

FLORIDA VIRTUAL CAMPUS

Financial Audit

For the Fiscal Year Ended
June 30, 2013



CHANCELLORS, BOARD OF DIRECTORS, AND EXECUTIVE DIRECTOR

The Chancellors, Board of Directors, and Executive Directors who served during the 2012-13 fiscal year are listed below:

Chancellors

Frank T. Brogan, State University System of Florida

Randall W. Hanna, Division of Florida Colleges

Board of Directors

Dr. Joseph Glover, Chair from 7-19-12 (1)

Dr. Burton H. Harres, Jr., Vice Chair from 7-19-12 (1)

Ruth Ann Balla

Richard A. Becker

Dr. Thomas Cavanagh

Lori Driscoll

Dr. Maribeth Ehasz

Shari A. Shuman

Dr. Timothy G. Wise

Julia Zimmerman

Jane Hayes, Interim Executive Director through 3-15-13 (2)

Donald J. Muccino, Executive Director from 3-18-13 (2)

Notes: (1) Chair and Vice Chair were elected at the first Board meeting on July 19, 2012.

(2) Position was vacant March 16, 2013 and March 17, 2013.

The Auditor General conducts audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

The audit team leader was Micah E. Rodgers, CPA, and the audit was supervised by Philip B. Ciano, CPA. Please address inquiries regarding this report to James R. Stultz, CPA, Audit Manager, by e-mail at jimstultz@aud.state.fl.us or by telephone at (850) 412-2869.

This report and other reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 412-2722; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

FLORIDA VIRTUAL CAMPUS
TABLE OF CONTENTS

	PAGE NO.
EXECUTIVE SUMMARY	i
INDEPENDENT AUDITOR'S REPORT	1
Report on the Financial Statements	1
Other Reporting Required by <i>Government Auditing Standards</i>	2
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	3
BASIC FINANCIAL STATEMENTS	
Statement of Net Position	8
Statement of Activities.....	9
Balance Sheet – Governmental Funds	10
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	11
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	12
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities.....	13
Notes to Financial Statements	14
OTHER REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule – General Fund.....	19
Notes to Required Supplementary Information	20
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 <i>GOVERNMENT AUDITING STANDARDS</i>	21
Report on the Financial Statements	21
Internal Control Over Financial Reporting.....	21
Compliance and Other Matters.....	22
Purpose of this Report.....	22

EXECUTIVE SUMMARY

Summary of Report on Financial Statements

Our audit disclosed that Florida Virtual Campus' basic financial statements were presented fairly, in all material respects, in accordance with prescribed financial reporting standards.

Summary of Report on Internal Control and Compliance

Our audit did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, issued by the Comptroller General of the United States.

Audit Objectives and Scope

Our audit objectives were to determine whether Florida Virtual Campus and its officers with administrative and stewardship responsibilities for Florida Virtual Campus operations had:

- Presented Florida Virtual Campus' basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements; and
- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements.

The scope of this audit included an examination of Florida Virtual Campus' basic financial statements as of and for the fiscal year ended June 30, 2013. We obtained an understanding of Florida Virtual Campus' environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements. We also examined various transactions to determine whether they were executed, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

Audit Methodology

The methodology used to develop the findings in this report included the examination of pertinent Florida Virtual Campus records in connection with the application of procedures required by auditing standards generally accepted in the United States of America and applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of Florida Virtual Campus as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Florida Virtual Campus' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund for Florida Virtual Campus as of June 30, 2013, and the respective changes in financial position thereof for the fiscal year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Florida Virtual Campus are intended to present the respective financial position and changes in financial position of only that portion of the State of Florida that is attributable to Florida Virtual Campus. They do not purport to, and do not, present fairly the financial position of the State of Florida as of June 30, 2013, or the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matter***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS, BUDGETARY COMPARISON SCHEDULE – GENERAL FUND, and NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a required 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 a report on our consideration of Florida Virtual Campus' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and other matters included under the heading **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**. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and results of that testing, and not to provide an opinion on the 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 Florida Virtual Campus' internal control over financial reporting and compliance.

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
March 19, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of Florida Virtual Campus (FLVC) has prepared the following discussion and analysis to provide an overview of the financial activities for the fiscal year ended June 30, 2013. The information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events, and conditions and should be considered in conjunction with the financial statements and notes to financial statements found immediately following the MD&A. With its recent establishment, these financial statements will be the first overview of FLVC's position.

