,134	\$ 35,105	\$ 1,394	\$ 217,633

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

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Okaloosa Academy, Inc.
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the year ended June 30, 2017

Fund balance - total governmental funds	\$	(178,705)
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The change in net position reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those asset are allocated over their estimated useful lives and reported as depreciation expense. This and the net effect of various other transactions involving capital assets decreased net position.

Capital outlay	61,165	
Provision for depreciation	(224,490)	(163,325)

Total net position of governmental activities	\$	(342,030)
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The accompanying notes are an integral part of these financial statements.

Okaloosa Academy, Inc.
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2017

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NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Reporting entity

Okaloosa Academy, Inc. (the "School"), is a not-for-profit corporation organized pursuant to Chapter 617, Florida Statutes, the Florida Not-For-Profit Corporation Act, and Section 1002.33, Florida Statutes. The Charter School provides educational services to students in grades 4 – 12. The governing body of the School is the Board of Directors, which is composed of four members.

The general operating authority of Okaloosa Academy, Inc. is contained in Section 1002.33, Florida Statutes. The School operates under a charter of the sponsoring school district, which is the Okaloosa County School District, Florida (the "District"). The charter may be renewed by mutual agreement between the School and the District. The current charter is effective through February 28, 2022. At the end of the term of the charter, the District may choose not to renew the charter under grounds specified in the charter in which case the District is required to notify the School in writing at least 90 days prior to the charter's expiration. During the term of the charter, the District may also terminate the charter if good cause is shown. Okaloosa Academy, Inc. is considered a component unit of the Okaloosa County School District, Florida.

2. Government-wide and fund financial statements

The government-wide financial statements consist of a statement of net position and a statement of activities. These statements report information on all of the nonfiduciary activities of the School. As part of the consolidation process, all inter-fund activities are eliminated from these statements. Both statements report only governmental activities as the School does not engage in any business type activities.

Net position, the difference between assets, liabilities, and deferred outflows/inflows of resources, as presented in the statement of net position, are subdivided into three categories: net investment in capital assets, restricted net position, and unrestricted net position. Net position is reported as restricted when constraints are imposed on the use of the amounts either externally by creditors, grantors, contributors, laws or regulations of other governments, or enabling legislation.

The statement of activities presents a comparison between the direct and indirect expenses of a given function and its program revenues, and displays the extent to which each function contributes to the change in net position for the fiscal year. Direct expenses are those that are clearly identifiable to a specific function.

Okaloosa Academy, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2. Government-wide and fund financial statements (continued)

Indirect expenses are costs the School has allocated to various functions. Program revenues consist of charges for services, operating grants and contributions, and capital grants and contributions.

Charges for services refer to amounts received from those who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment. Grants and contributions consist of revenues that are restricted to meeting the operational or capital requirements of a particular function. Revenues not classified as program revenues are reported as general revenues.

Separate fund financial statements report detailed information about the School's governmental funds. The focus of the governmental fund financial statements is on major funds. Therefore, major funds are reported in separate columns on the fund financial statements. Two of the School's funds were deemed major funds. A reconciliation is provided that converts the results of governmental fund accounting to the government-wide presentation.

3. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized in the period earned and expenses are recognized when a liability is incurred.

All governmental fund financial statements are reported using a current financial resources measurement focus on a modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues, except for certain grant revenues, are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the current fiscal period. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for federal, state, and other grant resources, revenue is recognized at the time the expenditure is made. Under the modified accrual basis of accounting, expenditures are generally recorded when the related fund liability is incurred. However, principal and interest on general long-term debt are recorded as expenditures only when payment is due.

Okaloosa Academy, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3. Measurement focus, basis of accounting, and financial statement presentation (continued)

The School's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. Accordingly, the financial statements are organized on the basis of funds. A fund is an accounting entity having a self-balancing set of accounts for recording assets, liabilities, fund equity, revenues, expenditures and other financing sources and uses.

Resources are allocated to and accounted for in individual funds based on the purpose for which they are to be spent and the means by which spending activities are controlled. The School reports the following major governmental funds:

General Fund – is the general operating fund of the School and is used to account for all resources not required to be accounted for in another fund.

Capital Outlay Fund – is a special revenue fund used in accordance with guidelines established by the Okaloosa County School District, Florida. This fund accounts for all resources for the lease of acquisition of capital facilities by the School to the extent funded by capital grants.

