

MADISON COUNTY DISTRICT SCHOOL BOARD

Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended
June 30, 2012



STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD MEMBERS AND SUPERINTENDENT

Board members and the Superintendent who served during the 2011-12 fiscal year are listed below:

	<u>District No.</u>
Tina Johnson to 11-1-11 (1)	1
Fain Poppell from 6-13-12 (2)	1
Kenneth Hall, Vice Chair to 11-21-11, Chair from 11-22-11	2
VeEtta L. Hagan, Chair to 11-21-11	3
Clyde Alexander, Jr., Vice Chair from 11-22-11	4
Bart Alford	5

Lou S. Miller, Superintendent

Notes:

- (1) Board member removed by Governor and position remained vacant through June 12, 2012.
- (2) Board member appointed by Governor.

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

The audit team leader was Tiffany R. Wilson, and the audit was supervised by Cathy L. Bandy, CPA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Manager, by e-mail at gregcenters@aud.state.fl.us or by telephone at (850) 487-9039.

This report and other reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 487-9175; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

**MADISON COUNTY DISTRICT SCHOOL BOARD
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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

Our audit disclosed that the District's basic financial statements were presented fairly, in all material respects, in accordance with prescribed financial reporting standards.

Summary of Report on Internal Control and Compliance

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

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, issued by the Comptroller General of the United States; however, we noted certain additional matters as summarized below.

ADDITIONAL MATTERS

Finding No. 1: The Board had not established a documented process to identify instructional personnel entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4.b., Florida Statutes.

Finding No. 2: Controls over electronic funds transfers could be enhanced.

Finding No. 3: Certain information technology security controls related to data loss prevention needed improvement.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Child Nutrition Cluster, Title I Cluster, Special Education Cluster, School Improvement Cluster, and Race-to-the-Top programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that could have a direct and material effect on each of its major Federal programs. However, we did note a noncompliance and control deficiency finding as summarized below.

Federal Awards Finding No. 1: Required documentation to support personnel charges of Federal programs was not always maintained, contrary to Federal regulations.

Audit Objectives and Scope

Our audit objectives were to determine whether the Madison County District School Board and its officers with administrative and stewardship responsibilities for District operations had:

- Presented the District's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements or on a major Federal program;
- Established internal controls that promote and encourage: 1) compliance with applicable laws, rules, regulations, contracts, and grant agreements; 2) the economic and efficient operation of the District; 3) the reliability of records and reports; and 4) the safeguarding of District assets;
- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements, and those applicable to the District's major Federal programs; and
- Taken corrective actions for findings included in our report No. 2012-094.

The scope of this audit included an examination of the District's basic financial statements and the Schedule of Expenditures of Federal Awards as of and for the fiscal year ended June 30, 2012. We obtained an understanding of the District's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements and Federal awards. We also examined various transactions to determine whether they were executed, both in manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

Audit Methodology

The methodology used to develop the findings in this report included the examination of pertinent District records in connection with the application of procedures required by auditing standards generally accepted in the United States of America; applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget Circular A-133.



DAVID W. MARTIN, CPA
AUDITOR GENERAL

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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Madison County District School Board, as of and for the fiscal year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the school internal funds, which represent 32 percent of the assets and 100 percent of the liabilities of the aggregate remaining fund information. Additionally, we did not audit the financial statements of the Madison County Foundation for Excellence in Education, Inc., the discretely presented component unit. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the school internal funds and the discretely presented component unit, are based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the school internal funds were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information for the Madison County District School Board as of June 30, 2012, and the respective changes in financial position thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of the Madison County District School Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS, BUDGETARY COMPARISON SCHEDULE - GENERAL AND MAJOR SPECIAL REVENUE FUNDS, SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS PLAN, and NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is presented for purposes of additional analysis as required by the United States Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,



David W. Martin, CPA
February 27, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Madison County District School Board has prepared the following discussion and analysis to provide an overview of the District's financial activities for the fiscal year ended June 30, 2012. The information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events, and conditions and should be considered in conjunction with the District's financial statements and notes to financial statements found immediately following the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2011-12 fiscal year are as follows:

- During the current fiscal year, General Fund revenues exceeded expenditures by \$58,619. This may be compared to last fiscal year's results in which General Fund expenditures exceeded revenues by \$561,796.
- The unassigned fund balance of the General Fund is \$1,861,632, which represents net current financial resources available for general appropriation by the Board and is comparable to the unassigned fund balance of \$1,875,448 at June 30, 2011.