The FLVC was established on July 1, 2012, pursuant to Chapter 2012-134, Laws of Florida. As detailed in Section 1006.73, Florida Statutes, the FLVC was established as part of the primary government, the State of Florida, to provide access to online student and library support services. This action brought together four legacy organizations with long histories of service to Florida's public colleges and universities. The services of the College Center for Library Automation (CCLA), the Florida Center for Advising and Academic Support (FCAAS), the Florida Center for Library Automation (FCLA), and the Florida Distance Learning Consortium (FDLC) were combined to create one academic support organization.

Prior to the consolidation, the four legacy organizations were located in three locations, with three different fiscal agents. The CCLA and the FDLC were located in Tallahassee, with Tallahassee Community College performing fiscal agent and personnel services. The FCAAS was located in Tampa and the University of South Florida provided fiscal agent and personnel services. Located in Gainesville, the FCLA functioned as a department at the University of Florida (UF).

Upon its establishment, the FLVC was authorized to contract for administrative services with a public postsecondary education institution. The FLVC contracted with UF to provide administrative-related services, including but not limited to, fiscal, human resources, contract management, legal, and procurement, effective July 1, 2012. However, the final transition from the legacy organizations' fiscal agents to UF was completed in January 2013. All outstanding obligations of the four legacy organizations were resolved and the remaining funds were transferred to the FLVC in April 2013.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2012-13 fiscal year are as follows:

- As of June 30, 2013, the assets exceed the liabilities by \$14,080,520. Of this amount, \$12,025,566 represents unrestricted net position, which may be used to meet the FLVC's ongoing obligations to the students, faculty, and staff of the State's public colleges and universities.
- Revenues total \$22,679,808, with State appropriations of \$22,462,036 representing 99 percent of total revenues.
- Assets transferred from the four legacy organizations total \$13,094,664, including capital assets, prepaid expenses, and other assets, net of related liabilities.
- At the end of the current fiscal year, the fund balance of the general fund totals \$12,025,566.

OVERVIEW OF FINANCIAL STATEMENTS

The basic financial statements consist of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to financial statements.

Government-wide Financial Statements

The government-wide financial statements provide both short-term and long-term information about the FLVC's overall financial condition in a manner similar to those of a private-sector business. The statements include a statement of net position and a statement of activities that are designed to provide consolidated financial information about the governmental activities of FLVC presented on the accrual basis of accounting. The statement of net position provides information about FLVC's financial position, its assets and liabilities, using an economic resources measurement focus. Assets less liabilities equal net position, which is a measure of FLVC's financial health. The statement of activities presents information about the change in FLVC's net position, the results of operations, during the fiscal year. Normally, an increase or decrease in net position is an indication of whether FLVC's financial health is improving or deteriorating.

All of FLVC's activities and services are reported in the government-wide financial statements as governmental activities. For the purposes of these statements, FLVC's governmental activities are all classified as education, which is financed primarily by State appropriations.

Fund Financial Statements

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

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 assessing a government's near-term financing 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 for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances provide detailed information about FLVC's most significant funds. The FLVC's only fund is the general fund.

The FLVC adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with the budget.

Notes to Financial Statements

The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements.

The largest source of revenue is the State of Florida. State appropriations are \$22,462,036, or 99 percent of total revenues, and 62.8 percent of total revenues and transfers.

Transfers from legacy organizations are \$13,094,664, or 36.6 percent, of total revenues and transfers. During the fiscal year, all capital assets, existing contracts (prepaid expenses), unexpended balances of State appropriations, obligations, etc., from the four legacy organizations were transferred to the FLVC and held by the UF as the fiscal agent. Additional details of these transfers are presented in Note 7 to the financial statements.