4. Cash

Cash is made up of deposits and cash on hand totaling \$230,308 at June 30, 2017. The School's deposits must be placed with a financial institution designated by the Treasurer of the State of Florida as a "qualified public depository", as defined in Chapter 280, Florida Statutes. The School deposits are held with a qualified depository and are covered by the collateral pool as the School has identified itself as a public entity.

5. Receivables

The School's receivables mainly consist of amounts due from program receivables and other agencies at June 30, 2017. Based on prior experience, the School's management has determined that 100% of the receivables are fully collectible. Therefore, no allowance for doubtful accounts has been provided.

Okaloosa Academy, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6. Interfund activity

Activity between the funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as due to/from other funds.

7. Capital assets

Capital assets are reported in the applicable governmental columns on the government-wide financial statements. Capital assets are defined by the School as assets with an initial individual cost of more than \$1,000 and an estimated useful life of more than one year. Such assets are recorded at historical cost. Donated or exchanged capital assets are recorded at their estimated fair market values at the date of donation or exchange.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	7-10
Improvements other than buildings	5-20
Furniture, fixtures and equipment	5-10
Computer software	3-5

8. Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. In the fund financial statements, governmental fund types recognize the face amount of debt issued as other financing sources and the repayment of debt as debt service expenditures.

Okaloosa Academy, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

9. Revenue sources

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

Under the provisions of Section 1011.62, Florida Statutes, the District reports the number of FTE students and related data to the Florida Department of Education ("FDOE") for funding through the Florida Education Finance Program. Funding for the School is adjusted during the year to reflect the revised calculations by the FDOE under the Florida Education Finance Program and actual weighted FTE students reported by the School during designated FTE student survey periods.

The School receives federal awards for the enhancement of various educational programs. This assistance is generally based on applications submitted to and approved by various granting agencies. These federal awards may have eligibility requirements whereby the issuance of grant funds is withheld until such eligible expenditures are incurred. Revenues for these awards are recognized only to the extent that eligible expenditures have been incurred.

Additionally, other revenues may be derived from various fundraising activities and certain other programs.

9. Use of estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

10. Income Taxes

The School is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state law.

The School recognizes the financial statement effects from a tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. Examples of tax positions include the tax-

Okaloosa Academy, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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NOTE A - OF SIGNIFICANT ACCOUNTING POLICIES (continued)

10. Income Taxes (continued)

exempt status of the School and various positions related to the potential sources of unrelated business taxable income. The assessment of the technical merits of a tax position is a matter of judgment. The School believes that all of its tax positions are more likely than not to be sustained upon examination.

The School files Form 990 in the U.S. federal jurisdiction. The School is generally no longer subject to examination by the Internal Revenue Service three years after a return was due or filed.

11. Fund balance classification

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the School is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Nonspendable fund balance – amounts that are not spendable (such as inventory and prepaid expenses) or are required to be maintained intact.

Restricted Fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

Committed fund balance – amounts constrained to specific purposes by the School itself, using its highest level of decision-making authority (i.e., Board of Directors). To be reported as committed, amounts cannot be used for any other purpose unless the School takes the same highest level action to remove or change the constraint.

Assigned fund balance – amounts the School intends to use for a specific purpose. Intent can be expressed by the Board of Directors or by an official or body to which the Board of Directors delegates the authority.

Unassigned fund balance – amounts that are available for any purpose. No other fund except the General Fund can report positive amounts of unassigned fund balance.

Okaloosa Academy, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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NOTE A - OF SIGNIFICANT ACCOUNTING POLICIES (continued)

11. Fund balance classification (continued)

The School would typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

12. Impact of recently issued accounting principles

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*, to enhance the transparency and comparability of fair value measurements and disclosures in state and local governments' financial statements. This statement was effective for the School's June 30, 2016 fiscal year end.

In June 2015, the GASB issued Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68 and Amendments to Certain Provisions of GASB Statements 67 and 68, which clarifies certain provisions of GASB No. 68, Accounting and Financial Reporting for Pensions, and it establishes requirements for defined contribution pensions that was not within the scope of GASB No. 68. This statement was effective for the School's June 30, 2016 fiscal year end.

In January 2016, the GASB issued Statement No. 80, Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14, which amends GASB Statement No. 14, The Financial Reporting Entity, as amended, by addressing the blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. This statement is effective for the School's June 30, 2017 fiscal year end.

