

SARASOTA MILITARY ACADEMY
(A CHARTER SCHOOL UNDER SARASOTA MILITARY ACADEMY, INC.)
A CHARTER SCHOOL AND COMPONENT UNIT OF
THE SCHOOL BOARD OF SARASOTA COUNTY

INDEPENDENT AUDITORS' REPORT
FINANCIAL STATEMENTS
AND
REQUIRED SUPPLEMENTARY
INFORMATION

JUNE 30, 2018

PM PELLEGRINO &
& MCFARLAND P.A.
CERTIFIED PUBLIC ACCOUNTANTS

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)	3
BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements	
Statement of Net Position	7
Statement of Activities	8
Fund Financial Statements	
Balance Sheet – Governmental Funds	9
Reconciliation of the Balance Sheet of the Governmental Funds to the Statement of Net Position.....	10
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	11
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of the Governmental Funds to the Statement of Activities.....	12
Balance Sheet – Fiduciary Funds	13
Sarasota Military Academy Foundation, Inc	
Balance Sheet – Fiduciary Funds	14
Notes to Financial Statements.....	15
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule (Unaudited)	38
Schedule of Proportionate Share of Net Pension Liability and Contributions – FRS	39
Schedule of Proportionate Share of Net Pension Liability and Contributions – HIS	40
OTHER INDEPENDENT AUDITOR'S REPORTS	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	41
Independent Auditor's Report to the Board of Directors	43

INDEPENDENT AUDITORS' REPORT

Board of Directors
Sarasota Military Academy

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the General Fund, Capital Outlay Fund, and Fiduciary Fund of Sarasota Military Academy (the Charter School), a Charter School under Sarasota Military Academy, Inc., which is a Charter School and component unit of the School Board of Sarasota County, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Sarasota Military Academy'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.

Auditors' 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 auditors' 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 auditors consider 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, the General Fund, Capital Outlay Fund, and Fiduciary Fund of Sarasota Military Academy, as of June 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof 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, schedule of proportionate share of net pension liability and contributions – FRS, and schedule of proportionate share of net pension liability and contributions – HIS on pages 3-6 and 38-40 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 September 17, 2018, on our consideration of Sarasota Military Academy'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 Sarasota Military Academy's internal control over financial reporting and compliance.

Pellegrino & McFarland, P.A.

Sarasota, Florida
September 17, 2018

SARASOTA MILITARY ACADEMY
(A CHARTER SCHOOL UNDER SARASOTA MILITARY ACADEMY, INC.)
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018
(UNAUDITED)

The following pages represent Management's Discussion and Analysis (MD&A) of Sarasota Military Academy (the Charter School), a charter school under Sarasota Military Academy, Inc. It depicts and reviews the financial picture and activities of the Charter School as of and for the year ended June 30, 2018.

The intent of this MD&A is to present a picture and assessment of the Charter School's financial performance in an effort to more clearly demonstrate to readers the results of this year's financial operations. Readers should also review the basic financial statements and notes to enhance their understanding of the Charter School's financial performance.

Using the Financial Statements

This financial report includes a series of financial statements and notes to those financial statements. These statements are organized so the reader can understand the Charter School as a financial whole, or as an entire operating entity.

The Statement of Net Position and the Statement of Activities provide information about the activities of the Charter School as a whole, presenting both an aggregate view of the Charter School's finances and a longer-term view of those finances. The General Fund statements show how services were financed in the short-term as well as what financial resources remain for future spending.

Financial Highlights

Statement of Net Position

	<u>2018</u>	<u>2017</u>	<u>Change</u>
Current and other assets	\$ 1,812,898	\$ 1,757,308	\$ 55,590
Capital assets	<u>20,386,813</u>	<u>20,141,955</u>	244,858
Total Assets	<u>\$ 22,199,711</u>	<u>\$ 21,899,263</u>	<u>\$ 300,448</u>
Deferred Outflow of Resources	<u>\$ 3,483,723</u>	<u>\$ 3,032,922</u>	<u>\$ 450,801</u>
Total Assets and Deferred Outflow of Resources	<u>\$ 25,683,434</u>	<u>\$ 24,932,185</u>	<u>\$ 751,249</u>
Current liabilities	\$ 1,347,658	\$ 1,136,904	\$ 210,754
Noncurrent liabilities	<u>19,135,993</u>	<u>19,451,173</u>	<u>(315,180)</u>
Total Liabilities	<u>\$ 20,483,651</u>	<u>\$ 20,588,077</u>	<u>\$ (104,426)</u>
Deferred Inflow of Resources	<u>\$ 856,806</u>	<u>\$ 385,340</u>	<u>\$ 471,466</u>
Investment in capital assets, net of related debt	\$ 7,531,166	\$ 6,420,607	\$ 1,110,559
Temporarily restricted	86,911	86,701	210
Unrestricted	<u>(3,275,100)</u>	<u>(2,548,540)</u>	<u>(726,560)</u>
Total Net Position	<u>\$ 4,342,977</u>	<u>\$ 3,958,768</u>	<u>\$ 384,209</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 25,683,434</u>	<u>\$ 24,932,185</u>	<u>\$ 751,249</u>

Total assets increased 1% due to investments in capital assets.

SARASOTA MILITARY ACADEMY
(A CHARTER SCHOOL UNDER SARASOTA MILITARY ACADEMY, INC.)
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018
(UNAUDITED)

Deferred outflow of resources increased by 15.0% due to the estimated pension contribution in the current year to the Florida Retirement System (FRS) Pension Plan and the Retiree Health Insurance Subsidy (HIS) Program as required by Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions (GASB 68).

Total liabilities decreased 0.5% this year due to the net increase in the net pension liability (NPL) for the FRS and HIS programs of approximately \$500,000 which was offset by the decrease in the interest rate swap liability of approximately \$235,000 and by the pay down of the bond and note principals of approximately \$600,000.

Deferred inflow of resources increased 122% due to the difference between projected and actual earnings on investments of the FRS and HIS programs and the effect of economic/demographic gains and losses.

Statement of Activities

	<u>2018</u>	<u>2017</u>	<u>Change</u>
Revenues			
Program revenues			
Operating grants and contributions	\$ 512,916	\$ 608,072	\$ (95,156)
Capital grants and contributions	260,257	998,666	(738,409)
General revenues			
Grants and contributions not restricted to specific programs	13,651,905	11,607,174	2,044,731
Investment income (loss)	235,009	379,745	(144,736)
Other	<u>618,806</u>	<u>482,415</u>	<u>136,391</u>
Total revenues	<u>15,278,893</u>	<u>14,076,072</u>	<u>1,202,821</u>
Expenses			
Basic instruction	7,724,990	7,283,556	441,434
Exceptional instruction	567,840	478,629	89,211
Other instruction	248,197	232,910	15,287
Pupil personal services	-	211,076	(211,076)
Guidance services	336,492	220,252	116,240
Health services	157,469	76,119	81,350
Instructional media services	614,316	564,763	49,553
School administration	2,655,769	2,668,352	(12,583)
Facilities acquisition and construction	3,882	3,399	483
Fiscal services	305,359	265,073	40,286
Pupil transportation	324,910	231,548	93,362
Operation of plant	952,598	804,957	147,641
Maintenance of plant	301,484	373,979	(72,495)
Debt service	<u>701,378</u>	<u>495,224</u>	<u>206,154</u>
Total expenses	<u>14,894,684</u>	<u>13,909,837</u>	<u>984,847</u>
Change in net position	384,209	166,235	217,974
Net position, beginning of year	<u>3,958,768</u>	<u>3,792,533</u>	<u>166,235</u>
Net position, end of year	<u>\$ 4,342,977</u>	<u>\$ 3,958,768</u>	<u>\$ 384,209</u>

SARASOTA MILITARY ACADEMY
(A CHARTER SCHOOL UNDER SARASOTA MILITARY ACADEMY, INC.)
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018
(UNAUDITED)

Total revenue increased approximately 8.5% an increase in millage capital funds of approximately \$1.4 million, which was offset by a decrease in the change in value of the interest rate swap by approximately \$146,000 and decrease in students from 1456 to 1433 which reduced FTE income and a decrease in charter school capital outlay funding due to Legislative reduction.

Overall expenditures increased 7.1% primarily due to pension expenses related to the net pension liability (NPL) for the FRS and HIS programs combined with standard step and longevity increases.

Capital Assets

Below is a schedule of the Charter School's capital assets as of June 30, 2018 and 2017. See Note 6 to the financial statements for a detail of the changes during the fiscal year.