As part of a primary government, the State of Florida, FLVC’s financial statements report operating expenses as “Education,” conforming to its primary government’s statements. For additional information, the education expenses are further detailed in the natural expense classifications as follows:

**Additional Information, Natural Expense Classification
For the Fiscal Year Ended**

	6-30-13
Contractual Services:	
Personnel	\$ 9,411,331
Software and Hardware Maintenance Contracts	2,173,840
E-Resource Licenses	7,096,226
Other Services and Expenses	2,247,290
Depreciation Expense	765,265
Total Expenses	\$ 21,693,952

FINANCIAL ANALYSIS OF FUNDS

Governmental Funds

The focus of the governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. The general fund is the only operating fund. Revenues and expenditures totaled \$22,679,808 and \$21,063,882, respectively, during the 2012-13 fiscal year. At the end of the current fiscal year, unassigned fund balance is \$8,233,381, while the total fund balance is \$12,025,566. Nonspendable fund balance is \$3,792,185, or 31.5 percent of total fund balance, which consists of prepaid expenditures for e-resource licenses and service contracts purchased during the 2012-13 fiscal year.

GENERAL FUND BUDGETARY HIGHLIGHTS

Final budgeted revenues and expenditures are in line with original budget amounts. Actual revenues are in line with the final budgeted amounts while actual expenditures are \$21,063,882, representing 10.3 percent less than final budgeted amounts. Actual expenditures were less than budgeted primarily due to a decrease in the number of filled positions for personnel-related services. Actual transfers from legacy organizations were \$10,409,640 more than budgeted amounts. The FLVC based their original and final budgeted amounts on State appropriated revenues due to the timing of the budget process and the uncertainty of the remaining funds available at the four legacy organizations.

CAPITAL ASSETS

The net investment in capital assets for governmental activities as of June 30, 2013, was \$2,054,954, and includes furniture and equipment, and computer software. The major capital asset event this fiscal year was the transfer of capital assets from the four legacy organizations to the FLVC. Additional information on capital assets can be found in Notes 1 and 3 to the basic financial statements.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The FLVC's economic condition is closely tied to that of the State of Florida. With no other significant avenue for the generation of funds, the level and scope of services will remain dependent on the funds appropriated by the Florida Legislature. Contingent upon current funding levels, the FLVC should be able to maintain its present level of services.

REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A, other required supplementary information, and financial statements and notes thereto, or requests for additional financial information should be addressed to Chuck Prince, Director of Administrative Services, Florida Virtual Campus, 1753 W. Paul Dirac Drive, Tallahassee, Florida 32310.

BASIC FINANCIAL STATEMENTS

**FLORIDA VIRTUAL CAMPUS
STATEMENT OF NET POSITION
June 30, 2013**

	Governmental Activities
ASSETS	
Interest Receivable	\$ 4,776
Due from Fiscal Agent	8,626,480
Prepaid Expenses	3,792,185
Depreciable Capital Assets, Net	2,054,954
TOTAL ASSETS	14,478,395
LIABILITIES	
Accounts Payable	397,875
NET POSITION	
Net Investment in Capital Assets	2,054,954
Unrestricted	12,025,566
TOTAL NET POSITION	\$ 14,080,520

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

**FLORIDA VIRTUAL CAMPUS
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2013**

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Functions/Programs				
Governmental Activities:				
Education	\$ 21,693,952	\$ 37,020	\$ 5,000	\$ (21,651,932)
General Revenues:				
State Appropriations				22,462,036
Unrestricted Investment Earnings				175,752
Transfers from Legacy Organizations				13,094,664
Total General Revenues and Transfers				35,732,452
Change in Net Position				14,080,520
Net Position - Beginning				
Net Position - Ending				\$ 14,080,520

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

**FLORIDA VIRTUAL CAMPUS
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2013**

	<u>General Fund</u>
ASSETS	
Interest Receivable	\$ 4,776
Due from Fiscal Agent	8,626,480
Prepaid Items	<u>3,792,185</u>
TOTAL ASSETS	<u>\$ 12,423,441</u>
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts Payable	<u>\$ 397,875</u>
Fund Balances:	
Nonspendable:	
Prepaid Amounts	3,792,185
Unassigned Fund Balance	<u>8,233,381</u>
Total Fund Balances	<u>12,025,566</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 12,423,441</u>

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

**FLORIDA VIRTUAL CAMPUS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2013**

Total Fund Balances - Governmental Funds	\$ 12,025,566
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	<u>2,054,954</u>
Net Position - Governmental Activities	<u>\$ 14,080,520</u>