NOTE B – INTER-FUND ACTIVITY

Activities between the funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as due to/from other funds. The general fund has recorded total payables of \$35,105 to the capital outlay fund for received but not yet spent on behalf of the capital outlay fund. Transfers between funds are made to move any excess or shortage of funds derived from special revenue funds to or from the general fund.

Okaloosa Academy, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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NOTE C – CAPITAL ASSETS

Changes in capital assets activity were as follows:

	Balance at July 1, 2016	Additions	Deletions	Balance at June 30, 2017
Capital Assets not depreciated:				
Land	\$ 7,126	\$ -	\$ -	\$ 7,126
Capital assets depreciated:				
Buildings and fixed equipment	2,121,523	44,323	-	2,165,846
Furniture, fixtures and equipment	200,106	4,017	-	204,123
Improvements other than buildings	34,826	12,825	-	47,651
Computer software	68,006	-	-	68,006
Vehicles	29,210	-	29,210	-
Total capital assets depreciated	2,453,671	61,165	29,210	2,485,626
Less accumulated depreciation:				
Buildings and fixed equipment	385,713	217,594	-	603,307
Furniture, fixtures and equipment	183,425	5,601	-	189,026
Improvements other than buildings	25,861	1,081	-	26,942
Computer software	68,006	-	-	68,006
Vehicles	28,996	214	29,210	-
Total accumulated depreciation	692,001	224,490	29,210	887,281
Total capital assets, net	\$ 1,768,796	\$ (163,325)	\$ -	\$ 1,605,471

Depreciation expense was charged for the year ended June 30, 2017 to functions of the School as follows:

Basic Instruction	\$ 1,646
Facilities	220,571
Food service	493
Transporation	214
Basic Instructions	1,566
	<u>\$ 224,490</u>

NOTE D – COMMITMENTS AND CONTINGENCIES

1. Management service contract

As of July 8, 2015, the School entered into a management agreement with a third party to provide financial, human resource, and administration services to the School at a fee approved annually by the School's Board of Directors as part of the annual and amended budget for the School. The current year management fees charged to operations totaled \$390,000.

Okaloosa Academy, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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NOTE D – COMMITMENTS AND CONTINGENCIES (continued)

2. Operating leases

The School has entered into various operating leases for equipment with monthly payments ranging from \$233 to \$285, maturing from 2018 through 2022. Rental expense totaled \$6,211 for the year ended June 30, 2017.

Future minimum lease payments are as follows for years ended June 30:

2018	\$	6,222
2019		4,119
2020		3,420
2021		3,420
2022		1,140
	\$	<u>18,321</u>

2. Service contract

The School entered into an agreement with a third party to provide educational personnel and provide their salaries directly from the School. The School was reimbursed in full in the amount of \$109,947 for the payroll related to these personnel for the year ended June 30, 2017. Therefore, no revenue or expenditures are recognized by the School.

NOTE E – RELATED PARTY

1. Management service contract

The Management Company provides financial, human resources, and administration services based on a contractual arrangement with the School. The Management Company manages the finances and operations and makes recommendations to the School's independent Board of Directors, which makes the final determinations regarding policies and contracts. Total management fees charged to operations for the year ended June 30, 2017 were \$390,000 (see Note D). The School also paid \$1,028 for a special consultant for the year ended June 30, 2017.

2. Shared operating expenses

The School shares various operating expenses with schools operated by the same management company. During the year, the School reimbursed shared operating expenses totaling \$14,544.

Okaloosa Academy, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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NOTE E – RELATED PARTY (continued)

2. Shared operating expenses (continued)

The School also provides educational services under a contract with the Department of Juvenile Justice Residential Commitment Facility in Fort Walton Beach, Florida. Under this contract, the School provides educational personnel and their salaries directly on behalf of the DJJ school which is operated by the same management company. During the year, the School was reimbursed in full in the amount \$952,761, for the payroll related to these personnel.

There was no amount due to other schools for shared operating expenses for the year ended June 30, 2017.

3. Services provided by school district

The Okaloosa County School District of Florida provided staffing, social, and psychological services to the School. The District valued these services at \$82,698. These services are related to funding received by the District for the services listed above and can only be valued by the District. Therefore, the revenues and related expenses are recorded only at the District level.

NOTE F – RISK MANAGEMENT

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the School carries commercial liability insurance. Under the plan for property insurance, the School's liability is \$1,000 per occurrence. There have been no significant reductions in insurance coverage during fiscal year 2017. Settled claims resulting from the risks described above have not exceeded the insurance coverage in the previous three years.

