

**MARCO ISLAND CHARTER MIDDLE SCHOOL, INC.**

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

**Financial Statements  
with Independent Auditors' Reports Thereon**

**June 30, 2016**



**M<sup>c</sup>CRADY | HESS**  
CERTIFIED PUBLIC ACCOUNTANTS

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# MARCO ISLAND CHARTER MIDDLE SCHOOL, INC.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Marco Island Charter Middle School, Inc. (the "School") offers the following narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2016. Readers are encouraged to use this information in conjunction with information furnished in the School's financial statements. This summary should not be taken as a replacement for the audit, which consists of the basic financial statements and other supplemental information.

### FINANCIAL HIGHLIGHTS

- ❖ For the fiscal year ended June 30, 2016, the School's revenues exceeded expenses by approximately \$3,000.
- ❖ As of June 30, 2016, the School's net position was \$705,819 an increase of approximately \$83,000.

### 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 consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The basic financial statements present two different views of the School through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the understanding of the financial condition of the School. This document also includes the Report of Independent Auditors 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*, as well as the management letter required by the Rules of the Auditor General, Chapter 10.850, *Audits of Charter Schools and Similar Entities*.

#### Government-wide Financial Statements

The government-wide financial statements are designed to provide a broad overview of the School's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the School's financial status as a whole.

The two government-wide statements report the School's net position and the current year changes. Net position is the difference between the School's total assets and total liabilities. Measuring the net position is one way to evaluate the School's financial condition.

The government-wide statements are divided into three categories: 1) governmental activities, 2) business-type activities, and 3) component units. The governmental activities include the School's basic services. The business-type activities are those services that the School charges for that are not directly related to the School's mission. For the year ended June 30, 2016, the School had no business-type activities or component units.

## **Fund Financial Statements**

The fund financial statements provide a more detailed look at the School's most significant activities. A fund is a grouping of related accounts used to maintain control over resources segregated for specific activities or objectives. All of the operations of the School are presented in a governmental funds only.

Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. The School's basic services are accounted for in governmental funds. These funds focus on how assets that can readily be converted into cash flow in and out, and what monies are left at year-end will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting*. This method also has a current financial resources focus. As a result, the governmental fund financial statements provide a detailed short-term view of the financial resources available to finance the School's programs. The relationship between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The School adopts an annual budget for its general fund, as required by the Florida Statutes. The budget is legally adopted by management of the School and its Board. A Budgetary Comparison Schedule has been included as part of the required supplementary information. The budgetary comparison schedule shows four columns: 1) the original budget as adopted by the Board, 2) the final budget as amended by the Board, 3) the actual resources, charges and ending balances in the general fund, and 4) the variance between the final budget and the actual resources and charges.

## **Notes to Financial Statements**

The notes to financial statements provide additional information essential to the full understanding of the information reported in the government-wide and fund financial statements. The notes to the financial statements start on page 15 of this report.

## **Other Reports**

This report also includes the Report of Independent Auditors 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*, as well as the management letter required by the Rules of the Auditor General, Chapter 10.850, *Audits of Charter Schools and Similar Entities*.

## GOVERNMENT-WIDE ANALYSIS OF THE SCHOOL

### Net Position

The School's combined net position as of June 30, 2016 and 2015 is summarized as follows:

	Governmental Activities		Increase (Decrease)
	<u>2016</u>	<u>2015</u>	
Current and other assets	\$ 1,748,336	\$ 1,773,041	\$ (24,705)
Capital assets, net	<u>118,627</u>	<u>144,357</u>	<u>(25,730)</u>
Total assets	<u>1,866,963</u>	<u>1,917,398</u>	<u>(50,435)</u>
Deferred outflows of resources	<u>460,932</u>	<u>209,218</u>	<u>251,714</u>
Current and other liabilities	149,542	80,250	69,292
Pension liability	<u>1,172,365</u>	<u>875,035</u>	<u>297,330</u>
Total liabilities	<u>1,321,907</u>	<u>955,285</u>	<u>366,622</u>
Deferred inflows of resources	<u>352,821</u>	<u>435,042</u>	<u>(82,221)</u>
Net assets:			
Invested in capital assets, net of related debt	118,627	144,357	(25,730)
Restricted	105,214	154,642	(49,428)
Unrestricted	<u>429,326</u>	<u>437,290</u>	<u>(7,964)</u>
Total net position	\$ <u>653,167</u>	\$ <u>736,289</u>	\$ <u>(83,122)</u>

Current and other assets slightly decreased due to timing of payments and current year depreciation expense. Other liabilities increased due to the accrual of payroll in the current year.

## Change in Net Position

The School's total revenues exceeded total expenses by approximately \$3,000 in fiscal 2016—see table below.

	<u>Governmental Activities</u>		<u>Increase</u>
	<u>2016</u>	<u>2015</u>	<u>(Decrease)</u>
Revenues:			
State and local sources	\$ 2,977,454	\$ 2,976,581	\$ 873
Contributions and other revenue	<u>326,603</u>	<u>299,512</u>	<u>27,091</u>
Total revenues	<u>3,304,057</u>	<u>3,276,093</u>	<u>27,964</u>
Expenses:			
Instruction	1,909,775	1,899,672	10,103
Board	15,847	17,210	(1,363)
General administration	33,854	32,893	961
School administration	845,231	792,626	52,605
Pupil transportation	141,260	199,229	(57,969)
Operation of plant	<u>355,255</u>	<u>373,732</u>	<u>(18,477)</u>
Total expenses	<u>3,301,222</u>	<u>3,315,362</u>	<u>(14,140)</u>
Change in net position	<u>\$ 2,835</u>	<u>\$ (39,269)</u>	<u>\$ 42,104</u>

Revenues from state and local sources remained consistent with prior year. Contributions and other revenue increased due to more donations and community partners.

Total expenses decreased primarily due to decrease in transportation expenses and a decrease in operation in plant.

## FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

The focus of School's governmental funds is to provide information on near term inflows, outflows, and balances of usable resources. Such information is useful in assessing School's financing requirements. Specifically, unassigned fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

As the School completed the year, its governmental fund reported a combined fund balance of \$1,598,794 which was an decrease from the prior year as a result relating to a payroll accrual.