	<u>2018</u>	<u>2017</u>	<u>Change</u>
Capital assets, not being depreciated			
Land	\$ 8,398,300	\$ 8,398,300	\$ -
Construction-in-progress	<u>-</u>	<u>8,201</u>	<u>(8,201)</u>
Total capital assets, not being depreciated	<u>\$ 8,398,300</u>	<u>\$ 8,406,501</u>	<u>\$ (8,201)</u>
Capital assets, being depreciated			
Land improvements	115,977	97,349	18,628
Building and improvements	13,560,206	13,236,502	323,704
Furniture, fixtures and equipment	2,501,048	2,269,647	231,401
Motor vehicles	<u>768,199</u>	<u>398,121</u>	<u>370,078</u>
Total capital assets being depreciated	16,945,430	16,001,619	943,811
Less accumulated depreciation	<u>4,956,917</u>	<u>4,266,165</u>	<u>690,752</u>
Total capital assets being depreciated, net	<u>11,988,513</u>	<u>11,735,454</u>	<u>253,059</u>
Capital assets, net	<u>\$ 20,386,813</u>	<u>\$ 20,141,955</u>	<u>\$ 244,858</u>

Capital asset changes during the year mainly included minimal investments in buildings and improvements, computer equipment, and furniture, fixtures and equipment which was offset by the annual depreciation of current capital assets.

Debt

Below is a schedule of outstanding debt as of June 30, 2018 and 2017. See Note 7 to the financial statements for a detail of changes during the fiscal year and specific debt provisions.

	<u>2018</u>	<u>2017</u>	<u>Change</u>
Notes payable	\$ 213,862	\$ 302,933	\$ (89,071)
Bonds payable	<u>12,669,223</u>	<u>13,184,650</u>	<u>(515,427)</u>
Total debt payable	<u>\$ 12,883,085</u>	<u>\$ 13,487,583</u>	<u>\$ (604,498)</u>

SARASOTA MILITARY ACADEMY
(A CHARTER SCHOOL UNDER SARASOTA MILITARY ACADEMY, INC.)
MANAGEMENT’S DISCUSSION AND ANALYSIS

JUNE 30, 2018
(UNAUDITED)

Changes in debt during the year included payment of principal for bonds and notes of \$604,497. The Charter School intends to use a pay-as-you-go approach for any future renovations. New construction will rely on support from the foundation accumulated from donations involving a capital improvement campaign.

Net Pension Liability

The components of the net pension liability for each defined benefit plan for the measurement date of June 30, 2018 are show below:

	<u>2018</u>	<u>2017</u>	<u>Change</u>
Net Pension Liability - FRS	\$ 4,213,204	\$ 3,519,416	\$ 693,788
Net Pension Liability - HIS	<u>2,364,867</u>	<u>2,546,139</u>	<u>(181,272)</u>
Total Net Pension Liability	<u>\$ 6,578,071</u>	<u>\$ 6,065,555</u>	<u>\$ 512,516</u>

Economic Factors and the Budget

The Charter School’s overall expenses increased by \$984,847 and overall revenues increased by \$1,202,821.

The viability of the Charter School continues to rest with conservative and innovative financial management, with the primary focus on meeting the academic needs of our student body. For the year ended June 30, 2018, our fiscal situation remained stable and healthy. Furthermore, the Sarasota County school district continues to provide to their charter schools a share of the local millage for capital improvements which will free up operational resources for other requirements.

Our long-term goal is to replace the old wings on the high school campus with another new classroom building.

Request for Information

This financial report is designed to provide a general overview of the Sarasota Military Academy’s finances, a charter school under Sarasota Military Academy, Inc. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Executive Director of Schools, Christina Bowman at 801 Orange Avenue North, Sarasota, Florida 34236.

SARASOTA MILITARY ACADEMY
(A CHARTER SCHOOL UNDER SARASOTA MILITARY ACADEMY, INC.)

STATEMENT OF NET POSITION

June 30, 2018

<u>Assets</u>	<u>Total</u>
Current assets	
Cash and cash equivalents	\$ 1,464,834
Accounts receivable	111,948
Due from other governments	28,299
Total current assets	<u>1,605,081</u>
Noncurrent assets	
Capital assets, net of accumulated depreciation of \$4,956,917	20,386,813
Investments	127,213
Due from related party	30,604
Deposits	50,000
Total noncurrent assets	<u>20,594,630</u>
Total Assets	22,199,711
Deferred Outflows of Resources	
Deferred outflows related to pensions - FRS	2,494,844
Deferred outflows related to pensions - HIS	988,879
Total Deferred Outflows of Resources	<u>3,483,723</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 25,683,434</u>
<u>Liabilities and Net Position</u>	
Current liabilities	
Accounts payable	\$ 242,864
Accrued expenses	493,206
Deferred revenue	15,274
Notes payable, current portion	92,688
Bonds payable, current portion	503,626
Total current liabilities	<u>1,347,658</u>
Noncurrent liabilities	
Interest rate swap	252,844
Compensated absences	18,307
Net pension liability - FRS	4,213,204
Net pension liability - HIS	2,364,867
Notes payable	121,174
Bonds payable	12,165,597
Total noncurrent liabilities	<u>19,135,993</u>
Total Liabilities	20,483,651
Deferred Inflows of Resources	
Deferred inflows related to pensions - FRS	434,521
Deferred inflows related to pensions - HIS	422,285
Total Deferred Inflows from Resources	<u>856,806</u>
Total Liabilities and Deferred Inflows of Resources	21,340,457
Net position	
Investment in capital assets, net of related debt	7,531,166
Temporarily restricted	86,911
Unrestricted	(3,275,100)
Total net position	<u>4,342,977</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 25,683,434</u>

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

SARASOTA MILITARY ACADEMY
(A CHARTER SCHOOL UNDER SARASOTA MILITARY ACADEMY, INC.)

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2018

		Program Revenues			
	Expenses	Operating Grants and Contributions	Capital Grants and Contributions		Net (Expense) Revenue and Changes in Net Assets
Governmental activities					
Basic instruction	\$ 7,724,990	\$ 358,991	\$ 260,257	\$	(7,105,742)
Exceptional instruction	567,840	58,025			(509,815)
Other instruction	248,197	95,900			(152,297)
Guidance services	336,492				(336,492)
Health services	157,469				(157,469)
Instructional media services	614,316				(614,316)
School administration	2,655,769				(2,655,769)
Facilities acquisition and construction	3,882				(3,882)
Fiscal services	305,359				(305,359)
Pupil transportation	324,910				(324,910)
Operation of plant	952,598				(952,598)
Maintenance of plant	301,484				(301,484)
Debt service	701,378				(701,378)
Total governmental activities	\$ 14,894,684	\$ 512,916	\$ 260,257	\$	(14,121,511)
General revenues					
Grants and contributions not restricted to specific programs					13,651,905
Investment income					235,009
Other					618,806
Total general revenues					14,505,720
Change in net assets					384,209
Net position, beginning of year					3,958,768
Net position, end of year				\$	4,342,977

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

SARASOTA MILITARY ACADEMY
(A CHARTER SCHOOL UNDER SARASOTA MILITARY ACADEMY, INC.)

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2018

<u>Assets</u>	<u>General Fund</u>	<u>Capital Outlay Fund</u>	<u>Total</u>
Cash and cash equivalents	\$ 1,464,834	\$ -	\$ 1,464,834
Accounts receivable	111,948	-	111,948
Investments	127,213	-	127,213
Due from other governments	28,299	-	28,299
Due from other funds	-	15,274	15,274
Due from related party	30,604	-	30,604
Deposit	<u>50,000</u>	<u>-</u>	<u>50,000</u>
 Total Assets	 \$ <u>1,812,898</u>	 \$ <u>15,274</u>	 \$ <u>1,828,172</u>
 <u>Liabilities and Fund Balances</u>			
<u>Liabilities</u>			
Accounts payable	\$ 242,864	\$ -	\$ 242,864
Accrued expenses	493,206	-	493,206
Deferred revenue	-	15,274	15,274
Due to other funds	<u>15,274</u>	<u>-</u>	<u>15,274</u>
 Total liabilities	 751,344	 15,274	 766,618
 <u>Fund balances</u>			
Nonspendable	50,000	-	50,000
Restricted	86,911	-	86,911
Unassigned	<u>924,643</u>	<u>-</u>	<u>924,643</u>
 Total fund balances	 <u>1,061,554</u>	 <u>-</u>	 <u>1,061,554</u>
 Total Liabilities and Fund Balances	 \$ <u>1,812,898</u>	 \$ <u>15,274</u>	 \$ <u>1,828,172</u>

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

SARASOTA MILITARY ACADEMY
(A CHARTER SCHOOL UNDER SARASOTA MILITARY ACADEMY, INC.)
RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION

June 30, 2018

Total Fund Balances - Governmental Funds	\$	1,061,554
--	----	-----------

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 in the governmental funds.

Capital assets	25,343,730	
Less accumulated depreciation	<u>(4,956,917)</u>	20,386,813

Noncurrent liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.

Interest rate swap	(252,844)	
Compensated absences	(18,307)	
Net pension liability - HIS	(2,364,867)	
Net pension liability - FRS	(4,213,204)	
Notes payable	(213,862)	
Bonds payable	<u>(12,669,223)</u>	(19,732,307)

Deferred inflows and outflows related to net pension liability are based on the differences between actuarially determined actual and expected investment returns, changes in the actuarially determined proportion of the Charter School's amount of total pension liability and pension contributions made after the measurement date of the net pension liability. These amounts will be amortized over the estimated remaining average service life of the employees.