NOTE G – CONCENTRATIONS

Revenue sources

As stated in Note A-9, the School receives revenues for current operations primarily from the State of Florida through the local school district.

Okaloosa Academy, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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NOTE G – CONCENTRATIONS (continued)

Revenue sources (continued)

The following is a schedule of revenue sources and amounts:

Revenue sources passed through the School Board of Okaloosa County, Florida	
Base funding	\$ 1,104,212
Class size reduction	239,501
Discretionary local effort	96,641
Discretionary lottery	4,156
Supplemental academic instruction	74,926
ESE guaranteed allocation	60,841
Instructional materials allocation	20,376
Reading instruction	11,515
Other FEFP	5,308
Federally connected students	3,201
Discretionary tax compression	18,152
Student transportation	89,339
Digital classroom	8,525
Florida teacher classroom supply assistance	4,319
Proration to funds available	(601)
	<u>1,740,411</u>
Less administration fee	(76,224)
	<u>1,664,187</u>
FEFP Referrals	141,802
	<u><u>\$ 1,805,989</u></u>

NOTE H – SUBSEQUENT EVENTS

The School has evaluated subsequent events through August 30, 2017, the date which the financial statements were available for issuance, and has determined that no material events occurred that would require additional disclosure in the financial statements.

NOTE I – PRIOR PERIOD ADJUSTMENT

An error resulting in the misstatement of capital assets was discovered by management during fiscal year end June 30, 2017. An adjustment totaling \$7,075 for improvements other than building was recorded to restate net position at July 1, 2016.

REQUIRED SUPPLEMENTARY INFORMATION

Okaloosa Academy, Inc.
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – BUDGET AND
ACTUAL – GENERAL FUND
For the year ended June 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
FEFP	\$ 2,044,291	\$ 1,639,617	\$ 1,639,617	\$ -
Lead teacher funds	5,303	4,319	4,319	-
Reading allocation	13,951	11,515	11,515	-
Class size reallocation	-	211	211	-
Digital classroom funds	10,419	8,525	8,525	-
Impact aid funds	4,730	4,000	3,246	(754)
Referrals	150,000	142,000	141,802	(198)
Miscellaneous	6,500	9,000	8,347	(653)
Sale of vehicle	-	2,000	2,000	-
Insurance loss recovery	-	3,126	3,126	-
E-Rate	16,000	14,667	14,667	-
Total revenues	2,251,194	1,838,980	1,837,375	(1,605)
Expenditures				
Salaries	1,130,300	972,000	944,591	27,409
Retirement	11,000	13,000	1,045	11,955
Social Security	88,000	76,327	74,502	1,825
Group Insurance	142,000	106,000	97,643	8,357
Worker's Comp	7,500	12,500	12,257	243
Unemployment compensation	11,000	5,000	4,360	640
Management Fee	430,540	390,000	390,000	-
Audit/Accounting	14,750	13,250	13,250	-
Computer Services	15,000	14,000	13,617	383
School Resource Officer	43,000	43,966	43,962	4
Consulting Services-Curriculum/Staff Deve	20,000	1,028	1,028	-
Custodial/Maint	25,000	30,500	30,080	420
Misc. Contract Services	3,000	10,000	5,040	4,960
Insurance	37,000	34,000	32,161	1,839
Travel	4,200	4,200	3,657	543
Repairs/Maint	1,000	-	-	-
Vehicle/Maint	25,000	35,000	33,841	1,159
Inspections/Fire Ext	1,200	500	342	158
Lease-Copier	7,300	6,300	6,211	89
Rental-misc	1,000	1,000	828	172
Postage	4,000	2,500	2,161	339
Cellphones	8,200	4,600	5,081	(481)
Phone/Internet	23,516	21,000	20,311	689
Water/Sewer	7,600	7,700	7,642	58
Garbage	4,000	4,400	4,364	36
Printing	3,000	3,700	3,389	311
Pest Control	1,700	1,700	1,400	300
Security Monitoring	2,000	2,040	1,680	360
Misc. Non-prof.Svc	7,000	3,000	2,844	156
Elect/Gas	65,000	62,500	60,642	1,858
Gas/Vehicles	20,000	25,000	24,714	286
Supplies	54,000	54,000	51,215	2,785
Instructional Material	25,000	20,000	15,737	4,263
Computer Equipment	10,419	8,525	8,525	-
Software	750	-	-	-
Software Subscriptions	3,000	20,000	18,727	1,273
Fees/Miscellaneous	8,500	8,500	7,581	919
Substitutes/Temporary	15,000	32,000	31,815	185
Total expenditures	2,280,475	2,049,736	1,976,243	73,493
Excess (deficiency) of revenues over (under) expenditures	(29,281)	(210,756)	(138,868)	71,888
Other financing sources (uses)				
Transfers in	-	-	1,395	1,395
Net change in fund balance	(29,281)	(210,756)	(137,473)	73,283
Fund balance at July 1, 2016	319,999	319,999	319,999	-
Fund balance at June 30, 2017	\$ 290,718	\$ 109,243	\$ 182,526	\$ 73,283