OVERVIEW OF FINANCIAL STATEMENTS

The basic financial statements consist of three components:

- Government-wide financial statements;
- Fund financial statements; and
- Notes to financial statements.

Government-wide Financial Statements

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

The government-wide statements present the District's activities in the following categories:

- Governmental activities – This represents most of the District's services, including its educational programs: basic, vocational, adult, and exceptional education. Support functions such as transportation and administration are also included. Local property taxes and the State's education finance program provide most of the resources that support these activities.
- Component unit – The District presents the Madison County Foundation for Excellence in Education, Inc., as a separate legal entity. Although a legally separate organization, the component unit is included in this report because it meets the criteria for inclusion provided by generally accepted accounting principles. Financial information for this component unit is reported separately from the financial information presented for the primary government.

Fund Financial Statements

Fund financial statements are one of the components of the basic financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements and prudent fiscal management. Certain funds are established by law while others are created by legal agreements, such as bond covenants. Fund financial statements provide more detailed information about the District's financial activities, focusing on its most significant or "major" funds rather than fund types. This is in contrast to the entitywide perspective contained in the government-wide statements. All of the District's funds may be classified within one of the broad categories discussed below.

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

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

The governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances provide detailed information about the District's most significant funds. The District's major funds are the General Fund, Special Revenue – Food Service Fund, Special Revenue – Other Fund, Special Revenue – Federal Economic Stimulus Fund, Debt Service – District Revenue Bonds Fund, and Capital Projects – Local Capital Improvement Fund. Data from the other governmental funds are combined into a single, aggregated presentation.

The District adopts an annual appropriated budget for its governmental funds. A budgetary comparison schedule has been provided for the General and major Special Revenue Funds to demonstrate compliance with the budget.

Fiduciary Funds: Fiduciary funds are used to report assets held in a trustee or fiduciary capacity for the benefit of external parties, such as student activity funds. Fiduciary funds are not reflected in the government-wide statements because the resources are not available to support the District's own programs. In its fiduciary capacity, the District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes.

The District uses agency funds to account for resources held for student activities and groups.

Notes to Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. The following is a summary of the District's net assets as of June 30, 2012, compared to net assets as of June 30, 2011:

Net Assets, End of Year		
	Governmental Activities	
	6-30-12	6-30-11
Current and Other Assets	\$ 4,791,278	\$ 5,484,680
Capital Assets	34,785,113	34,406,928
Total Assets	39,576,390	39,891,608
Long-Term Liabilities	6,886,517	6,226,876
Other Liabilities	557,249	639,095
Total Liabilities	7,443,766	6,865,971
Net Assets:		
Invested in Capital Assets -		
Net of Related Debt	31,367,472	31,441,928
Restricted	2,352,359	2,556,640
Unrestricted Deficit	(1,587,207)	(972,931)
Total Net Assets	\$ 32,132,624	\$ 33,025,637

The largest portion of the District's net assets (98 percent) reflects its investment in capital assets (e.g., land; buildings; improvements; furniture, fixtures, and equipment), less any related debt still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending.

The restricted portion of the District's net assets represents resources that are subject to external restrictions on how they may be used.