### General Fund Budgetary Highlights

For the year ended June 30, 2016, actual revenues exceeded budgeted amounts by approximately \$59,000 due to contributions exceeding amounts anticipated. Actual expenditures were approximately \$67,000 more than budgeted.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At the end of fiscal 2016, the School's investment in capital assets was \$118,627, net of accumulated depreciation of \$395,465.

As of June 30, 2016 and 2015 information regarding the School's capital assets is as follows:

	Governmental Activities		Increase (Decrease)
	2016	2015	
Land improvements	\$ 32,374	\$ 32,374	\$ -
Furniture, fixtures, and equipment	431,718	451,040	(19,322)
Vehicles	50,000	50,000	-
Total capital assets	\$ 514,092	\$ 533,414	\$ (19,322)

Current year's major capital asset additions included the following:

- Musical instruments - \$2,450
- Computers - \$2,445

Current year's disposals included the following:

- Copiers - \$25,501

More detailed information about the School's capital assets is presented in Note 3 to the financial statements.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

### **Budget Highlights for the Fiscal Year Ending June 30, 2017**

Amounts available for appropriation in the general fund are expected to be approximately \$3.21 million.

Budgeted expenditures are expected to decrease to approximately \$3.21 million from the fiscal 2016 actual amount due to a decrease of administrative costs and operation of plant expenditures. If these estimates are realized, the School's general fund balance is expected to remain consistent at the end of fiscal 2017.

### **CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT**

This financial report is designed to provide interested parties with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. Should additional information be required, please contact the School's administrative offices at 1401 Trinidad Avenue, Marco Island, FL 34145.



**M<sup>c</sup>CRADY | HESS**  
CERTIFIED PUBLIC ACCOUNTANTS

## **Report of Independent Auditors on Basic Financial Statements and Supplementary Information**

To the Board of Directors of Marco Island Charter Middle School, Inc.  
A Charter School and Component Unit of the District  
School Board of Collier County, Florida

We have audited the accompanying financial statements of the governmental activities and the major fund of Marco Island Charter Middle School, Inc. (the "School"), a Charter School and Component Unit of the District School Board of Collier County, Florida as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the School, as of June 30, 2016, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 1-6 and 35-37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated August 18, 2016, on our consideration of the 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* in considering the School's internal control over financial reporting and compliance.

*MC CRADY HESS*

Orlando, Florida  
August 18, 2016

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**MARCO ISLAND CHARTER MIDDLE SCHOOL, INC.**

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

**Statement of Net Position**

**June 30, 2016**

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 358,196
Certificate of deposits	1,261,116
Other receivables	75,010
Other assets	54,014
Capital assets:	
Furniture, fixtures and equipment	431,718
Land improvements	32,374
Vehicles	50,000
Less accumulated depreciation	(395,465)
Total capital assets, net	<u>118,627</u>
Total assets	<u>1,866,963</u>
<b>DEFERRED OUTFLOW OF RESOURCES</b>	
Amount deferred on pension liability	<u>460,932</u>
<b>LIABILITIES</b>	
Accounts payable and accrued expenses	135,417
Other current liability	14,125
Long-term liabilities:	
Pension liability	<u>1,172,365</u>
Total liabilities	<u>1,321,907</u>
<b>DEFERRED INFLOW OF RESOURCES</b>	
Amount deferred on pension liability	<u>352,821</u>
<b>NET POSITION</b>	
Invested in capital assets, net of related debt	118,627
Restricted for:	
Capital projects	55,214
Student activity fund	50,000
Unrestricted	<u>429,326</u>
Total net position	<u>\$ 653,167</u>

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

**MARCO ISLAND CHARTER MIDDLE SCHOOL, INC.**

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

**Statement of Activities**

**For the Year Ended June 30, 2016**

	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Total
Governmental Activities:						
Instruction	\$ 1,909,775	\$ -	\$ -	\$ -	\$ (1,909,775)	\$ (1,909,775)
Board	15,847	-	-	-	(15,847)	(15,847)
General administration	33,854	-	-	-	(33,854)	(33,854)
School administration	845,231	-	-	-	(845,231)	(845,231)
Pupil transportation	141,260	-	-	-	(141,260)	(141,260)
Operation of plant	355,255	-	-	-	(355,255)	(355,255)
Total primary government	<u>\$ 3,301,222</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(3,301,222)</u>	<u>(3,301,222)</u>
General revenues:						
State and local sources					2,977,454	2,977,454
Contributions and other revenue					326,603	326,603
Total general revenue					<u>3,304,057</u>	<u>3,304,057</u>
Changes in net position					<u>2,835</u>	<u>2,835</u>
Net position at beginning of year, as previously reported					736,288	736,288
Adjustment to beginning net position					<u>(85,956)</u>	<u>(85,956)</u>
Net position at beginning of year, as restated					<u>650,332</u>	<u>650,332</u>
Net position at end of year					<u>\$ 653,167</u>	<u>\$ 653,167</u>

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

**MARCO ISLAND CHARTER MIDDLE SCHOOL, INC.**

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

**Balance Sheet - Governmental Fund**

**June 30, 2016**

	<b>General Fund</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 358,196
Certificate of deposits	1,261,116
Other receivables	75,010
Other assets	54,014
Total assets	<u>\$ 1,748,336</u>
<b>LIABILITIES</b>	
Accounts payable and accrued expenses	\$ 135,417
Other current liabilities	14,125
Total liabilities	<u>149,542</u>
<b>FUND BALANCE</b>	
Nonspendable:	
Prepaid expenses	34,014
Other real estate assets	20,000
Restricted:	
Capital projects	55,214
Student activity fund	50,000
Spendable:	
Unassigned	1,439,566
Total fund balance	<u>1,598,794</u>
Total liabilities and fund balance	<u>\$ 1,748,336</u>