Deferred outflows related to pension - FRS & HIS	3,483,723	
Deferred inflows related to pensions - FRS & HIS	<u>(856,806)</u>	<u>2,626,917</u>

Net Position of Governmental Activities	\$	<u><u>4,342,977</u></u>
---	----	-------------------------

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

SARASOTA MILITARY ACADEMY
(A CHARTER SCHOOL UNDER SARASOTA MILITARY ACADEMY, INC.)

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2018

	<u>General Fund</u>	<u>Capital Outlay Fund</u>	<u>Total</u>
Revenues			
Intergovernmental			
Federal direct	\$ 358,991	\$ -	\$ 358,991
Federal through state	58,025	-	58,025
State	8,681,296	260,257	8,941,553
Local	2,908,872	1,992,021	4,900,893
Other	784,421	-	784,421
Investment income	492	-	492
Total revenues	<u>12,792,097</u>	<u>2,252,278</u>	<u>15,044,375</u>
Expenditures			
Education			
Basic instruction	7,104,151	-	7,104,151
Exceptional instruction	535,664	-	535,664
Other instruction	243,227	-	243,227
Guidance services	318,380	-	318,380
Health services	148,603	-	148,603
Instructional media services	442,179	-	442,179
School administration	2,529,551	-	2,529,551
Fiscal services	293,751	-	293,751
Pupil transportation	246,880	-	246,880
Operation of plant	808,390	-	808,390
Maintenance of plant	298,596	-	298,596
Capital outlay	935,610	-	935,610
Debt service			
Principal	604,497	-	604,497
Interest	457,926	-	457,926
Total expenditures	<u>14,967,405</u>	<u>-</u>	<u>14,967,405</u>
Excess (deficit) of revenues over expenditures	(2,175,308)	2,252,278	76,970
Transfer between funds	<u>2,252,278</u>	<u>(2,252,278)</u>	<u>-</u>
Net change in fund balance	76,970	-	76,970
Fund balances, beginning of year	<u>984,584</u>	<u>-</u>	<u>984,584</u>
Fund balances, end of year	<u>\$ 1,061,554</u>	<u>\$ -</u>	<u>\$ 1,061,554</u>

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

SARASOTA MILITARY ACADEMY
(A CHARTER SCHOOL UNDER SARASOTA MILITARY ACADEMY, INC.)
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

Net change in fund balances, governmental funds \$ 76,970

Amounts reported in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.

Capital outlay expenditures	935,610	
Less current year depreciation	<u>(690,752)</u>	244,858

Repayment of principal is an expenditure in the governmental funds, but, the repayment reduces noncurrent liabilities in the statement of net position.

Principal repayments	<u>604,497</u>	604,497
----------------------	----------------	---------

Pension expenses in the statement of activities differ from the amount reported in the governmental funds because pension expenses are recognized on the statement of activities based on the School's proportionate share of the expenses of the cost-sharing pension plan, whereas pension expenditures are recognized in the governmental funds when a requirement to remit contributions to the plan exists.

	<u>(533,181)</u>	(533,181)
--	------------------	-----------

In the statement of activities, some revenues and expenses do not require the source or use of current financial resources and, therefore, are not reported as a revenue or expenditure in the governmental funds.

Change in value of interest rate swap	234,517	
Amortization of bond cost	<u>(243,452)</u>	<u>(8,935)</u>

Change in Net Position of Governmental Activities		\$ <u><u>384,209</u></u>
---	--	--------------------------

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

SARASOTA MILITARY ACADEMY
(A CHARTER SCHOOL UNDER SARASOTA MILITARY ACADEMY, INC.)

BALANCE SHEET - FIDUCIARY FUNDS

June 30, 2018

<u>Assets</u>	<u>Agency Fund</u>
Cash and cash equivalents	\$ <u>60,952</u>
Total Assets	\$ <u><u>60,952</u></u>
 <u>Liabilities and Fund Balance</u>	
Liabilities	
Due to clubs	\$ 60,952
Fund balance	<u>-</u>
Total Liabilities and Fund Balance	\$ <u><u>60,952</u></u>

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

SARASOTA MILITARY ACADEMY
(A CHARTER SCHOOL UNDER SARASOTA MILITARY ACADEMY, INC.)

SARASOTA MILITARY ACADEMY FOUNDATION, INC.

BALANCE SHEET - FIDUCIARY FUNDS

June 30, 2018

<u>Assets</u>	<u>Agency Funds</u>
Cash and cash equivalents	\$ <u>69,899</u>
 Total Assets	 \$ <u><u>69,899</u></u>
 <u>Liabilities and Net Assets</u>	
Liabilities	
Due to related party	\$ <u>30,604</u>
Net Assets	
Temporarily restricted	50,000
Unrestricted	<u>(10,706)</u>
 Total Net Assets	 <u>39,294</u>
 Total Liabilities and Net Assets	 \$ <u><u>69,899</u></u>

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

SARASOTA MILITARY ACADEMY
(A CHARTER SCHOOL UNDER SARASOTA MILITARY ACADEMY, INC.)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – ORGANIZATION

Sarasota Military Academy (the Charter School) is a not-for-profit corporation formed on March 30, 2001, pursuant to Chapter 617, Florida Statutes, the Florida Not-For-Profit Corporation Act, and Section 228.056, Florida Statutes. The governing body of the Charter School is a Board of Directors. The Charter School is dedicated to teaching principles of leadership, high academic standards, patriotism, and honor in a high-quality setting. The Charter School provides a full range of academic high school classes that follow the Sarasota School District approved curriculum guidelines that in turn follow the School Board of Sarasota County (School Board) approved curriculum guidelines.

The general operating authority of the Charter School is contained in Chapter 1002.33, Florida Statutes. The Charter School operates under a charter of the sponsoring school board, the School Board of Sarasota County, Florida (the School Board). The current charter is effective until June 30, 2028, and may be renewed by mutual agreement between the Charter School and the School Board. The Charter School is considered a component unit of the School Board and meets the definition of a governmental entity under the Audit and Accounting Guide – *State and Local Governments* issued by the American Institute of Certified Public Accountants; therefore, for financial reporting purposes, the Charter School is required to follow generally accepted accounting principles applicable to state and local governmental units.

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

NOTE 2 – SUMMARY OF ACCOUNTING PRINCIPLES

A. Basis of Presentation

The basic financial statements of the Charter School have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

SARASOTA MILITARY ACADEMY
(A CHARTER SCHOOL UNDER SARASOTA MILITARY ACADEMY, INC.)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2 – SUMMARY OF ACCOUNTING PRINCIPLES – CONTINUED

B. Implementation of New Governmental Accounting Standards

During the fiscal year end June 30, 2015, the Charter School adopted new accounting guidance and implemented the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* GASB Statement No. 63 identifies net position, rather than net assets, as the residual of all other elements presented in a Statement of Financial position. Deferred outflows of resources represent consumption of resources that is applicable to future reporting periods that will be reported in a separate section after assets. Deferred inflows of resources represent acquisition of resources that is applicable to future reporting period that will be reported in a separate section after liabilities.

Additionally, the Charter School implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities.* GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Statement No. 65 was incorporated in the Charter School’s financial statements starting in the fiscal year ended June 30, 2015.

During the fiscal year end June 30, 2015, the Charter School implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date.* GASB Statement No. 68 establishes standards for recognizing net pension liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures related to pension benefits provided through defined benefit pension plans. GASB Statement No. 71 amends GASB Statement No. 68 and addresses an issue regarding the application of the transition provisions in the year of implementation. It requires that in the year of implementation, the state or local government recognize a beginning deferred outflow for contributions for its pension contributions made after the date of measurement.

C. Government-Wide and Fund Financial Statements

The Charter School’s basic financial statements include both government-wide (reporting on the Charter School as a whole) and fund financial statements (reporting on the General Fund and Capital Outlay Fund). Both the government-wide and fund financial statements present only governmental activities. The Charter School has no business type activities.

SARASOTA MILITARY ACADEMY
(A CHARTER SCHOOL UNDER SARASOTA MILITARY ACADEMY, INC.)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2 – SUMMARY OF ACCOUNTING PRINCIPLES – CONTINUED

C. Government-Wide and Fund Financial Statements – Continued

In the government-wide statement of net position, the Charter School reports on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt obligations. The Charter School's net position are reported in two parts (as applicable): investment in capital assets, net of related debt and unrestricted net position.

The government-wide statement of activities demonstrates the degree to which the direct expenses of a given function (or segment) are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function or segment. Other revenues not properly included among program revenues are reported as general revenues.

The financial transactions of the Charter School are reported in individual funds in the fund financial statements. The operations of the funds are accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues, and expenditures.

The individual generic fund types in the Charter School's financial statements are governmental funds. The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income.

General Fund – is the Charter School's general operating fund. It accounts for all financial resources of the school, except those required to be accounted for in another fund.

Capital Project Fund – this fund is used to account for state capital outlay funding that is legally restricted to expenditures for particular purposes.