The key elements of the changes in the District's net assets for the fiscal years ended June 30, 2012, and June 30, 2011, are as follows:

Operating Results for the Fiscal Year Ended			
	Governmental		
	Activities		
	6-30-12		6-30-11
Program Revenues:			
Charges for Services	\$ 529,432	\$	284,452
Operating Grants and Contributions	1,199,585		1,118,033
Capital Grants and Contributions	106,781		215,328
General Revenues:			
Property Taxes, Levied for Operational Purposes	4,045,155		4,237,466
Property Taxes, Levied for Capital Projects	974,448		973,015
Grants and Contributions Not Restricted to Specific Programs	17,811,488		20,846,291
Unrestricted Investment Earnings	9,524		9,682
Miscellaneous	227,296		471,722
Total Revenues	24,903,709		28,155,989
Functions/Program Expenses:			
Instruction	11,688,779		12,858,601
Pupil Personnel Services	808,901		910,633
Instructional Media Services	257,339		305,006
Instruction and Curriculum Development Services	1,828,056		2,008,114
Instructional Staff Training Services	611,590		975,706
Instruction Related Technology	199,927		193,525
School Board	215,895		262,171
General Administration	488,132		667,746
School Administration	1,236,996		1,443,418
Facilities Acquisition and Construction	275,606		249,028
Fiscal Services	316,889		381,483
Food Services	1,404,653		1,394,179
Central Services	152,765		211,186
Pupil Transportation Services	1,857,332		2,189,675
Operation of Plant	2,296,321		2,484,294
Maintenance of Plant	188,630		314,373
Administrative Technology Services	305,761		214,295
Community Services	1,325		
Unallocated Interest on Long-Term Debt	141,395		135,530
Unallocated Depreciation Expense	1,520,433		1,568,067
Total Functions/Program Expenses	25,796,722		28,767,030
Decrease in Net Assets	\$ (893,012)	\$	(611,041)

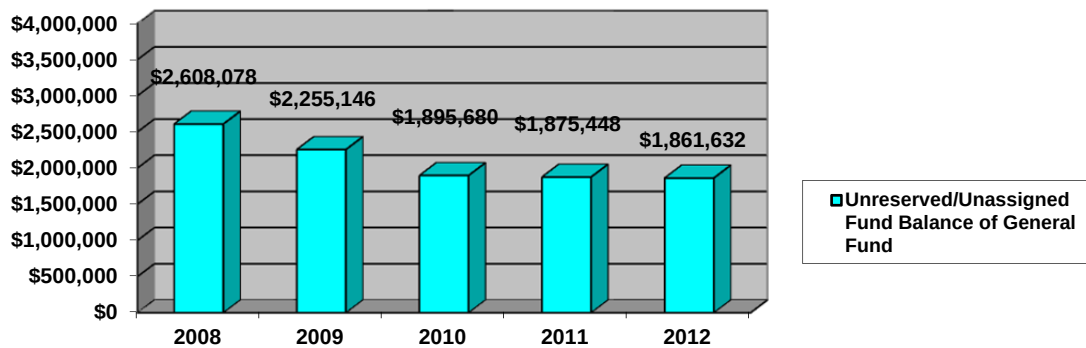
The largest revenue source is the State of Florida (51 percent). Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data, and is designed to maintain equity in funding across all Florida school districts, taking into consideration the District's funding ability based on the local property tax base. Revenues and expenses

decreased by \$3,252,280 and \$2,970,308, respectively, due primarily to the decrease of Federal stimulus funds received.