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

**FLORIDA VIRTUAL CAMPUS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2013**

	General Fund
Revenues	
Intergovernmental:	
Federal through State	\$ 5,000
State Appropriations	22,462,036
Local:	
Charges for Services	37,020
Investment Earnings	175,752
Total Revenues	22,679,808
Expenditures	
Current - Education	20,928,687
Capital Outlay	135,195
Total Expenditures	21,063,882
Excess of Revenues Over Expenditures	1,615,926
Other Financing Sources	
Transfers from Legacy Organizations	10,409,640
Net Change in Fund Balances	12,025,566
Fund Balances, Beginning	
Fund Balances, Ending	\$ 12,025,566

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

**FLORIDA VIRTUAL CAMPUS
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2013**

Net Change in Fund Balances - Governmental Funds	\$ 12,025,566
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of depreciation expense in excess of capital outlays in the current fiscal year.	(630,070)
Transfer of capital assets from the legacy organizations represents a revenue source in the statement of activities but not in the statement of revenues, expenditures, and changes in fund balances.	<u>2,685,024</u>
Change in Net Position - Governmental Activities	<u>\$ 14,080,520</u>

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

**FLORIDA VIRTUAL CAMPUS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity. These financial statements are intended to present the financial position and changes in financial position of the Florida Virtual Campus (FLVC), which represents only a portion of the primary government, the State of Florida. The FLVC is governed jointly by the Chancellors of the State University System and the Florida College System. To assist the Chancellors in their governance, a Board of Directors (Board) is appointed by the Chancellors. Composition of the Board includes: three members appointed by each chancellor consisting of vice presidents of academic programs, student services, and finance and administration, respectively; and four members who serve by virtue of their offices, the Chair and Vice Chair (Chair-Elect) of the Members Council on Distance Learning and Student Services and the Chair and Vice Chair (Chair-Elect) of the Members Council on Library Services. Initial appointments were made for a one-year term. Subsequent to initial appointment, appointed members serve staggered two-year terms and may be reappointed for additional terms. To achieve staggered terms, beginning July 1, 2013, three members shall serve only one-year terms: the University Vice President for Academic Affairs, the College Vice President for Finance and Administration, and the College Vice President of Student Services. Appointed members shall serve until their successors are appointed. In the event of a vacancy of a member by whatever cause, the vacancy shall be filled by the mechanism whereby the position was originally filled. The Executive Director is appointed by the Board and serves as the executive officer of the Board.

Description of Government-wide Financial Statements. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all activities. Governmental activities are supported by intergovernmental revenues and other exchange and nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function or program of governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are thereby clearly identifiable to a particular function. Program revenues include 1) charges to customers or those who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other revenues that are not properly included among program revenues are reported as general revenues.

Basis of Presentation: Government-wide Financial Statements. While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds.

Basis of Presentation: Fund Financial Statements. The fund financial statements provide information about funds. The emphasis of fund financial statements is on major governmental funds. The general fund is the only governmental fund.

Basis of Accounting. The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

**FLORIDA VIRTUAL CAMPUS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of the related cash flows. Revenues from grants and donations are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been satisfied.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. When grant terms provide that expenditure of resources is the prime factor for determining eligibility for Federal resources, revenue is recognized at the time the expenditure is made. In accordance with the primary government, the FLVC considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. General capital asset acquisitions are reported as expenditures in governmental funds. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Due from Fiscal Agent. Due from fiscal agent consists of investments in the State Treasury Special Purpose Investment Account held by its fiscal agent, the University of Florida.

Prepaid Expenses. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as an expenditure/expense when consumed rather than when purchased. A schedule of prepaid expenses for the current fiscal year is presented in note 2.

Capital Assets. Expenditures for capital assets are reported in the general fund. The capital assets so acquired are reported at cost in the government-wide statement of net position but are not reported in the governmental fund financial statements. The FLVC follows their fiscal agent's policies related to capital assets, which are defined as those items costing more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at fair value at the date of donation. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

- Furniture and Equipment – 3 to 20 years
- Computer Software – 5 years

Current year information relative to changes in capital assets is described in Note 3.

Net Position Flow Assumption. In accordance with the primary government, when both restricted and unrestricted resources are to be used for the same purpose, the FLVC determines the flow assumption used to identify the portion of expenses paid from restricted resources. The FLVC considers restricted net position to have been depleted before unrestricted net position is applied.