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

**MARCO ISLAND CHARTER MIDDLE SCHOOL, INC.**

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

**Reconciliation of the Governmental Fund Balance Sheet  
to the Statement of Net Position**

**June 30, 2016**

**Total fund balance - general fund** **\$ 1,598,794**

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the general fund. The cost of the assets are \$514,092, and the accumulated depreciation is \$395,465. 118,627

Long-term liabilities are not due and payable in the current period and therefore are not reported in the general fund:  
    Pension liability (1,172,365)

Net deferred amounts are reported in the Statement of Net Position as deferred outflows or deferred inflows of resources but are not reported in the general fund. 108,111

**Total net position - governmental activities** **\$ 653,167**

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

**MARCO ISLAND CHARTER MIDDLE SCHOOL, INC.**

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

**Statement of Revenues, Expenditures and  
Changes in Fund Balances of Governmental Fund**

**For the Year Ended June 30, 2016**

	<b>General Fund</b>
<b>REVENUES</b>	
State and local sources	\$ 2,977,454
Contributions and other revenue	326,603
Total revenues	<u>3,304,057</u>
<b>EXPENDITURES</b>	
Current:	
Instruction	1,890,764
Board	52,453
General administration	33,854
School administration	837,333
Pupil transportation	136,260
Operation of plant	355,255
Capital outlay	6,179
Total expenditures	<u>3,312,098</u>
Net changes in fund balance	<u>(8,041)</u>
Fund balance at beginning of year, as previously reported	1,692,791
Adjustment to beginning fund balance	(85,956)
Fund balance at beginning of year, as restated	<u>1,606,835</u>
Fund balance at end of year	<u><u>\$ 1,598,794</u></u>

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

**MARCO ISLAND CHARTER MIDDLE SCHOOL, INC.**

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

**Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balance of Governmental Fund  
to the Statement of Activities**

**For the Year Ended June 30, 2016**

<b>Net changes in fund balance - general fund</b>	<b>\$ (8,041)</b>
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>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 and reported as depreciation expense. This is the amount by which depreciation expense (\$31,909) exceeds capital outlays (\$6,179) in the current period.</p>	(25,730)
<p>In the Statement of Activities, some revenues and expenses are recognized that do not provide current financial resources and are not recognized in the governmental funds, such as deferred inflows and outflows of resources.</p>	<u>36,606</u>
<b>Change in net position of governmental activities</b>	<u><u>\$ 2,835</u></u>

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

# MARCO ISLAND CHARTER MIDDLE SCHOOL, INC.

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

### Notes to Financial Statements

For the Year Ended June 30, 2016

#### 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Organization

Marco Island Charter Middle School, Inc. (the "School") is a not-for-profit corporation organized pursuant to Chapter 617, Florida Statutes and the Florida Not-for-Profit Corporation Act. The governing body of the School is the not-for-profit corporation Board of Directors (the "Board"), which is composed of eight members.

The general operating authority of the School is contained in Section 1002.33, Florida Statutes. The School operates under a charter of the sponsoring school district, the District School Board of Collier County, Florida (the "School Board"). The School is considered a component unit of the School Board and meets the definition of a governmental entity under the Governmental Accounting Standards Board ("GASB").

##### Charter Contract

The School operates under a charter granted by the School Board. The current charter expires on June 30, 2026 and may be renewed for a maximum of an additional fifteen years, unless a longer term is required by law, by mutual written agreement between the School and the School Board. Upon the expiration of the charter, the School Board may elect not to renew the charter under grounds specified in the charter. However, the School Board may terminate the current charter at any time if good cause is shown. In the event of termination of the charter, any property purchased by the School with public funds and any unencumbered public funds revert to the School Board.

##### Basis of Presentation

Based on the guidance provided in the American Institute of Certified Public Accountants Audit and Accounting Guide – *Audits for States and Local Governments* and provisions in the Florida Statutes, the School is considered a governmental organization for financial statement reporting purposes. The School is required by its agreement with the School Board to use the governmental reporting model and follow the fund and accounting structure provided in the "Financial and Program Cost Accounting and Reporting for Florida Schools – The Red Book" issued by the Florida Department of Education ("FDOE").

# MARCO ISLAND CHARTER MIDDLE SCHOOL, INC.

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

### Notes to Financial Statements

For the Year Ended June 30, 2016

#### Government-wide Financial Statements

The government-wide financial statements provide both short-term and long-term information about the School in a manner similar to a private-sector business. The statement of net position and statement of activities are designed to provide financial information about the School as a whole on an accrual basis of accounting. The statement of net position provides information about the School's financial position, its assets and its liabilities, using an economic resources measurement focus.

The statement of activities presents a comparison between direct expenses and program revenue for each function or program of the School's governmental activities. Direct expenses are those specifically associated with a program or function, therefore, are clearly identifiable to a particular function.

Program revenues include charges paid by the recipient of goods and services offered by the program and grants and contributions that are restricted for meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues.

#### Fund Financial Statements

The governmental fund financial statements report detailed information about the School's most significant funds, not the School as a whole. A fund is a group of related accounts 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 requirements. Certain funds are established by law while others are created by grant agreements. The following are major individual governmental funds reported in the fund financial statements:

- General Fund – the School's primary operating fund that accounts for all financial resources of the School, except those that are required to be accounted for in another fund.

For the purpose of these statements, the general is considered the major fund.

# MARCO ISLAND CHARTER MIDDLE SCHOOL, INC.

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

### Notes to Financial Statements

For the Year Ended June 30, 2016

#### **Basis of Accounting**

Basis of accounting refers to when revenues and expenses/expenditures 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 reported using the accrual basis of accounting. Revenues are recognized when earned and expenses/expenditures are recognized when a liability is incurred, regardless of the timing the related cash flows take place.

The governmental fund financial statements are reported using the modified accrual basis of accounting. Under this method, revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues are considered to be available when they are collectable within a current period. The School considers revenues to be available if they are collected within 60 days after the end of the current fiscal year. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, and compensated absences, which are recognized when due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds from the acquisition of long-term debt are reported as other financing sources.