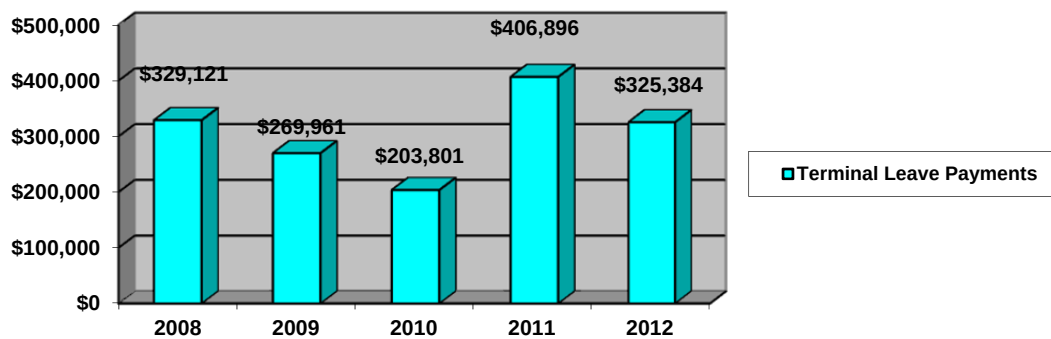
FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

This section provides an analysis of the balances and transactions of the individual major funds. The analysis addresses the reasons for significant changes in fund balances and the effect of the availability of fund resources for future use.

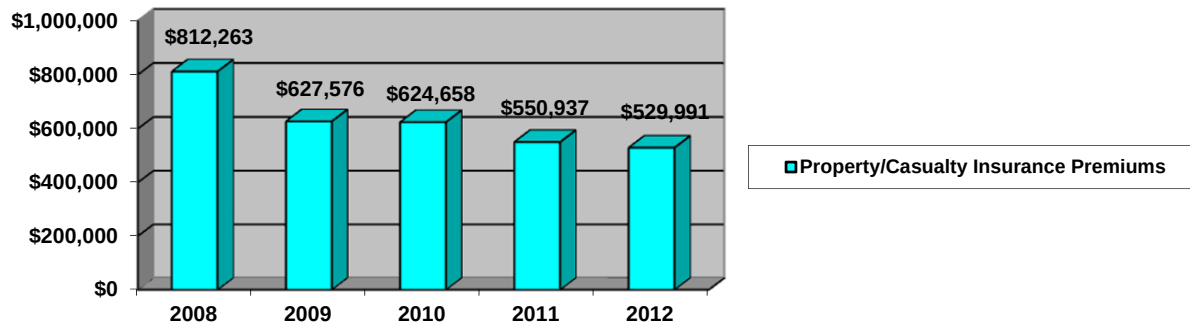
Unreserved/Unassigned Fund Balance of General Fund. The unreserved/unassigned fund balance of the General Fund has steadily decreased since the 2006-07 fiscal year due, in part, to declining student enrollment. At fiscal year-end, the General Fund unassigned fund balance was 11 percent of General Fund revenues, which is an indicator of the financial stability of the District.



Terminal Leave payments. The General Fund pays terminal leave payments, which are a significant expense of the District, to retirees and nonretirees per Board Policy SB 6.192. The following chart reflects these payments over the past five fiscal years. A decrease of \$81,512 for the 2011-12 fiscal year occurred due to fewer employees retiring compared to the 2010-11 fiscal year.



Property/Casualty Insurance Premiums. This fiscal year the District has experienced a slight decrease in insurance premiums due to changes in the insurance industry. The following graph depicts historical property/casualty insurance premiums of the District.



Special Revenue – Food Service Fund. The Special Revenue – Food Service is used to account for the District’s Food Service Program including expenditures totaling \$1,385,165. This fund is used for salaries, benefits, food supplies, and minimal equipment. The total fund balance was \$200,156, which is an \$85,119 increase from the prior fiscal year because the District received a federal grant for the Fresh Fruit and Vegetable Program of \$48,916, an increase of \$20,271 in breakfast meal reimbursements, and an increase in donated foods of \$15,296.

Special Revenue –Other Fund. The Special Revenue – Other Fund is used to account for Federal grant programs. Allowed expenditures are specified by grant agreements. Since the revenues in this fund are equal to amounts expended, there is no ending fund balance.

Special revenue – Federal Economic Stimulus Fund. The Special Revenue – Federal Economic Stimulus Fund is used to account for the Federal Stimulus grant programs. Allowed expenditures are specified by grant agreements. Since the revenues in this fund are equal to amounts expended, there is no ending fund balance. Revenues and expenditures decreased \$2,402,593 each from the prior fiscal year due to the expiration of certain Federal stimulus grants.