Fiduciary Fund – accounts for resources of the Charter School's Internal Fund, which is used to administer monies collected at the school in connection with school, student athletics, class, and club activities.

D. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

SARASOTA MILITARY ACADEMY
(A CHARTER SCHOOL UNDER SARASOTA MILITARY ACADEMY, INC.)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2 – SUMMARY OF ACCOUNTING PRINCIPLES – CONTINUED

D. Measurement Focus, Basis of Accounting and Financial Statement Presentation – Continued

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both 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.

For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is made.

Florida Education Finance Program revenue, State Categorical revenue, and ROTC revenue associated with the current fiscal period are considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Charter School.

E. Budgetary Basis of Accounting

The annual budget was adopted on the modified accrual basis of accounting. The level of budgetary control is at the entity level. All annual appropriations lapse at fiscal year-end. For fiscal year ended June 30, 2018, appropriations exceeded expenses by \$76,970. Revisions to the annual budget are approved by the Board.

F. Cash Deposits

All deposits are held in a major bank and consist primarily of demand deposits at June 30, 2018. For financial reporting purposes, cash and cash equivalents include all highly liquid investments with a maturity of three months or less.

G. Investments

Investments made locally consist of money market mutual funds and obligations of United States Agencies and Instrumentalities. Investments are reported at fair value based on acceptable Wall Street modeling and pricing conventions using broker quotes, executed trades, credit information and cash flows, as applicable. Investments are collateralized with securities held in Florida's multiple financial institution collateral pool as required by Chapter 280, Florida Statutes. Types and amounts of investments held at fiscal year-end are described in a subsequent note on investments.

SARASOTA MILITARY ACADEMY
(A CHARTER SCHOOL UNDER SARASOTA MILITARY ACADEMY, INC.)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2 – SUMMARY OF ACCOUNTING PRINCIPLES – CONTINUED

H. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

I. Capital Assets

Capital assets, which include property and equipment, are reported in the total column in the government-wide financial statements and are not reported in the fund financial statements. Capital assets are defined by the Charter School as assets with an initial cost of more than \$750 and an estimated useful life in excess of one year. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. All capital assets are depreciated using the straight-line method over their estimated useful lives. Useful lives vary from 5 to 39 years for buildings and improvements and 3 to 10 years for furniture, fixtures and equipment, motor vehicles and capital lease assets.

J. Interest Rate Swap

The Charter School entered into an interest rate swap transaction to reduce the economic risks associated with variability of cash outflows for interest required under the Educational Facilities Refunding Revenue Bond Agreement for Series 2012. Interest rate swap is recognized as either an asset or a liability at its fair value on the statement of net position with the change in the fair value reported in investment income on the statement of activities.

K. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employee's right to receive compensation is attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. The criteria for determining the vacation leave liability is derived from board policy, negotiated agreements, and state law.

The entire compensated absence liability is reported in the government-wide financial statements. For governmental fund financial statements, the amount of accumulated vacation and sick leave of employees has been recorded as accrued salaries and benefits to the extent that the amounts would normally be liquidated with expendable available financial resources, but the balance of the liability is not recorded. The liability at year-end includes salary related payments such as Social Security, Medicare and Florida retirement system contributions.

SARASOTA MILITARY ACADEMY
(A CHARTER SCHOOL UNDER SARASOTA MILITARY ACADEMY, INC.)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2 – SUMMARY OF ACCOUNTING PRINCIPLES – CONTINUED

L. Deferred Outflows and Inflows of Resources

The statement of net position includes separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future periods that will be recognized as an expense or expenditure in future periods. Deferred inflows of resources represent an acquisition of net position or fund balance that applies to future periods and will be recognized as revenues in the future periods.

M. Pensions

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 pension plan's fiduciary net position and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

N. Bonds Payable

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

In the governmental fund financial statements, bonds and other long-term obligations are not recognized as liabilities until due. Governmental fund types recognize bond discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

O. Fund Equity

Reservations of fund balance represent amounts that are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

P. Net Position

Net position represents the difference between assets and liabilities. Net position, investment in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position invested in capital assets, net of related debt excludes unspent debt proceeds.

SARASOTA MILITARY ACADEMY
(A CHARTER SCHOOL UNDER SARASOTA MILITARY ACADEMY, INC.)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2 – SUMMARY OF ACCOUNTING PRINCIPLES – CONTINUED

P. Net Position – Continued

Net position is reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, laws, or regulations. All net position not reported as net position, investment in capital assets, net of related debt and restricted net position, are reported as unrestricted net position.

When both restricted and unrestricted resources are available for use, it is the Charter School's policy to use the restricted resources first, then unrestricted resources as they are needed.

Q. Fund Balance

The Charter School adopted GASB 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* and GASB 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* effective for periods beginning after December 15, 2011. These standards provide guidance for state and local governments that redefines fund types and categories of fund balance.

In the fund financial statements, fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the Charter School is bound to honor constraints on the specific purpose for which amounts in the funds can be spent. Fund balance is reported in five components – nonspendable, restricted, committed, assigned and unassigned.

Nonspendable – This component includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted – This component consists of amounts that have constraints placed on them either externally by third-parties (creditors, grantors, contributors, or laws or regulations of other governments) or by law through constitutional provisions or enabling legislation.

Committed – This component consists of amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Charter School's highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the Charter School removes or changes the specified use by taking the same type of action it employed previously to commit those amounts.

Assigned – This component consists of amounts that are constrained by the Charter School's intent to be used for specific purposes, but are neither restricted nor committed. The authority for assigning fund balance is expressed by the Board of Directors.

Unassigned – This classification represents amounts that have not been restricted, committed or assigned to a specific purpose within the general fund. The general fund is the only fund that reports a positive assigned fund balance amount. Other governmental funds besides the general fund can only report a negative unassigned fund balance.

SARASOTA MILITARY ACADEMY
(A CHARTER SCHOOL UNDER SARASOTA MILITARY ACADEMY, INC.)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2 – SUMMARY OF ACCOUNTING PRINCIPLES – CONTINUED

Q. Fund Balance – Continued

When both restricted and unrestricted resources are available for use, it is the Charter School's policy to use restricted resources first, then unrestricted resources (committed, assigned and unassigned) as they are needed. When unrestricted resources (committed, assigned and unassigned) are available for use it is the Charter School's policy to use committed resources first, then assigned, and then unassigned as they are needed.

R. Fund Balance/Net Position Policy

The Charter School has a fund balance/net position policy tailored to the needs of the Charter School to insure against unanticipated events that would adversely affect the financial condition of the Charter School and jeopardize the continuation of services. This policy will ensure the Charter School maintains adequate fund balance/net position and reserves in the Charter School's operating fund to provide the capacity to: (1) provide sufficient cash flow for daily financial needs, (2) secure and maintain investment grade bond ratings, (3) offset significant economic downturns and revenue shortfalls, and (4) provide funds for unforeseen expenditures related to emergencies.

The Charter School will maintain reservations of fund balance/net position in the general fund. The Charter School shall retain the minimum requirement.

S. Revenue Sources

Revenues for current operations are received primarily from the School Board of Sarasota County (School Board) pursuant to the funding provisions included in the Charter School's charter. In accordance with the funding provisions of the charter and Chapter 1002.33(17), Florida Statutes, the Charter School reports the number of full-time equivalent (FTE) students and related data to the School Board. Under the provisions of Chapter 1011.62, Florida Statutes, the School Board reports the number of FTE students and related data to the Florida Department of Education (FDOE) for funding through the Florida Education Finance Program (FEFP). Funding for the Charter School is adjusted during the year to reflect the revised calculations by the FDOE under the FEFP and the actual weighted FTE students reported by the Charter School during the designated FTE student survey periods.

The Charter School also receives federal awards for the enhancement of various educational programs. Federal awards are generally received based on applications submitted to and approved by various granting agencies. For federal awards in which a claim to these grant proceeds is based on incurring eligible expenditures, revenue is recognized to the extent that eligible expenditures have been incurred.

Additional revenues are derived from various fundraising activities, contributions and interest earned.

SARASOTA MILITARY ACADEMY
(A CHARTER SCHOOL UNDER SARASOTA MILITARY ACADEMY, INC.)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2 – SUMMARY OF ACCOUNTING PRINCIPLES – CONTINUED

T. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employee's right to receive compensation is attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. The criteria for determining the vacation leave liability is derived from board policy, negotiated agreements, and state law.

U. Income Taxes

The Charter School qualifies as a tax-exempt organization under Internal Revenue Code Section 501(c)(3). The Charter School's status as a tax exempt not-for-profit entity is considered a tax position subject to reporting requirements under FASB Accounting Standards Codification 740-10. Entities are required to examine all tax positions and determine if it is more likely than not that the positions would be sustained upon examination by taxing authorities. The Charter School has not recorded any accruals for uncertain income tax positions at June 30, 2018.

V. Implementation of GASB Standards

During the year ended June 30, 2018, the Charter School implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB Statement No. 65 requires bond issuance costs, which were previously deferred and amortized, to be included in current expenditures. As a result, deferred bond issuance costs totaling \$243,452 are included in current fiscal year expenditures.

W. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 3 – CASH AND CASH EQUIVALENTS

Custodial credit risk is the risk that in the event of bank failure, the Charter School's deposits may not be returned. The Charter School can mitigate this risk by depositing funds in financial institutions insured by Federal depository insurance. The deposits are insured by the FDIC up to \$250,000 per bank institution. At June 30, 2018, the carrying amount of the Charter School's deposits was \$1,464,834 and bank balances totaled \$1,576,103. The Charter School had uninsured balances of \$1,326,103 at June 30, 2018.

SARASOTA MILITARY ACADEMY
(A CHARTER SCHOOL UNDER SARASOTA MILITARY ACADEMY, INC.)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 4 – INVESTMENTS

Investments as of June 30, 2018, are shown below:

<u>Investments</u>	<u>Maturities</u>	<u>Fair Value</u>
Stifel Nicolaus Money Market Fund	<90 days	\$ 89,583
Obligations of United States Agencies and Instrumentalities	25 years average	<u>37,630</u>
Total Investments		<u>\$ 127,213</u>

Interest Rate and Custodial Risk

Section 218.415, Florida Statutes, limits investment maturities to provide sufficient liquidity to pay obligations as they come due. The Charter School does not have a formal investment or custodial risk policy that limits maturities as a means of managing its exposure to fair value losses from increasing interest rates.

The Charter School has \$37,630 invested in obligations of United States agencies and instrumentalities that are held by a safekeeping agent in the name of the Charter School. These securities contain embedded options to call the entire security or a portion thereof, at the option of the issuer; or, depending on market conditions, the issuer may decide to leave the security intact, at stated interest rates, until final maturity. These securities have various call dates with final maturity between January 2042 and July 2043. Securities in this category are issued by the Federal National Mortgage Association and the Government National Mortgage Association.

NOTE 5 – DUE FROM RELATED PARTY

Sarasota Military Academy Foundation, Inc. (Foundation), is a not-for-profit corporation formed on January 09, 2017. The governing body of the Foundation is appointed by the board of directors of the Charter School. The Foundation was established to receive, accept, and administer, for the benefit of the Charter School, any funds, and tangible or intangible property, donated to the corporation. The Charter School and Foundation entered into a support services agreement whereby the Charter School will provide support funding, based on reasonable value, to be repaid by the Foundation to the Charter School from available donated funds collected by the Foundation. As of June 30, 2018, the Foundation owes the Charter School \$30,604.

SARASOTA MILITARY ACADEMY
(A CHARTER SCHOOL UNDER SARASOTA MILITARY ACADEMY, INC.)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018 was as follows:

	Balance July 1, <u>2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	Balance June 30, <u>2018</u>
Capital assets, not being depreciated					
Land	\$ 8,398,300	\$ -	\$ -	\$ -	\$ 8,398,300
Construction-in-progress	<u>8,201</u>	<u>-</u>	<u>-</u>	<u>(8,201)</u>	<u>-</u>
	8,406,501	-	-	(8,201)	8,398,300
Capital assets, being depreciated					
Land improvements	97,349	18,628	-	-	115,977
Buildings and improvements	13,236,502	323,704	-	-	13,560,206
Furniture, fixtures and equipment	2,269,647	231,401	-	-	2,501,048
Motor vehicles	<u>398,121</u>	<u>370,078</u>	<u>-</u>	<u>-</u>	<u>768,199</u>
Total capital assets being depreciated	<u>16,001,619</u>	<u>943,811</u>	<u>-</u>	<u>-</u>	<u>16,945,430</u>
Less accumulated depreciation					
Land improvements	38,203	8,995	-	-	47,198
Buildings and improvements	2,366,046	353,910	-	-	2,719,956
Furniture, fixtures and equipment	1,593,167	252,158	-	-	1,845,325
Motor vehicles	<u>268,749</u>	<u>75,689</u>	<u>-</u>	<u>-</u>	<u>344,438</u>
Total accumulated depreciation	<u>4,266,165</u>	<u>690,752</u>	<u>-</u>	<u>-</u>	<u>4,956,917</u>
Total capital assets being depreciated, net	<u>11,735,454</u>	<u>253,059</u>	<u>-</u>	<u>-</u>	<u>11,988,513</u>
Capital Assets, net	<u>\$ 20,141,955</u>	<u>\$ 253,059</u>	<u>\$ -</u>	<u>\$ (8,201)</u>	<u>\$ 20,386,813</u>

Depreciation expenses were charged to the following functions:

	<u>June 30, 2018</u>
Basic instruction	\$ 266,465
Exceptional instruction	7,750
Other instruction	4,970
Guidance services	488
Health services	1,198
Instructional media services	172,137
School administration	24,562
Facilities acquisition and construction	3,882
Fiscal services	153
Pupil transportation	69,294
Operation of plant	136,965
Maintenance of plant	<u>2,888</u>
Total	<u>\$ 690,752</u>

SARASOTA MILITARY ACADEMY
(A CHARTER SCHOOL UNDER SARASOTA MILITARY ACADEMY, INC.)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 7 – NONCURRENT LIABILITIES

Activity for noncurrent liabilities for the year ended June 30, 2018 was as follows:

	Balance July 1, <u>2017</u>	<u>Additions</u>	<u>Reductions</u>	Due Within <u>One Year</u>	Balance June 30, <u>2018</u>
Governmental activities					
Interest rate swap	\$ 487,361	\$ -	\$ 234,517	\$ -	\$ 252,844
Compensated absences	18,307	-	-	-	18,307
Net pension liability – FRS	3,519,416	693,788	-	-	4,213,204
Net pension liability – HIS	2,546,139	-	181,272	-	2,364,867
Notes payable	213,867	-	92,693	92,688	121,174
Bonds payable	<u>12,666,083</u>	<u>-</u>	<u>500,486</u>	<u>503,626</u>	<u>12,165,597</u>
Totals	\$ <u>19,451,173</u>	\$ <u>693,788</u>	\$ <u>1,008,968</u>	\$ <u>596,314</u>	\$ <u>19,135,993</u>

Notes Payable

The Charter School is obligated on long-term debt in the form of a \$367,445 promissory note due to Wells Fargo Equipment Finance, Inc. for the purchase of various equipment. The note is payable at 3.99% interest in monthly principal and interest installments of \$8,295 until the maturity date on September 15, 2020. Interest and related charges paid during the year ended June 30, 2018 were \$10,639. Future maturities of long-term debt are as follows:

Fiscal Year Ending

<u>June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 92,688	\$ 6,851	\$ 99,539
2020	96,452	3,087	99,539
2021	<u>24,722</u>	<u>174</u>	<u>24,896</u>
Total	\$ <u>213,862</u>	\$ <u>10,112</u>	\$ <u>223,974</u>

Bonds Payable and Interest Rate Swaps

Educational Facilities Refunding Revenue Bonds, Series 2012

On July 18, 2012, the Charter School entered into a bond purchase agreement with Wells Fargo Bank and Sarasota County for the purchase and sale of \$5,565,000 of Educational Facilities Refunding Revenue Bonds (Sarasota Military Academy, Inc. Project), Series 2012. The bonds were sold to enable the Charter School to refinance its obligations related to the Tax-Exempt Adjustable Mode Industrial Development Revenue Bonds Series 2005 and Series 2008. The bonds bear interest at a weekly rate and continue to bear interest at the weekly rate to the date upon which the interest rate is converted, if ever, to the Flexible Term Rate, the Medium Term Rate or the Fixed Rate in accordance with the terms of the Indenture. The bonds mature annually on July 19, with final maturity on July 19, 2037. The bonds are secured by an irrevocable, direct-pay letter of credit with Wells Fargo.

SARASOTA MILITARY ACADEMY
(A CHARTER SCHOOL UNDER SARASOTA MILITARY ACADEMY, INC.)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 7 – NONCURRENT LIABILITIES – CONTINUED

Educational Facilities Refunding Revenue Bonds, Series 2012 – Continued

Additionally, the Charter School entered into an interest rate swap agreement with Wells Fargo Bank in conjunction with these bonds through July 18, 2027. The interest rate swap agreement had an original notional amount of \$5,565,000 and declines as debt service payments are made. Under the swap agreement, the Charter School pays a fixed rate of 4.63% and receives interest at a variable rate equal to 77% of the USD-LIBOR-BBA, based on the notional amount which at June 30, 2018, was \$4,645,000. Interest payments are due monthly and the variable rate resets weekly based on a weighted average.

The Charter School has certain loan covenants within their agreements with Wells Fargo. As of June 30, 2018 these loan covenants are being met.