#### **Budgetary Basis Accounting**

Budgets are prepared using the modified accrual basis of accounting and the governing board must approve all budgets and amendments. During the fiscal year, expenditures were controlled at the object level. Budgets may be amended by resolution of the Board prior to the date of the annual report.

#### **Recently Issued Accounting Principles**

In February 2015, the GASB issued Statement 72, *Fair Value Measurement and Application*. GASB 72 provides guidance for accounting and financial reporting issues related to fair value measurements. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurement. The provisions of the Statement are effective for financial statements for periods beginning after June 15, 2016.

#### **Use of Estimates**

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

**MARCO ISLAND CHARTER MIDDLE SCHOOL, INC.**

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

**Notes to Financial Statements**

**For the Year Ended June 30, 2016**

**Prior Period Adjustment**

The beginning net position of the School was decreased by \$85,956 due to a prior period adjustment relating to a payroll accrual not being recorded correctly in a prior period.

**Cash and Cash Equivalents**

The School's cash consists of demand deposits, certificates of deposits and money market accounts with financial institutions.

As Florida Statutes and the School's policy require, all deposits must be made into and held by financial institutions designated by the treasurer of the State of Florida as qualified public depositories as defined by Chapter 280 of the Florida Statutes. This statute requires that every qualified public depository institution maintain eligible collateral to secure the public entity's funds. The minimum collateral to be pledged by the institution, the collateral eligible for pledge, and reporting requirements of the qualified public depositor to the treasurer is defined by the ability of the institution to guarantee deposits made by members of the pool should the need arise. The School also has deposits in institutions that are not qualified public depositories. These funds are fully insured by the FDIC as they fall under the mandatory insurance limits.

**Other Receivables**

The School's receivables consist of a refund of unused claims liability described in Note 7.

**Capital Assets and Depreciation**

The School's capital assets with useful lives of more than one year are stated at historical cost and reported in the statement of net position in the government-wide financial statements. Donated capital assets are recorded at their estimated fair value on the date donated. The School capitalizes assets with a cost of \$750 or more. Expenditures of normal maintenance and repair that do not add to the asset value or extend the useful life are not capitalized. Depreciation is computed using the straight-line method. Estimated useful lives of the assets are as follows:

	<u>Years</u>
Furniture, fixtures, and equipment	5
Land improvements	10
Vehicles	10

Information related to the change in capital assets is described in Note 3.

# MARCO ISLAND CHARTER MIDDLE SCHOOL, INC.

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

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For the Year Ended June 30, 2016

#### Pensions

In the government-wide statement of net position, liabilities are recognized for the School's proportionate share of each pension plan's net pension liability. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Florida Retirement System (FRS) defined benefit plan and the Health Insurance Subsidy (HIS) defined benefit plan and additions to/deductions from the FRS's and the HIS's fiduciary net position have been determined on the same basis as they are reported by the FRS and the HIS plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

The School's retirement plans and related amounts are described in a subsequent note.

#### Net Position and Fund Balance Classifications

##### *Government-wide financial statements*

The net position is classified and reported in three components:

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

##### *Fund financial statements*

GASB Codification Section 1800.142, *Fund Balance Reporting and Governmental Fund Type Definitions*, defines the different types of fund balances that a governmental entity must use for financial reporting purposes. GASB requires the fund balance amounts to be reported within one of the following fund balance categories:

- Nonspendable – fund balance associated with inventories, prepaid expenses, long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed or assigned). All nonspendable fund balances at year end relate to assets that are in nonspendable form.
- Restricted – fund balance that can be spent only for the specific purposes stipulated by the constitution, external resource providers, or through enabling legislation.
- Committed – fund balance that can be used only for the specific purposes determined by a formal action of the School's Board of Governance.

# MARCO ISLAND CHARTER MIDDLE SCHOOL, INC.

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#### For the Year Ended June 30, 2016

- Assigned – fund balance that is intended to be used by the School’s management for specific purposes but does not meet the criteria to be classified as restricted or committed.
- Unassigned – fund balance that is the residual amount for the School’s general fund and includes all spendable amounts not contained in the other classifications.

This statement also clarifies the definition of the special revenue fund to denote it may be used to account for the proceeds of specific revenue sources (other than trusts for individual, private organizations or other governmental agencies or for major capital projects) legally restricted to expenditures for specified purposes.

#### **Order of Fund Balance Spending Policy**

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

#### **Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The school has one item that qualifies for reporting in this category which is the deferred amount on pension reported in the government-wide statement of net position. The deferred outflows of resources related to pensions are discussed in a subsequent note.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The School has one item, which arise only under a modified accrual basis of accounting, that qualify for reporting in this category, which is the deferred amount on pension reported in the government-wide statement of net position. A deferred amount on pension results from the difference in the expected and actual amounts of experience, earnings and contributions. This amount is deferred and amortized over the service life of all employees that are provide with pensions through the pension plan except earnings which are amortized over 5 years.

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### Notes to Financial Statements

For the Year Ended June 30, 2016

#### Revenue Sources

Revenues for operations are received primarily from the School Board pursuant to the funding provisions included in the School's charter. In accordance with the funding provisions of the charter and Section 1002.33, Florida Statutes, the School reports the number of full-time equivalent (FTE) students and related data to the School Board. The School Board receives a 2% administrative fee from the School, which is withheld from the respective Florida Education Finance Program ("FEFP") payments. The administrative fee is 2% opposed to 5% because the school is considered a high performing school. The administrative expense is reflected as a general administration expense/expenditure in the accompanying statement of activities and statement of revenues, expenditures and changes in fund balances – governmental fund. The administrative fee is calculated on the FEFP revenue up to 250 students.

Under provisions of Section 1011.62, Florida Statutes, the District reports the number of students and related data to the Florida Department of Education (FDOE) for funding through the FEFP. Funding for the School is adjusted during the year to reflect the revised calculations by the FDOE under the FEFP and the actual weighted full-time equivalent students reported by the School during the designated full-time equivalent student survey period. The FDOE may also adjust subsequent fiscal period allocations based on an audit of the School's compliance in determining and reporting FTE and related data. Generally, such adjustments are treated as reductions or additions of revenues in the year when the adjustments are made.