Debt Service – District Revenue Bond Fund. The Debt Service – District Revenue Bond Fund is used to account for the financial resources for, and the payment of debt principal, interest, and related costs for the Series 2010A, Refunding, and Series 2010B Qualified School Construction Bonds. The fund balance totaling \$316,351 has declined from the prior fiscal year by \$76,864 mainly due to the District making a one-time transfer to the General Fund of \$133,000 not obligated for debt service payments, partially offset by recognition of Federal direct revenue of \$59,500.

Capital Projects – Local Capital Improvement Fund. The Capital Projects – Local Capital Improvement Fund has a total fund balance of \$865,834, which is restricted for expenditures related to capital outlay. The fund balance of the Capital Projects – Local Capital Improvement Fund increased by \$40,163 because there were no major construction or renovation projects in the current fiscal year; however, \$313,909 was expended for lease payments on nine new school buses. It should be noted that \$68,621 of fund balance has been encumbered for specific projects.

GENERAL FUND BUDGETARY HIGHLIGHTS

There were no significant variances between the original and final budgeted revenues and expenditures. Actual revenues were in line with final budgeted amounts. Actual expenditures were \$1,747,706 less than the final budgeted amounts due, in part, to declining enrollment, energy conservation programs, and strict staffing controls.

CAPITAL ASSETS AND LONG-TERM DEBT

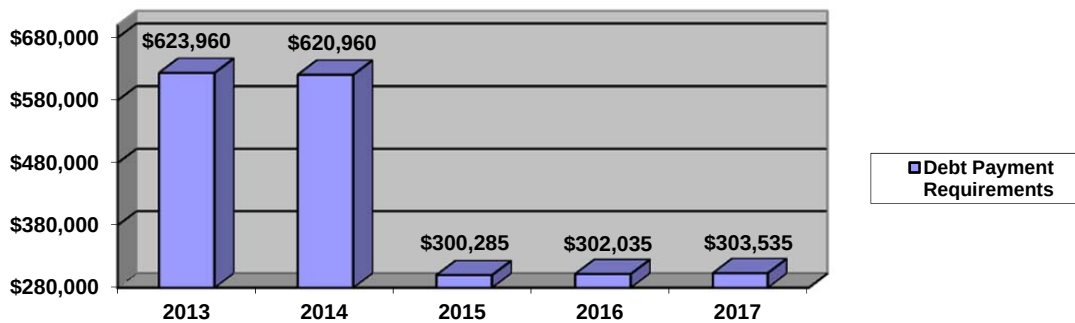
Capital Assets

Total capital assets (land, buildings, equipment, motor vehicles, etc.), before adjusting for accumulated depreciation, totaled \$56,511,996 compared to \$54,911,013 in the prior fiscal year. The increase is primarily due to Madison County High School renovations, installment-purchase of buses, and purchase of computer equipment, partially offset by the removal of surplus capital assets throughout the school year.