Fund Balance Flow Assumptions. In accordance with the primary government, when an expenditure is incurred for purposes for which both restricted and unrestricted resources are available, it is the State's general policy to use restricted resources first. When expenditures are incurred for which unrestricted (committed or unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the

**FLORIDA VIRTUAL CAMPUS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

State’s general policy to spend committed resources first. However, the FLVC determines the flow assumption used to identify the portion of expenses paid from restricted resources. The FLVC considers restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first followed by assigned fund balance. Unassigned fund balance is applied last.

State Revenue Sources. State appropriations are the primary source of revenues for operations. State funds not expended prior to the close of the fiscal year may be carried forward into the following year to be expended for operations.

2. PREPAID EXPENSES

Prepaid expenses at June 30, 2013, consist of e-resource licenses for Florida’s public colleges and universities and for service contracts for hardware/software maintenance, as shown below:

	Amount
E-Resource Licenses	\$ 3,354,613
Hardware/Software Maintenance	437,572
Total Prepaid Expenses	\$ 3,792,185

3. CAPITAL ASSETS

The capital assets of the legacy organizations were part of State; accordingly, historical costs of the capital assets and related accumulated depreciation were transferred to the FLVC at the date of inception as a one-time adjustment. Because of the age of the legacy organization’s capital assets, many of these items were fully depreciated upon their transfer.

Capital asset activity for the fiscal year is presented in the table below:

Description	Beginning Balance	Adjustments (1)	Additions	Reductions	Ending Balance
Capital Assets Being Depreciated:					
Furniture and Equipment	\$	\$ 6,393,504	\$ 135,195	\$	\$ 6,528,699
Computer Software		171,085			171,085
Total Capital Assets Being Depreciated		6,564,589	135,195		6,699,784
Less Accumulated Depreciation for:					
Furniture and Equipment		3,708,480	765,265		4,473,745
Computer Software		171,085			171,085
Total Accumulated Depreciation		3,879,565	765,265		4,644,830
Total Depreciable Capital Assets, Net	\$	\$ 2,685,024	\$ (630,070)	\$	\$ 2,054,954

Note: (1) Adjustments reflect the transfer of capital assets from the legacy organizations to the FLVC, see note 7.

4. OPERATING LEASE COMMITMENTS

Office space is acquired under an operating lease that expires in the 2017-18 fiscal year. This lease commitment is not reported on the statement of net position. Operating lease payments are recorded as expenses when paid or

**FLORIDA VIRTUAL CAMPUS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

incurred. Outstanding commitments resulting from this lease agreement are contingent upon future State appropriations. Future minimum lease commitments for this noncancelable operating lease are as follows:

Fiscal Year Ending June 30	Amount
2014	\$ 499,074
2015	499,074
2016	510,363
2017	514,127
2018	128,532
Total Minimum Payments Required	\$ 2,151,170

5. OTHER SIGNIFICANT COMMITMENT

The FLVC contracted with the University of Florida (UF) to serve as its contractual institution (fiscal agent) to provide administrative-related services. The agreement between the FLVC and the UF is for five years, with options for additional five-year renewals, and is cancellable after the third year. The outstanding commitment resulting from this agreement is contingent upon future State appropriations; therefore, the related commitment is not reported on the statement of net position. Among the services provided in this agreement are fiscal, fund management, contract management, human resources, insurance, legal, procurement, asset management, records management, and staffing. The amount of the annual fee for this agreement may be adjusted, dependent on State appropriations and the number of full-time staff positions at the FLVC. The following table reflects the annual projected costs for this service agreement with the UF:

Fiscal Year Ending June 30	Amount
2014	\$ 487,000
2015	487,000
Total Commitment	\$ 974,000

6. FUND BALANCE REPORTING

In accordance with the primary government, the FLVC reports its governmental fund balances in the following categories, as applicable:

- **Nonspendable Fund Balance.** Nonspendable fund balance includes amounts that cannot be spent. This includes activity that is not in a spendable form, such as inventories, prepaid amounts, and long-term portion of loans/ net notes receivable unless the proceeds are restricted, committed or assigned. Additionally, activity that is legally or contractually required to remain intact, such as a principal balance in a permanent fund, is considered nonspendable.
- **Restricted Fund Balance.** Restricted fund balances have constraints placed upon the use of the resources either by an external party, such as the Federal government, or imposed by law through a constitutional provision or enabling legislation.
- **Committed Fund Balance.** Committed fund balance includes amounts that can be used only for the specific purposes determined by a formal action of the State’s highest level of decision-making authority, the Legislature and the Governor, i.e., through legislation passed into law. Commitments may only be rescinded by equivalent formal, highest-level action.