The basic amount of funding through the FEFP under Section 1011.62 is calculated based on (1) unweighted FTE, multiplied by (2) the cost factor for each program multiplied by (3) the base student allocation established by the Florida legislature. Additional funds for exceptional students who do not have a matrix of services are provided through the guaranteed allocation designated in Section 1011.62(1)(e)2., Florida Statutes. For the year ended June 30, 2016, the School reported 432.63 unweighted FTE.

## 2 FAIR VALUE MEASUREMENTS

Accounting principles generally accepted in the United States (GAAP) define fair value for an investment generally as the price an organization would receive upon selling the investment in an orderly transaction to an independent buyer in the principal or most advantageous market for the investment. The information available to measure fair value varies depending on the nature of each investment and its market or markets. Accordingly, GAAP recognizes a hierarchy of "inputs" an organization may use in determining or estimating fair value. The inputs are categorized into "levels" that relate to the extent to which an input is objectively observable and the extent to which markets exist for identical or comparable investments. In determining or estimating fair value, an organization is required to maximize the use of observable market data (to the extent available) and minimize the use of unobservable inputs. The hierarchy assigns the highest priority to unadjusted quoted prices in active markets for identical items (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs).

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#### For the Year Ended June 30, 2016

The fair value hierarchy distinguishes between independent observable inputs and unobservable inputs used to measure fair value as follows:

*Level 1:* Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

*Level 2:* Inputs other than quoted market prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.

*Level 3:* Unobservable inputs for an asset or liability. Level 3 inputs should be used to measure fair value to the extent that observable level 1 or 2 inputs are not available.

The estimated fair value of the School's pension liability and related deferred outflows and inflows determined using Level 3 inputs is based on information provided by the Auditor General. The estimated fair value of the School's pensions and related deferred outflows and inflows using Level 3 inputs is determined by calculating the present value of the future distributions expected to be paid, using published life expectancy tables and discount rates ranging from approximately 2% to 4.3%. There were no changes in valuation techniques during the year.

The carrying values of cash and cash equivalents, cash restricted for long-term purposes, and the note payable do not differ materially from reasonable estimates of fair value, as the terms of such instruments do not vary significantly from the assumptions that would be made in estimating fair value.

Estimated fair value of certain assets and (liabilities) measured on a recurring basis at June 30, 2016, are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Deferred outflows related to pension liability	\$ -	\$ -	\$ 460,932	\$ 460,932
Pension liability	-	-	(1,172,365)	(1,172,365)
Deferred inflows related to pension liability	-	-	(352,821)	(352,821)
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,064,254)</u>	<u>\$ (1,064,254)</u>

**MARCO ISLAND CHARTER MIDDLE SCHOOL, INC.**

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**Notes to Financial Statements**

**For the Year Ended June 30, 2016**

**3 SCHOOL FACILITY AND CAPITAL ASSETS**

The School Board completed the construction of a permanent School facility as of June 30, 2007. The School Board also purchased the related capital assets, including but not limited to student desks, workstations, audio visual equipment and lockers, which will remain the property of the School Board. The School Board retains the title to the school building and facility. No rental or leasing fee is being charged by the School Board to the School. Administrators of the School and School Board believe that considerable uncertainty exists regarding the valuation of facilities utilized by the School. Consequently, the financial statements reflect no such charges of expense.

In management's opinion, the value of facilities utilized by the School is significant; therefore, any substantial changes in this arrangement with the School Board could have a material effect on the School's operations.

Capital asset activity during the year ended June 30, 2016 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Capital assets:</b>				
Furniture, fixtures and equipment	\$ 451,040	\$ 6,179	\$ (25,501)	\$ 431,718
Land improvements	32,374	-	-	32,374
Vehicles	50,000	-	-	50,000
Total capital assets	<u>533,414</u>	<u>6,179</u>	<u>(25,501)</u>	<u>514,092</u>
 <b>Accumulated Depreciation</b>				
Furniture, fixtures and equipment	(354,160)	(26,909)	25,501	(355,568)
Land improvements	(28,230)	-	-	(28,230)
Vehicles	<u>(6,667)</u>	<u>(5,000)</u>	-	<u>(11,667)</u>
Total accumulated depreciation	<u>(389,057)</u>	<u>(31,909)</u>	25,501	<u>(395,465)</u>
Capital assets, net	<u>\$ 144,357</u>	<u>\$ (25,730)</u>	<u>\$ -</u>	<u>\$ 118,627</u>

Governmental activities:

Instructional	\$ 19,011
School administration	7,898
Pupil transportation	<u>5,000</u>
Total governmental activities depreciation expense	<u>\$ 31,909</u>

# MARCO ISLAND CHARTER MIDDLE SCHOOL, INC.

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### Notes to Financial Statements

For the Year Ended June 30, 2016

#### 4 RETIREMENT PLANS

##### Florida Retirement System (FRS) – Defined Benefit Pension Plans

###### General Information about the FRS

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

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

###### FRS Pension Plan

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

- Regular Class – Members of the FRS who do not qualify for membership in the other classes.
- Elected County Officers Class – Members who hold specified elective offices in local government.
- Senior Management Service Class (SMSC) – Members in senior management level positions.

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All employees of the school are members of the regular class. Employees enrolled in the Plan prior to July 1, 2011, vest at six years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at eight years of creditable service. All vested members, enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of service. All members enrolled in the Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 65 or any time after 33 years of creditable service. Members of the Plan may include up to 4 years of credit for military service toward creditable 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, death benefits, and annual cost-of-living adjustments to eligible participants.

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. The net pension liability does not include amounts for DROP participants, as these members are considered retired and are not accruing additional pension benefits.