Annual debt service requirements to maturity for the bonds are as follows:

	<u>Educational Facilities Refunding Revenue Bonds</u>		
Fiscal Year Ending	<u>Principal</u>	<u>Interest</u>	<u>Principal and Interest Total</u>
<u>June 30:</u>	<u>Series 2012</u>	<u>Total</u>	<u>Interest Total</u>
2019	\$ 155,000	\$ 212,128	\$ 367,128
2020	161,000	199,069	360,069
2021	168,000	187,904	355,904
2022	176,000	176,109	352,109
2023-2027	1,012,000	703,165	1,715,165
2028	<u>3,128,000</u>	<u>14,568</u>	<u>3,142,568</u>
Total	<u>\$ 4,800,000</u>	<u>\$ 1,492,943</u>	<u>\$ 6,292,943</u>
Total bonds payable		4,800,000	
Current portion		<u>(155,000)</u>	
Noncurrent portion		<u>\$ 4,645,000</u>	

Educational Facilities Revenue Bonds, Series 2016A and 2016B

On March 25, 2016, the Charter School entered into a bond purchase agreement with Wells Fargo Bank and Sarasota County for the purchase and sale of \$7,554,540 of Educational Facilities Revenue Bonds (Sarasota Military Academy, Inc. Project), Series 2016A and Series 2016B in an aggregate principal amount not to exceed \$1,000,000 in one or more advances. The bonds were sold to enable the Charter School to finance the acquisition of land and existing building constituting a middle school located at 3101 Bethel Lane in Sarasota, Florida and the cost of constructing on such land, a new classroom building and payments of cost in connection with the issuance of the bonds.

SARASOTA MILITARY ACADEMY
(A CHARTER SCHOOL UNDER SARASOTA MILITARY ACADEMY, INC.)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 7 – NONCURRENT LIABILITIES – CONTINUED

Educational Facilities Revenue Bonds, Series 2016A and 2016B – Continued

The Series 2016A bonds bear interest at a rate of 2.74% per annum. Principal and interest are due to be paid on the 15th day of each month in accordance with the terms of the Indenture. On the maturity date, all the outstanding principal shall be due and payable. Interest shall be computed on an actual/360 simple interest basis. The Series 2016A bonds mature on April 15, 2036. The bond is secured by an assignment by Sarasota County, Florida (the issuer), to Wells Fargo Bank of its rights in the Agreement and the Note, and an endorsement by the issuer without recourse of the note payable to the order of Wells Fargo Bank. Payment of the bond is further secured by a First Mortgage, Assignment of Leases and Rents and Security Agreement and a Second Mortgage, Assignment of Leases and Rents and Security Agreement from the Charter School to Wells Fargo Bank.

During the year ended, June 30, 2016, the Charter School was advanced \$196,772 in accordance with the Series 2016B bond agreement. The Series 2016B bonds bear interest at a rate of 2.84% per annum. Interest is to be paid on the 15th day of each month commencing on May 15, 2016. Interest shall be computed on an actual/360 simple interest basis. The Series 2016B bonds mature on April 15, 2036. On the maturity date, all outstanding principal shall be due and payable. The bond is secured by an assignment by Sarasota County, Florida (the issuer), to Wells Fargo Bank of its rights in the Agreement and the Note, and an endorsement by the issuer without recourse of the note payable to the order of Wells Fargo Bank. Payment of the bond is further secured by a First Mortgage, Assignment of Leases and Rents and Security Agreement and a Second Mortgage, Assignment of Leases and Rents and Security Agreement from the Charter School to Wells Fargo Bank.

The Charter School has certain loan covenants within their agreements with Wells Fargo. As of June 30, 2018 these loan covenants are being met.

Annual debt service requirements to maturity for the bonds are as follows:

Fiscal Year Ending	Educational Facilities		
	Revenue		
	<u>Bonds</u>		
<u>June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal and</u>
	<u>Series 2016A&B</u>	<u>Total</u>	<u>Interest Total</u>
2019	\$ 348,626	\$ 212,089	\$ 560,715
2020	358,340	202,375	560,715
2021	368,327	192,388	560,715
2022	378,592	182,124	560,716
Thereafter	<u>6,415,338</u>	<u>1,296,542</u>	<u>7,711,880</u>
Total	<u>\$ 7,869,223</u>	<u>\$ 2,085,518</u>	<u>\$ 9,954,741</u>
Total bonds payable		7,869,223	
Current portion		<u>348,626</u>	
Noncurrent portion		<u>\$ 7,520,597</u>	

SARASOTA MILITARY ACADEMY
(A CHARTER SCHOOL UNDER SARASOTA MILITARY ACADEMY, INC.)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 8 – DERIVATIVE INSTRUMENTS

The Charter School is a party to contracts for various derivative instruments, as discussed below. At June 30, 2018, the Charter School has the following derivative instruments outstanding:

Governmental Activities <u>Fair Value Hedge</u>	Notional <u>Amount</u>	<u>Fair Value</u>		<u>Changes in Fair Value</u>	
		<u>Classification</u>	<u>Amount</u>	<u>Classification</u>	<u>Amount</u>
Pay-fixed interest rate swap	\$ 4,800,000	Debt	\$ (252,844)	Investment Revenue	\$ 234,517

The Charter School is exposed to interest rate risk on its swap agreement. On the pay-fixed, recent variable interest rate swap, the Charter School’s net payment increases as LIBOR decreases.

The derivative instrument may be terminated at any time if certain events occur that result in one party not performing in accordance with the agreement. The derivative instrument can be terminated due to illegality, a credit event upon merger, or an event of default. It can also be terminated if credit ratings fall below established levels.

NOTE 9 – DEFINED BENEFIT PENSION PLAN – FLORIDA RETIREMENT SYSTEM (FRS)

Plan Description

All part-time and full-time permanent employees of the Charter School are covered by the Florida Retirement System. The Florida Retirement System (FRS) is a cost-sharing, multiple-employer, defined benefit retirement plan available to governmental units within the State of Florida. The plan was created by the Florida Legislature and is administered by the State of Florida, Department of Administration.

The plan provisions are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System rules, Chapter 60S, Florida Administrative Code, wherein eligibility, contributions, and benefits are defined and described in detail. Senate Bill 2100, effective July 1, 2011 made a number of substantial changes to the FRS, including requiring 3% employee contributions on all compensation on or after July 1, 2011. The following are brief descriptions of the Plan in effect as of June 30, 2018.

For a more complete description, refer to the Florida Retirement System Pension Plan and Other State Administered Systems Comprehensive Annual Financial report. The report may be obtained by writing to the Florida Retirement System, Division of Retirement, P.O. Box 9000, Tallahassee, Florida 32315-9000.

SARASOTA MILITARY ACADEMY
(A CHARTER SCHOOL UNDER SARASOTA MILITARY ACADEMY, INC.)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 9 – DEFINED BENEFIT PENSION PLAN – FLORIDA RETIREMENT SYSTEM (FRS) –
CONTINUED

Benefits Provided

Benefits in the plan vest at six years of service for those enrolled in the FRS prior to July 1, 2011 and eight years of service for those enrolled in the FRS on or after July 1, 2011. The plan also includes an early retirement provision, but imposes a penalty for each year a member retires before his or her normal retirement date. The plan provides retirement, disability, and death benefits and annual cost-of-living adjustments, as well as supplements for certain employees to cover social security benefits lost by virtue of retirement system membership.

The plan provides vesting of benefits after six years for those enrolled in the FRS prior to July 1, 2011 and eight years for those enrolled in the FRS on or after July 1, 2011. Members who were enrolled prior to July 1, 2011 are eligible for normal retirement after they have met one of the following: (1) thirty years of service, regardless of age, or (2) age 62 and six years of service. Members who were enrolled on or after July 1, 2011 are eligible for normal retirement after they have met one of the following: (1) thirty-three years of service, regardless of age or (2) age 65 and eight years of service.

Early retirement may be taken any time after completing six years of service for those enrolled in the FRS prior to July 1, 2011 and eight years for those enrolled in the FRS on or after July 1, 2011; however, there is a 5% benefit reduction for each year prior to normal retirement. The normal retirement age is 62 for those enrolled in the FRS prior to July 1, 2011 and 65 for those enrolled in the FRS on or after July 1, 2011. Benefits are computed on the basis of age, average final compensation, and service credit. Average final compensation is the average of the five highest years of earnings.

The plan also provides death and disability benefits. Benefits are estimated by Florida Statutes and include cost of living adjustments.

Contributions

Effective July 1, 2011, both employees and employers of the FRS are required to make contributions to establish service credit for work performed in a regularly established position. Effective July 1, 2002, the Florida Legislature established a uniform contribution rate system for the FRS, covering both the Pension Plan and the Investment Plan. The uniform employer contribution rate for regular class members for the fiscal year 2017-2018 was 5.80%. These rates exclude the 1.66 percent contribution for the Retiree Health Insurance Subsidy, the fee of 0.06 percent for administration of the FRS Investment Plan and provision of educational tools for both plans, and unfunded actuarial liability rates. The employee contribution rate was 3% for the fiscal year ended June 30, 2018.

The Charter School's contribution to the plan for the year ended June 30, 2018 were \$600,507.