**FLORIDA VIRTUAL CAMPUS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

- **Unassigned Fund Balance.** Unassigned fund balance is the residual amount of the General Fund not included in the three categories described above. Also, any remaining deficit fund balances within the other governmental fund types are reported as unassigned.

7. TRANSFERS FROM LEGACY ORGANIZATIONS

A significant portion of net position was the transfer of outstanding funds from the four legacy organizations: the College Center for Library Automation (CCLA), the Florida Center for Advising and Academic Support (FCAAS), the Florida Center for Library Automation (FCLA), and the Florida Distance Learning Consortium (FDLC). All capital assets, existing contracts (prepaid expenses), unexpended balances of State appropriations, obligations, etc., of these legacy organizations were transferred to the FLVC upon its creation. Transfers from the four legacy organizations are shown below:

Transfers from Legacy Organizations

<u>Organization</u>	<u>Capital Assets</u>	<u>Prepaid Expenses</u>	<u>Cash</u>	<u>Total</u>
CCLA	\$ 956,247	\$ 2,274,025	\$ 3,715,087	\$ 6,945,359
FCAAS			174,710	174,710
FCLA	1,728,777	1,778,965	1,947,280	5,455,022
FDLC			519,573	519,573
Total	\$ 2,685,024	\$ 4,052,990	\$ 6,356,650	\$ 13,094,664

8. SELF-INSURANCE

The FLVC participates in the State of Florida’s property and casualty self-insurance program, administered through the University of Florida. Information on Florida insurance is contained in the Florida Comprehensive Annual Financial Report prepared by the Department of Financial Services.

OTHER REQUIRED SUPPLEMENTARY INFORMATION

**FLORIDA VIRTUAL CAMPUS
REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE -
GENERAL FUND
For the Fiscal Year Ended June 30, 2013**

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal through State	\$	\$	\$	\$
State Appropriations	22,462,036	22,462,036	5,000 22,462,036	5,000
Local:				
Charges for Services			37,020	37,020
Investment Earnings			175,752	175,752
Total Revenues	<u>22,462,036</u>	<u>22,462,036</u>	<u>22,679,808</u>	<u>217,772</u>
Expenditures				
Current - Education	23,479,417	23,344,222	20,928,687	2,415,535
Capital Outlay		135,195	135,195	
Total Expenditures	<u>23,479,417</u>	<u>23,479,417</u>	<u>21,063,882</u>	<u>2,415,535</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(1,017,381)</u>	<u>(1,017,381)</u>	<u>1,615,926</u>	<u>2,633,307</u>
Other Financing Sources				
Transfers from Legacy Organizations			10,409,640	10,409,640
Net Change in Fund Balances	<u>(1,017,381)</u>	<u>(1,017,381)</u>	<u>12,025,566</u>	<u>13,042,947</u>
Fund Balances, Beginning				
Fund Balances, Ending	<u>\$ (1,017,381)</u>	<u>\$ (1,017,381)</u>	<u>\$ 12,025,566</u>	<u>\$ 13,042,947</u>

**FLORIDA VIRTUAL CAMPUS
OTHER REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

1. BUDGETARY BASIS OF ACCOUNTING

The budget is prepared in accordance with policies of the State of Florida. An annual operating budget is presented to and approved by the Board and the Chancellors of the State University System and the Florida College System. The annual operating budget is based on the projected expenditures for continued operations in conjunction with the authorized State appropriations and other funds available. Budgets are prepared using a modified accrual basis of accounting.



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The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

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*

Report on the Financial Statements

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 the major fund of the Florida Virtual Campus, as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Florida Virtual Campus' basic financial statements, and have issued our report thereon dated March 19, 2014, included under the heading **INDEPENDENT AUDITOR'S REPORT**.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Florida Virtual Campus' internal control over financial reporting (internal control) to determine 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 Florida Virtual Campus' internal control. Accordingly, we do not express an opinion on the effectiveness of Florida Virtual Campus' 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 Florida Virtual Campus' 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 Florida Virtual Campus' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, rules, 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 the **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*** 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 Florida Virtual Campus' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Florida Virtual Campus' internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
March 19, 2014