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

<b><u>Class, Initial Enrollment, and Retirement Age/Years of Services</u></b>	<b><u>% Value</u></b>
<b>Regular Class members initially enrolled before July 1, 2011</b>	
Retirement up to age 62 or up to 30 years of service	1.60
Retirement at age 63 or with 31 years if service	1.63
Retirement at age 64 or with 32 years if service	1.65
Retirement at age 65 or with 33 or more years if service	1.68
<b>Regular Class members initially enrolled after July 1, 2011</b>	
Retirement up to age 65 or up to 33 years of service	1.60
Retirement at age 66 or with 34 years if service	1.63
Retirement at age 67 or with 35 years if service	1.65
Retirement at age 68 or with 36 or more years if service	1.68

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

Contributions-The Florida Legislature establishes contribution rates for participating employers and employees. Contribution rates during the 2015-16 fiscal year were as follows:

<u>Class</u>	<u>Percent of Gross Salary</u>	
	<u>Employee</u>	<u>Employer (1)</u>
FRS, Regular	3.00	7.26
DROP-Applicable to Members from All of the Above Classes	0.00	12.28
FRS, Reemployed Retiree	(2)	(2)

- Notes: (1) Employer rates include 1.26 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.04 percent for administrative costs of the Investment Plan.  
(2) Contribution rates are dependent upon retirement class in which reemployed

The School's contributions, including employee contributions, to the Plan totaled \$145,734 for the fiscal year ended June 30, 2016. This excludes the HIS defined benefit pension plan contributions.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2016, the School reported a liability of \$518,315 for its proportionate share of the Plan's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015. The School's proportionate share of the net pension liability was based on the School's 2014-15 fiscal year contributions relative to the 2013-14 fiscal year contributions of all participating members.

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For the fiscal year ended June 30, 2016, the School recognized pension expense of \$34,474 related to the Plan. In addition, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 54,719	\$ 12,293
Change of assumptions	34,402	-
Net difference between projected and actual earnings on FRS pension plan investments	182,565	306,330
Changes in proportion and differences between school FRS contributions and proportionate share of contributions	-	13,261
School FRS contributions subsequent to the measurement date	87,714	-
Total	<u>\$ 359,400</u>	<u>\$ 331,884</u>

The deferred outflows of resources related to pensions, totaling \$97,837, resulting from School contributions to the Plan subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

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

Inflation	2.60 percent
Salary Increases	3.25 percent, average, including inflation
Investment rate of return	7.65 percent, net of pension plan investment expense including inflation

Mortality rates were based on the Generational RP-2000 with Projection Scale BB.

The actuarial assumptions used in the July 1, 2015, valuation were based on the results of an actuarial experience study for the period July 1, 2008, through June 30, 2013.

The long-term expected rate of return on pension plan investments was not based on historical returns, but instead is based on a forward-looking capital market economic model. The

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allocation policy's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes an adjustment for the inflation assumption. The target allocation and best estimates of arithmetic and geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Annual Arithmetic Return	Compound Annual Geometric Return	Standard Deviation
Cash	1.00%	3.2%	3.1%	1.7%
Fixed income	18.00%	4.8%	4.7%	4.7%
Global Equity	53.00%	8.5%	7.2%	17.7%
Real Estate (Property)	10.00%	6.8%	6.2%	12.0%
Private Equity	6.00%	11.9%	8.2%	30.0%
Strategic investments	12.00%	6.7%	6.1%	11.4%
Total	100.00%			
Assumed Inflation Mean		2.6%		1.9%

Note: (1) As outlined in the Plan's investment policy

Discount Rate- The discount rate used to measure the total pension liability was 7.65 percent. The Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return.

Sensitivity of the School's Proportionate Share of the Net Position Liability to Changes in the Discount Rate- The following presents the School's proportionate share of the net pension liability using the discount rate of 7.65 percent, as well as what the School's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.65 percent) or 1-percentage-point higher (8.65 percent) than the current rate:

	1% Decrease (6.65%)	Current Discount Rate (7.65%)	1% Increase (8.65%)
School's proportionate share of the net pension liability	\$1,343,071	\$518,315	\$ (168,018)

Pension Plan Fiduciary Net Position- Detailed information about the Plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State Administered Systems Comprehensive Annual Financial Report.

Payables to the Pension Plan- At June 30, 2016, the School reported a payable of \$-0- for the outstanding amount of contributions to the Plan required for the fiscal year ended June 30, 2016.

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**HIS Pension Plan**

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

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

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

The School's contributions to the HIS Plan totaled \$32,104 for the fiscal year ended June 30, 2016.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions- At June 30, 2016, the School reported a net pension liability of \$654,048 for its proportionate share of the HIS Plan's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015. The School's proportionate share of the net pension liability was based on the School's 2014-15 fiscal year contributions relative to the total 2014-15 fiscal year contributions of all participating members. At June 30, 2015, the School's proportionate share was .0064%, which was a decrease of .0003% from its proportionate share measured as of June 30, 2014.

For the fiscal year ended June 30, 2016, the School recognized pension expense of \$48,738 related to the HIS Plan. In addition, the School reported deferred outflows of resources related to pensions from the following sources:

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<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 51,457	\$ -
Change of assumptions	-	-
Net difference between projected and actual earnings on HIS pension plan investments	354	-
Changes in proportion and differences between school HIS contributions and proportionate share of HIS contributions	17,619	20,937
School contributions subsequent to the measurement date	32,104	-
<b>Total</b>	<u>\$ 101,534</u>	<u>\$ 20,937</u>

The deferred outflows of resources related to pensions, totaling \$32,104, resulting from School contributions to the HIS Plan subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

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

Inflation	2.60 percent
Salary	3.25 percent, average, including inflation
Increases	3.08 percent

Mortality rates were based on the Generational RP-2000 with Projected Scale BB.

The actuarial assumptions used in the July 1, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2008, through June 30, 2013.

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Discount Rate- The discount rate used to measure the total pension liability was 4.29 percent. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the HIS Plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable municipal bond index.

Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate- The following presents the School's proportionate share of the net pension liability calculated using the discount rate of 3.8 percent, as well as what the School's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.8 percent) or 1-percentage-point higher (5.29 percent) than the current rate:

	<b>Decrease (2.8%)</b>	<b>Discount Rate (3.8%)</b>	<b>Increase (4.8%)</b>
<b>School's proportionate share of the net pension liability</b>	<b>\$745,258</b>	<b>\$654,048</b>	<b>\$577,994</b>

Pension Plan Fiduciary Net Position- Detailed information about the HIS Plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State Administered Systems Comprehensive Annual Financial Report

Payables to the Pension Plan- At June 30, 2016, the School reported a payable of \$-0- for the outstanding amount of contributions to the HIS Plan required for the fiscal year ended June 30, 2016.