SARASOTA MILITARY ACADEMY
(A CHARTER SCHOOL UNDER SARASOTA MILITARY ACADEMY, INC.)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

**NOTE 9 – DEFINED BENEFIT PENSION PLAN – FLORIDA RETIREMENT SYSTEM (FRS) –
CONTINUED**

FRS Pension Liability and Expense and Deferred Outflows and Inflows of Resources

At June 30, 2018, the Charter School reported a liability of \$4,213,204 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by rolling forward the Plan's total pension liability as of June 30, 2016 to June 30, 2017. The Charter School's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2017, the Charter School's proportions were 0.009046043 percent and .005197701 percent, which was an increase of 0.000864698 percent and an increase of .001170206 percent from its proportions measured as of June 30, 2016.

For the year ended June 30, 2018, the Charter School recognized pension expense of \$383,831. At June 30, 2018, the Charter School reported deferred outflows of resources and deferred inflows of resources related to FRS pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in investments	\$ -	\$ 74,829
Changes in employer's proportions	648,253	344,870
Experience	386,670	14,822
Assumptions	1,037,548	-
Contributions subsequent to the date of measurement	<u>422,373</u>	<u>-</u>
	<u>\$ 2,494,844</u>	<u>\$ 434,521</u>

An amount of \$422,373 is reported as deferred outflows of resources resulting from the Charter School's contributions subsequent to the June 30, 2017 measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts will be reported as deferred outflows of resources and deferred inflows of resources related to pensions, and will be recognized in pension expense as follows:

Year Ending June 30:

2019	\$ 323,824
2020	323,824
2021	323,824
2022	323,824
2023	323,824
Thereafter	<u>453,351</u>
Total	<u>\$2,072,471</u>

SARASOTA MILITARY ACADEMY
(A CHARTER SCHOOL UNDER SARASOTA MILITARY ACADEMY, INC.)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

**NOTE 9 – DEFINED BENEFIT PENSION PLAN – FLORIDA RETIREMENT SYSTEM (FRS) –
CONTINUED**

Actuarial Assumptions for Defined Benefit Pension Plan

The total pension liability for the cost-sharing multiple-employer defined benefit pension plan was determined by an actuarial valuation as of the valuation date, calculated based on the discount rate and actuarial assumptions below. The total pension liability is calculated using the Individual Entry Age Normal cost allocation method, which differs from the Ultimate Entry Age Normal cost allocation method used in the funding valuation for the System. Additionally, the net pension liability above adjusted upward to reflect any balance in the Contribution Clearing Trust Fund as of the measurement date.

The discount rate and long term expected rate of return, net of investment expense for the fiscal year ended June 30, 2016 and June 30, 2017 was 7.60% and 7.10%, respectively. 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.

The other key actuarial assumptions for the year ended June 30, 2016 and 2017 are as follows:

	<u>June 30, 2016</u>	<u>June 30, 2017</u>
Valuation date	July 1, 2016	July 1, 2017
Measurement date	June 30, 2016	June 30, 2017
Inflation	2.60%	2.60%
Salary increases including inflation	3.25%	3.25%
Mortality	Generational RP-2000 Projection Scale BB	Generation RP-2000 Projection Scale BB
Actuarial cost method	Entry Age Normal	Entry Age Normal

SARASOTA MILITARY ACADEMY
(A CHARTER SCHOOL UNDER SARASOTA MILITARY ACADEMY, INC.)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 9 – DEFINED BENEFIT PENSION PLAN – FLORIDA RETIREMENT SYSTEM (FRS) –
CONTINUED

Long-Term Expected Rate of Return

To develop an analytical basis for the selection of the long-term expected rate of return assumption, in October 2017 the FRS Actuarial Assumptions conference reviewed long-term assumptions developed by both Milliman’s capital market assumptions team and by a capital market assumptions team from Aon Hewitt Investment Consulting, which consults to the Florida State Board of Administration. The table below shows Milliman’s assumptions for each of the asset classes in which the plan was invested at that time based on the long-term target asset allocation. The allocation policy’s description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes an adjustment for the inflation assumption. These assumptions are not based on historical returns, but instead are based on a forward-looking capital market economic model.

<u>Asset Class</u>	<u>Target Allocation*</u>	<u>Annual Arithmetic Return</u>	<u>Compound Annual (Geometric) Return</u>	<u>Standard Deviation</u>
Cash	1.00%	3.00%	3.00%	1.80%
Fixed Income	18.00%	4.50%	4.40%	4.20%
Global Equities	53.00%	7.80%	6.60%	17.00%
Real Estate (property)	10.00%	6.60%	5.90%	12.80%
Private Equities	6.00%	11.50%	7.80%	30.00%
Strategic Investments	12.00%	6.10%	5.60%	9.70%
Assumed Inflation - Mean		2.60%		1.90%

*as outlined in the Plan’s investment policy.

Sensitivity Analysis

The following presents the net pension liability, calculated using the discount rate of 7.10 percent, as well as what net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.10 percent) or one percentage point higher (8.10 percent) than the current rate.

	1% Decrease <u>6.10%</u>	Current Discount Rate <u>7.10%</u>	1% Increase <u>8.10%</u>
Total FRS net pension liability	\$53,536,799,032	\$29,579,329,032	\$9,689,140,032
Charter School’s proportionate share of the net pension liability	\$7,625,645	\$4,213,204	\$1,380,096

SARASOTA MILITARY ACADEMY
(A CHARTER SCHOOL UNDER SARASOTA MILITARY ACADEMY, INC.)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 10 – DEFINED BENEFIT PLAN – HEALTH INSURANCE SUBSIDY PROGRAM

The Retiree Health Insurance Subsidy (HIS) Program is a cost-sharing multiple-employer defined benefit pension plan established under section 112.363, Florida Statutes. 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 Department of Management Services. For the fiscal year ended June 30, 2018, eligible retirees and beneficiaries received a monthly HIS payment equal to the number of years of creditable service completed at the time of retirement multiplied by \$5. The payments are at least \$30 but not more than \$150 per month, pursuant to section 112.363, Florida Statutes. To be eligible to receive a HIS benefit, a retiree under a state-administered retirement system must provide proof of health insurance coverage, which can include Medicare.

The HIS Program is funded by required contributions from FRS participating employers as set by the Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the fiscal year ended June 30, 2017, the contribution rate was 1.66 percent of payroll pursuant to section 112.363, Florida Statutes. HIS contributions are deposited in a separate trust fund from which HIS payments are authorized. HIS 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.

HIS Pension Liability and Expense and Deferred Outflows and Inflows of Resources

At June 30, 2018, the School reported a liability of \$2,364,867 for its proportionate share of the HIS net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by rolling forward the Plan's total pension liability as of June 30, 2016 to June 30, 2017. The Charter School's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2017, the Charter School's proportions were 0.014462872 percent and .007654283 percent, which was a decrease of .001431888 percent and an increase of .0017023770 percent, respectively, from its proportions measured as of June 30, 2016.

For the year ended June 30, 2018, the Charter School recognized pension expense of \$149,350. At June 30, 2018, the Charter School reported deferred outflows of resources and deferred inflows of resources related to FRS pensions from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Net loss on investments	\$ 1,312	\$ -
Assumptions	238,147	204,493
Experience		4,924
Change in employers proportions	624,006	212,868
Contributions subsequent to the date of measurement	<u>125,414</u>	<u>-</u>
	<u>\$ 988,879</u>	<u>\$ 422,285</u>

SARASOTA MILITARY ACADEMY
 (A CHARTER SCHOOL UNDER SARASOTA MILITARY ACADEMY, INC.)
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2018

NOTE 10 – DEFINED BENEFIT PLAN – HEALTH INSURANCE SUBSIDY PROGRAM –
 CONTINUED

HIS Pension Liability and Expense and Deferred Outflows and Inflows of Resources – Continued

An amount of \$125,414 is reported as deferred outflows of resources resulting from the Charter School's contributions subsequent to the June 30, 2017 measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts will be reported as deferred outflows of resources and deferred inflows of resources related to pensions, and will be recognized in pension expense as follows:

Year Ending June 30:

2019	\$ 119,925
2020	119,925
2021	119,925
2022	119,925
2023	119,925
Thereafter	<u>263,840</u>
Total	<u>\$ 863,465</u>

Actuarial Assumptions for Defined Benefit Health Insurance Premium Benefit Plan

The total pension liability for the cost-sharing multiple-employer defined benefit health insurance premium benefit plan was determined by an actuarial valuation as of the valuation date, calculated based on the discount rate and actuarial assumptions below, and then was projected to the measurement date. Any significant changes during this period have been reflected as prescribed by GASB 67.

The discount rate and municipal bond rate for the fiscal year ended June 30, 2016 and June 30, 2017 was 2.85% and 3.58%, respectively. In general, the discount rate for calculating the total pension liability under GASB 67 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 plan sponsor.