Long-Term Debt

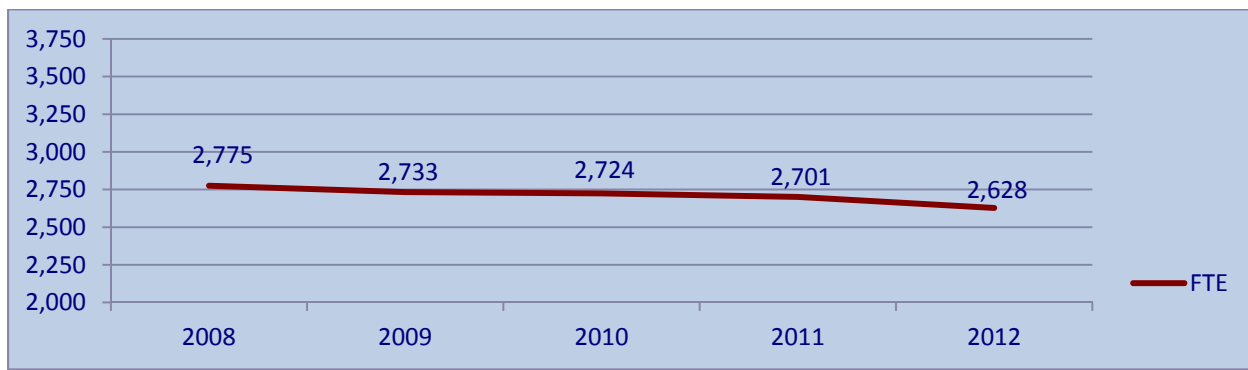
The District entered into an installment-purchase agreement totaling \$933,784 for nine school buses during the 2011-12 fiscal year.

The following chart reflects the estimated debt service requirements, including interest, of the District over the next five fiscal years.



SIGNIFICANT ECONOMIC FACTORS

Student Enrollment and Funding. As shown on the following chart, over the past several years, the District has experienced a significant decline in full-time equivalent (FTE) students, which is used for funding purposes. It is anticipated that this trend will continue.



REQUEST FOR INFORMATION

This report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate compliance and accountability for its resources. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Business Services, Madison County District School Board, 210 NE Duval Street, Madison, Florida, 32340.

BASIC FINANCIAL STATEMENTS

MADISON COUNTY DISTRICT SCHOOL BOARD STATEMENT OF NET ASSETS June 30, 2012

	Primary Government Governmental Activities	Component Unit
ASSETS		
Cash and Cash Equivalents	\$ 4,116,539.04	\$ 45,444.00
Investments	82,517.93	
Accounts Receivable	5,564.62	11,250.00
Due from Other Agencies	481,010.26	
Prepaid Items		409,736.00
Inventories	105,645.77	
Capital Assets:		
Nondepreciable Capital Assets	747,629.03	
Depreciable Capital Assets, Net	34,037,483.64	
TOTAL ASSETS	\$ 39,576,390.29	\$ 466,430.00
LIABILITIES		
Salaries and Benefits Payable	\$ 172,804.37	\$
Payroll Deductions and Withholdings	46,490.30	
Accounts Payable	122,495.47	
Due to Other Agencies	4,802.61	
Deposits Payable	36,759.92	
Matured Installment Purchase Payable	112,235.00	
Matured Interest Payable	61,661.39	
Long-Term Liabilities:		
Portion Due Within One Year	660,186.30	
Portion Due After One Year	6,226,330.75	
Total Liabilities	7,443,766.11	
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	31,367,472.40	
Restricted for:		
State Required Carryover Programs	632,178.30	
Debt Service	331,466.97	
Capital Projects	1,139,713.31	
Food Service	200,156.01	
Fuel Tax Rebate	48,844.57	
Other Purposes		410,722.00
Unrestricted	(1,587,207.38)	55,708.00
Total Net Assets	32,132,624.18	466,430.00
TOTAL LIABILITIES AND NET ASSETS	\$ 39,576,390.29	\$ 466,430.00

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

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**MADISON COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2012**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
Instruction	\$ 11,688,778.68	\$ 23,435.00	\$	\$
Pupil Personnel Services	808,901.19			
Instructional Media Services	257,338.60			
Instruction and Curriculum Development Services	1,828,055.64			
Instructional Staff Training Services	611,589.70			
Instruction Related Technology	199,927.05			
School Board	215,894.82			
General Administration	488,131.96			
School Administration	1,236,995.76			
Facilities Acquisition and Construction	275,605.66			29,861.45
Fiscal Services	316,888.86			
Food Services	1,404,652.59	270,186.89	1,199,585.13	
Central Services	152,764.83			
Pupil Transportation Services	1,857,331.88	235,810.13		
Operation of Plant	2,296,321.00			
Maintenance of Plant	188,630.11			
Administrative Technology Services	305,761.06			
Community Services	1,325.00			
Unallocated Interest on Long-Term Debt	141,394.74			76,919.81
Unallocated Depreciation Expense*	1,520,432.54			
Total Primary Government	\$ 25,796,721.67	\$ 529,432.02	\$ 1,199,585.13	\$ 106,781.26
Component Unit				
Madison County Foundation for Excellence in Education, Inc.	\$ 109,195.00	\$ 0.00	\$ 62,959.00	\$ 0.00