**FRS – Defined Contribution Pension Plan**

The Public Employee Optional Retirement Program (PEORP) is administered by FRS as an option to the defined benefit plan. It is self-directed by the employee. The Employees have the responsibility of selecting how their funds are invested within the approved set of investment choices and may take their funds when they leave FRS. Employer contributions are defined by law, but the ultimate benefit depends in part on the performance of the investment funds. The PEORP is funded by employer contributions that are based on salary and membership class (Regular Class, Special Risk Class, Etc.). The School had no PEORP participants during fiscal year 2016.

The School contributes to the FRS Investment Plan (Investment Plan), a defined contribution pension plan, for its eligible employees electing to participate in the Investment Plan. The Investment Plan is administered by the SBA, and is reported in the SBA's annual financial statements and in the State of Florida Comprehensive Annual Financial Report. Service retirement benefits are based upon the value of the member's account upon retirement.

**MARCO ISLAND CHARTER MIDDLE SCHOOL, INC.**

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

**Notes to Financial Statements**

**For the Year Ended June 30, 2016**

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined-benefit plan. School employees participating in DROP are not eligible to participate in the Investment Plan. Employer and employee contributions, including amounts contributed to individual member's accounts, are defined by law, but the ultimate benefit depends in part on the performance of investment funds. Benefit terms, including contribution requirements, for the Investment Plan are established and may be amended by the Florida Legislature. The Investment Plan is funded with the same employer and employee contribution rates that are based on salary and membership class (Regular Class, Elected County Officers, etc.), as the FRS defined benefit plan. Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Allocations to the investment member's accounts during the 2015-16 fiscal year were as follows:

<u>Class</u>	<u>Percent of Gross Compensation</u>
FRS, Regular	6.30
FRS, Senior Management Service	7.67

For all membership classes, employees are immediately vested in their own contributions and are vested after one year of service for employer contributions and investment earnings. If an accumulated benefit obligation for service credit originally earned under the FRS Pension Plan is transferred to the Investment Plan, the member must have the years of service required for FRS Pension Plan vesting (including the service credit represented by the transferred funds) to be vested for these funds and the earnings on the funds. Nonvested employer contributions are placed in a suspense account for up to five years. If the employee returns to FRS-covered employment within the five year period, the employee will regain control over their account. If the employee does not return within the five year period, the employee will forfeit the accumulated account balance. Costs of administering the Investment Plan, including the FRS Financial Guidance Program, are funded through an employer contribution of 0.04 percent of payroll and by forfeited benefits of Investment Plan members. For the fiscal year ended June 30, 2016, the information for the amount of forfeitures was unavailable from the SBA; however, management believes that these amounts, if any, would be immaterial to the School.

After termination and applying to receive benefits, the member may rollover vested funds to another qualified plan, structure a periodic payment under the Investment Plan, receive a lump-sum distribution, leave the funds invested for future distribution, or any combination of these options. Disability coverage is provided; the member may either transfer the account balance to the FRS Pension Plan when approved for disability retirement to receive guaranteed lifetime monthly benefits under the FRS Pension Plan, or remain in the Investment Plan and rely upon that account balance for retirement income.

The School's Investment Plan pension expense totaled \$0 for the fiscal year ended June 30, 2016.

**MARCO ISLAND CHARTER MIDDLE SCHOOL, INC.**

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

**Notes to Financial Statements**

**For the Year Ended June 30, 2016**

**5 SCHEDULE OF STATE AND LOCAL REVENUE SOURCES**

District School Board of Collier County, Florida:

Florida Education Finance Program	\$ 1,846,913
Discretionary local funds	466,276
Class size reduction	398,523
Supplemental academic instruction	84,844
ESE guaranteed allocation	78,700
School recognition	42,196
Instructional materials	33,305
Reading allocation	18,875
Safe schools	7,113
Teacher lead	5,750
Proration to funds available	(5,041)
Total	<u>\$ 2,977,454</u>

The administrative fee paid to the School Board during the year ended June 30, 2016 totaled approximately \$33,900, which is reflected as a general administration expense in the accompanying statement of activities and statement of revenues, expenditures and changes in fund balance – governmental fund.

**6 RISK MANAGEMENT PROGRAM**

Workers' compensation coverage, health and hospitalization, general liability, professional liability and property coverage are being provided through purchased commercial insurance with minimum deductibles for each line of coverage. Settled claims resulting from these risks have not historically exceeded commercial coverage.

**7 COMMITMENTS AND CONTINGENT LIABILITIES**

**Grants**

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

**MARCO ISLAND CHARTER MIDDLE SCHOOL, INC.**

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

**Notes to Financial Statements**

**For the Year Ended June 30, 2016**

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

**Unused Claim Liability**

The School has a self insured group health care plan which is funded on a monthly basis. At June 30, 2016, the School has unused claimed funds in the amount of approximately \$75,000 which is reflected as a receivable, which is generally paid to the school approximately six months after year end. However, any future amounts owed by the School are not able to be estimated. Additionally, no amounts above the monthly premiums were incurred in the previous fiscal year.

**Legal Matters**

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

**8 INCOME TAXES**

The School qualifies as a tax-exempt organization under Internal Revenue Code Section 501(c)(3), and is therefore, exempt from income taxes. Accordingly, no tax provision has been made in the accompanying financial statements. Additionally, the school has adopted standards that examine any uncertain tax positions that they expect to take in a tax return relating to state income taxes and unrelated business taxable income. The school also assesses its ability to continue as tax exempt and a nonprofit organization for tax purposes. The School's income tax returns for the past three years, 2012, 2013 and 2014, are subject to examination by tax authorities, and may change upon examination.