The other key actuarial assumptions for the year ended June 30, 2016 and 2017 are as follows:

SARASOTA MILITARY ACADEMY
(A CHARTER SCHOOL UNDER SARASOTA MILITARY ACADEMY, INC.)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 10 – DEFINED BENEFIT PLAN – HEALTH INSURANCE SUBSIDY PROGRAM –
CONTINUED

Actuarial Assumptions for Defined Benefit Health Insurance Premium Benefit Plan - Continued

	<u>June 30, 2016</u>	<u>June 30, 2017</u>
Valuation date	July 1, 2016	July 1, 2017
Measurement date	June 30, 2016	June 30, 2017
Inflation	2.60%	2.60%
Salary increases including inflation	3.50%	3.50%
Mortality	Generational RP-2000 Projection Scale BB	Generation RP-2000 Projection Scale BB
Actuarial cost method	Entry Age Normal	Entry Age Normal

Sensitivity Analysis

The following presents the net pension liability of the health insurance premium benefit plan calculated using the discount rate of 3.58 percent, as well as what net pension liability would be if it were calculated using a discount rate that is one percentage point lower (2.58 percent) or one percentage point higher (4.58 percent) than the current rate.

	1% Decrease <u>3.85%</u>	Current Discount Rate <u>2.85%</u>	1% Increase <u>1.85%</u>
Total net pension liability - HIS	\$12,201,514,391	\$10,692,461,377	\$9,435,503,574
Charter School's proportionate share of the net pension liability	\$2,398,888	\$2,364,888	\$2,086,865

NOTE 11 – OPERATING LEASE

In January 2014, the Charter School entered into an agreement to lease printers and copiers for 60 months at \$5,375 per month, with a buy-out at fair market value at the end of the lease. Lease payments for the year ended June 30, 2018 were \$64,500.

Approximate future minimum lease payments as of June 30, 2018 are as follow:

2019	\$ <u>24,725</u>
Total	\$ <u>24,725</u>

SARASOTA MILITARY ACADEMY
(A CHARTER SCHOOL UNDER SARASOTA MILITARY ACADEMY, INC.)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 12 – RISK MANAGEMENT

The Charter School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the Charter School has purchased commercial insurance. The Charter School has not had any reduction in insurance coverage and settlements have not exceeded coverage for each of the past three fiscal years.

NOTE 13 – LITIGATION

The School Board is contingently liable with respect to lawsuits and other claims that arise in the ordinary course of its operations. Management believes that any liability arising from such claims would be immaterial to the financial statements.

NOTE 14 – FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE

Certain of the Charter School's financial instruments are not measured at fair value on a recurring basis but nevertheless are recorded at amounts that approximate fair value due to their liquid or short-term nature. Such financial assets and financial liabilities include: cash and cash equivalents, due from other governments, accounts payable, and accrued expenses.

NOTE 15 – EVALUATION OF SUBSEQUENT EVENTS

The Charter School has evaluated subsequent events through September 17, 2018, the date the financial statements were available for issuance, and has determined that there are no additional subsequent events that require disclosure.

REQUIRED SUPPLEMENTARY INFORMATION

SARASOTA MILITARY ACADEMY
(A CHARTER SCHOOL UNDER SARASOTA MILITARY ACADEMY, INC.)

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED JUNE 30, 2018
UNAUDITED

	Budgeted Amounts		Actual	Over / (Under)
	Original	Final		
Revenues				
Federal direct	\$ 362,963	\$ 362,963	\$ 358,991	\$ (3,972)
Federal through state	69,045	69,045	58,025	(11,020)
State and local	12,637,817	13,950,785	13,842,446	(108,339)
Other	749,679	752,679	784,913	32,234
Total revenues	13,819,504	15,135,472	15,044,375	(91,097)
Expenses				
Basic instruction	5,746,494	5,996,811	7,104,151	1,107,340
Exceptional instruction	1,184,691	1,236,295	535,664	(700,631)
Other instruction	175,536	183,182	243,227	60,045
Guidance services	465,110	485,370	318,380	(166,990)
Health services	-	-	148,603	148,603
Instructional media services	578,387	603,581	442,179	(161,402)
School administration	2,483,778	2,591,971	2,529,551	(62,420)
Fiscal services	245,068	255,743	293,751	38,008
Pupil transportation	257,801	483,337	246,880	(236,457)
Operation of plant	1,218,091	1,271,151	808,390	(462,761)
Maintenance of plant	367,383	383,386	298,596	(84,790)
Capital Outlay	-	-	935,610	935,610
Debt service	1,170,289	1,816,475	1,062,423	(754,052)
Total expenses	13,892,628	15,307,302	14,967,405	(339,897)
Excess (deficit) of revenues over expenditures	(73,124)	(171,830)	76,970	248,800
Change in net assets	\$ <u>(73,124)</u>	\$ <u>(171,830)</u>	\$ <u>76,970</u>	\$ <u>248,800</u>

Notes to Required Supplementary Information:

The budget was prepared on the modified accrual basis of accounting. All annual appropriations lapse at fiscal year end.

SARASOTA MILITARY ACADEMY
(A CHARTER SCHOOL UNDER SARASOTA MILITARY ACADEMY, INC.)

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION
LIABILITY AND CONTRIBUTIONS - FRS

FOR THE YEAR ENDED JUNE 30, 2018
UNAUDITED

<u>PROPORTIONATE SHARE OF NET PENSION LIABILITY</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Charter School's proportion of the net pension liability	0.009046043%	0.009910741%
	0.005197701%	0.004027495%
Charter School's proportion of the net pension liability - dollar value	\$ 4,213,204	\$ 3,519,416
Charter School's covered employee payroll	\$ 7,049,786	\$ 6,744,577
Charter School's proportionate share of the net pension liability as a percentage of its covered employee payroll	59.76%	52.18%
Plan fiduciary net position as a percentage of the total pension liability	83.89%	84.88%
 <u>CONTRIBUTIONS</u>	 <u>June 30, 2017</u>	 <u>June 30, 2016</u>
Contractually required contribution	\$ 422,373	\$ 146,664
Contribution in relation to the contractually required contribution	<u>(422,373)</u>	<u>(146,664)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Charter School's covered-employee payroll	\$ 7,049,786	\$ 6,744,577
Contributions as a percentage of covered - employee payroll	5.99%	2.17%

* The amounts presented for each fiscal year were determined as of 6/30.

* Complete 10-year information to be presented in future years as it becomes available.

SARASOTA MILITARY ACADEMY
(A CHARTER SCHOOL UNDER SARASOTA MILITARY ACADEMY, INC.)

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION
LIABILITY AND CONTRIBUTIONS - HIS

FOR THE YEAR ENDED JUNE 30, 2018
UNAUDITED

<u>PROPORTIONATE SHARE OF NET PENSION LIABILITY</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Charter School's proportion of the net pension liability	0.014462872%	0.015894760%
	0.007654283%	0.005951906%
Charter School's proportion of the net pension liability - dollar value	\$ 2,364,868	\$ 2,546,138
Charter School's covered employee payroll	\$ 7,049,786	\$ 6,744,577
Charter School's proportionate share of the net pension liability as a percentage of its covered employee payroll	33.55%	37.75%
Plan fiduciary net position as a percentage of the total pension liability	1.64%	0.97%
 <u>CONTRIBUTIONS</u>	 <u>June 30, 2017</u>	 <u>June 30, 2016</u>
Contractually required contribution	\$ 125,414	\$ 46,588
Contribution in relation to the contractually required contribution	<u>(125,414)</u>	<u>(46,588)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Charter School's covered-employee payroll	\$ 7,049,786	\$ 6,744,577
Contributions as a percentage of covered - employee payroll	1.78%	0.69%

* The amounts presented for each fiscal year were determined as of 6/30.

* Complete 10-year information to be presented in future years as it becomes available.

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

To the Board of Directors
Sarasota Military Academy, Inc.

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 Sarasota Military Academy (the Charter School), a Charter School and component unit of the School Board of Sarasota County, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Charter School's basic financial statements and have issued our report thereon dated September 17, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Sarasota Military Academy'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 Sarasota Military Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of Sarasota Military Academy, Inc.'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.

To the Board of Directors
Sarasota Military Academy

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sarasota Military Academy'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.

Pellegrino & McFarland, P.A.

Sarasota, Florida
September 17, 2018

INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF DIRECTORS

To the Board of Directors
Sarasota Military Academy

Report on the Financial Statements

We have audited the financial statements of Sarasota Military Academy (the Charter School), a Charter School and component unit of the School Board of Sarasota County, as of and for the year ended June 30, 2018 and have issued our report thereon dated September 17, 2018.

Auditors' 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 10.800, Rules of the Auditor General.

Other Reporting Requirements

We have issued our Independent Auditors' 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*. Disclosures in that report, which is dated September 17, 2018, should be considered in conjunction with this management letter.

Prior Audit Findings

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

Official Title

Section 10.854(1)(e)5, Rules of the Auditor General, required the name or official title of the entity. The official title of the entity is Sarasota Military Academy Inc.

To the Board of Directors
Sarasota Military Academy

Financial Condition

Section 10.854(1)(e)2. and 10.855(11), Rules of the Auditor General, require 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 Sarasota Military Academy, Inc. 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 the 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 website the information specified in Section 1002.33(9)(p), Florida Statutes. In connection with our audit, we determined that Sarasota Military Academy maintained on its website 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 abuses 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 the School Board of Sarasota County, Florida, and it is not intended to be and should not be used by anyone other than these specified parties.



Sarasota, Florida
September 17, 2018