See notes to required supplemental information.

Okaloosa Academy, Inc.
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – BUDGET AND
ACTUAL – CAPITAL OUTLAY FUND
For the year ended June 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
Charter school capital outlay	\$ 150,000	\$ 93,983	\$ 93,983	\$ -
Total revenues	150,000	93,983	93,983	-
Expenditures				
Salaries	23,040	24,750	24,750	-
Social Security	1,763	1,893	2,280	(387)
Unemployment compensation	500	500		500
Insurance	2,250	2,016	2,015	1
Repairs/Maint	20,000	15,000	10,746	4,254
Supplies	2,000	2,000	919	1,081
Furniture, equipment under \$1,000	30,000	15,000	12,467	2,533
Computer equipment	10,000	7,500	7,260	240
Motor vehicles	15,000	14,000	13,614	386
Furniture, equipment over \$1,000	-	-	4,017	(4,017)
Improvements other than buildings	15,000	18,575	12,825	5,750
Remodeling/renovation	65,000	50,000	44,324	5,676
Total expenditures	184,553	151,234	135,217	16,017
Net change in fund balance	(34,553)	(57,251)	(41,234)	16,017
Fund balance at July 1, 2016	76,339	76,339	76,339	-
Fund balance at June 30, 2017	\$ 41,786	\$ 19,088	\$ 35,105	\$ 16,017

See notes to required supplemental information.

Okaloosa Academy, Inc.
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
For the year ended June 30, 2017

NOTE A – BUDGETARY INFORMATION

The School's budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual budgets are adopted for all governmental fund activities and may be amended by the School's Board of Directors ("Board"). The budgets presented for the fiscal year ended June 30, 2017, have been amended according to Board procedures.

Budgets are presented on the modified accrual basis of accounting. The legal level of budgetary control is the fund level.

COMPLIANCE INFORMATION

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Okaloosa Academy, Inc.
Fort Walton Beach, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Okaloosa Academy, Inc. (the "School"), a component unit of the Okaloosa County School District, Florida, as of and for the year ended June 30, 2017 and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated August 30, 2017.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements, on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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 that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

McDonough CPA Solutions, PA

August 30, 2017
Melbourne, Florida

MANAGEMENT LETTER

To the Board of Directors
Okaloosa Academy, Inc.
Fort Walton Beach, Florida

Report on the Financial Statements

We have audited the financial statements of Okaloosa Academy, Inc., a component unit of the Okaloosa County School District, Florida, as of and for the fiscal year ended June 30, 2017, and have issued our report thereon dated August 30, 2017.

Auditor's Responsibility

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

Other Reports and Schedules

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards. Disclosures in that report, which are dated August 30, 2017, should be considered in conjunction with this management letter.

Prior Audit Findings

Section 10.85(1)(e)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. In connection with our audit, the School did not have prior year findings.

Official Title

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

Financial Condition

Sections 10.854(1)(e)2., Rules of the Auditor General, requires that we report the results of our determination as to whether or not the School has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the School did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

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

Transparency

Sections 10.854(1)(e)7 and 10.855(13), Rules of the Auditor General, requires that we report the results of our determination as to whether the School maintains on its Web site the information specified in Section 1002.33(9)(p), Florida Statutes. In connection with our audit, we determined that the School maintained on its Web site the information specified in Section 1002.33(9)(p), Florida Statutes.

Other Matters

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

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

Purpose of this Letter

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

McDonough CPA Solutions, PA

August 30, 2017
Melbourne, Florida

MANAGEMENT FINDINGS, RECOMMENDATIONS AND RESPONSES

For the year ended June 30, 2017, there were no findings, recommendations or other matters.