**9 SUBSEQUENT EVENTS**

In accordance with GASB Codification Section 2250.106, the School has evaluated subsequent events and transactions for potential recognition or disclosure through August 18, 2016, which is the date the financial statements were available to be issued.

**MARCO ISLAND CHARTER MIDDLE SCHOOL, INC.**

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

**Required Supplementary Information**

**Budgetary Comparison Schedule - General Fund**

**For the Year Ended June 30, 2016**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
State and local sources	\$ 3,022,698	\$ 3,022,698	\$ 2,977,454	\$ (45,244)
Contributions and other revenue	222,685	222,685	326,603	103,918
Total revenues	3,245,383	3,245,383	3,304,057	58,674
<b>EXPENDITURES</b>				
Current:				
Instruction	2,015,057	2,015,057	1,890,764	(124,293)
Board	19,150	19,150	52,453	33,303
General administration	33,586	33,586	33,854	268
School administration	742,840	742,840	837,333	94,493
Pupil transportation	110,000	110,000	136,260	26,260
Operation of plant	324,750	324,750	355,255	30,505
Capital outlay	-	-	6,179	6,179
Total expenditures	3,245,383	3,245,383	3,312,098	66,715
Net changes in fund balances	-	-	(8,041)	(8,041)
Fund balance at beginning of year, as previously reported	1,692,791	1,692,791	1,692,791	-
Adjustment to beginning fund balance	-	-	(85,956)	(85,956)
Fund balance at beginning of year, as restated	1,692,791	1,692,791	1,606,835	(85,956)
Fund balance at end of year	1,692,791	\$ 1,692,791	\$ 1,598,794	\$ (93,997)

See report of independent auditors.

**MARCO ISLAND CHARTER MIDDLE SCHOOL, INC.**

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

**Required Supplementary Information  
(continued)**

Schedule of the School's Proportionate Share  
of The Net Pension Liability –  
Florida Retirement System Pension Plan(1)

	<b>2016</b>	<b>2015</b>
School's proportion of the FRS net pension liability (asset)	0.00401%	0.00410%
School's proportionate share of the FRS net pension liability (asset)	\$ 518,315	\$ 250,159
School's covered-employee payroll	\$1,933,979	\$1,945,670
School's proportionate share if the FRS net pension liability (asset) as a percentage of its covered-employee payroll	26.8%	12.86%
FRS Plan fiduciary net position as a percentage of the total pension liability	44.21%	28.59%

Note: (1) The amounts presented for each fiscal year were determined as of June 30, 2015.

Schedule of School Contributions –  
Florida Retirement System Pension Plan

	<b>2016</b>	<b>2015</b>
Contractually required FRS contribution	\$97,837	\$89,807
FRS contribution in relation to the contractually required HIS contribution	(97,837)	(89,807)
FRS contribution deficiency (excess)	\$ -	\$ -
School's covered employee payroll	\$ 1,933,979	\$ 1,945,670
FRS contribution as a percentage of covered-employee payroll	5.06%	4.62%

**MARCO ISLAND CHARTER MIDDLE SCHOOL, INC.**

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

**Required Supplementary Information  
(continued)**

Schedule of the School's Proportionate Share  
of the Net Pension Liability –  
Health Insurance Subsidy Pension Plan

	<b>2016</b>	<b>2015</b>
	<hr/>	<hr/>
School's proportion of the HIS net pension liability (asset)	0.00641%	0.00668%
School's proportionate share of the HIS net pension liability (asset)	\$654,048	\$ 624,876
School's covered-employee payroll	\$1,933,979	\$ 1,945,670
School's proportionate share if the HIS net pension liability (asset) as a percentage of its covered-employee payroll	33.82%	32.12%
HIS Plan fiduciary net position as a percentage of the total pension liability	55.79%	71.41%

Schedule of School Contributions –  
Health Insurance Subsidy Pension Plan

	<b>2016</b>	<b>2015</b>
	<hr/>	<hr/>
Contractually required HIS contribution	\$24,515	\$22,894
HIS contribution in relation to the contractually required HIS contribution	(24,515)	(22,894)
HIS contribution deficiency (excess)	<hr/> \$ -	<hr/> \$ -
School's covered employee payroll	<hr/> \$ 1,933,979	<hr/> \$ 1,945,670
HIS contribution as a percentage of covered-employee payroll	1.27%	1.18%



**M<sup>c</sup>CRADY | HESS**  
CERTIFIED PUBLIC ACCOUNTANTS

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

To the Board of Directors of Marco Island Charter Middle School, Inc.  
a Charter School and Component Unit of the District  
School Board of Collier County, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Marco Island Charter Middle School (the "School"), a charter school and component unit of the District School Board of Collier County, Florida, as of and for the year ended June 30, 2016, 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 18, 2016.

**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 School's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Compliance and Other Matters

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

## Purpose of this Report

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

This report is intended solely for the information and use of management of the School, the District School Board of Collier County, Florida, the Florida Department of Education and the Florida Auditor General and is not intended to be and should not be used by anyone other than these specified parties.

*MC CRADY HESS*

Orlando, Florida  
August 18, 2016

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**Additional Information Required by  
Rules of the Auditor General,  
Chapter 10.850, *Audits of Charter Schools  
and Similar Entities***



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

To the Board of Directors of Marco Island Charter Middle School, Inc.,  
a Charter School and Component Unit of the District  
School Board of Collier County, Florida.

**Report on the Financial Statements**

We have audited the financial statements of Marco Island Charter Middle School, Inc. (the “School”) as of and for the fiscal year ended June 30, 2016, and have issued our report thereon dated August 18, 2016.

**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 Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*.

**Prior Audit Findings**

Section 10.854(1)(e)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. There were no findings in the prior year audit report.

**Official Title**

Section 10.854(1)(e)5. Rules of the Auditor General, requires the name or official title of the entity. The official title of the entity is Marco Island Charter Middle School, 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, require that we report the results of our determination as to whether the School maintains on its Web site the information specified in Section 1002.33(9)(p), Florida Statutes. 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 such recommendations.

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

### **Purpose of this Letter**

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

*McCRA DY HESS*

Orlando, Florida  
August 18, 2016

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