General Revenues:

Taxes:

Property Taxes, Levied for Operational Purposes

Property Taxes, Levied for Capital Projects

Grants and Contributions Not Restricted to Specific Programs

Unrestricted Investment Earnings

Miscellaneous

Total General Revenues**Change in Net Assets**

Net Assets - Beginning

Net Assets - Ending

* This amount excludes the depreciation that is included in the direct expenses of the various functions.

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

Net (Expense) Revenue and Changes in Net Assets	
Primary Government	Component
Governmental	Unit
Activities	
\$ (11,665,343.68)	\$
(808,901.19)	
(257,338.60)	
(1,828,055.64)	
(611,589.70)	
(199,927.05)	
(215,894.82)	
(488,131.96)	
(1,236,995.76)	
(245,744.21)	
(316,888.86)	
65,119.43	
(152,764.83)	
(1,621,521.75)	
(2,296,321.00)	
(188,630.11)	
(305,761.06)	
(1,325.00)	
(64,474.93)	
(1,520,432.54)	
(23,960,923.26)	
	(46,236.00)
4,045,154.79	
974,447.70	
17,811,488.17	18,490.00
9,523.80	3.00
227,296.40	
23,067,910.86	18,493.00
(893,012.40)	(27,743.00)
33,025,636.58	494,173.00
\$ 32,132,624.18	\$ 466,430.00

**MADISON COUNTY
DISTRICT SCHOOL BOARD
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2012**

	General Fund	Special Revenue - Food Service Fund	Special Revenue - Other Fund
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and Cash Equivalents	\$ 2,308,212.25	\$ 193,595.80	\$
Investments	55,756.57		
Accounts Receivable	4,923.54		641.08
Due from Other Funds	367,366.20	8,017.24	
Due from Other Agencies	102,218.39	13,135.32	291,602.20
Inventories	20,037.81	85,607.96	
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 2,858,514.76</u>	<u>\$ 300,356.32</u>	<u>\$ 292,243.28</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Salaries and Benefits Payable	\$ 172,788.25	\$	\$
Payroll Deductions and Withholdings	46,490.30		
Accounts Payable	27,085.50	12,461.41	66,004.58
Due to Other Funds	8,017.24	87,738.90	226,117.37
Due to Other Agencies	4,681.28		121.33
Deposits Payable	36,759.92		
Matured Installment Purchase Payable			
Matured Interest Payable			
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>295,822.49</u>	<u>100,200.31</u>	<u>292,243.28</u>
Fund Balances:			
Nonspendable:			
Inventory	20,037.81	85,607.96	
Restricted for:			
State Required Carryover Programs	632,178.30		
Debt Service			
Capital Projects			
Food Service		114,548.05	
Fuel Tax Rebate	48,844.57		
Total Restricted Fund Balance	681,022.87	114,548.05	
Unassigned Fund Balance	1,861,631.59		
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>2,562,692.27</u>	<u>200,156.01</u>	<u> </u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 2,858,514.76</u>	<u>\$ 300,356.32</u>	<u>\$ 292,243.28</u>

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

Special Revenue - Federal Economic Stimulus Fund	Debt Service - District Revenue Bonds Fund	Capital Projects - Local Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
\$	\$ 478,962.49 11,284.56	\$ 862,250.08	\$ 273,518.42 15,476.80	\$ 4,116,539.04 82,517.93 5,564.62 375,383.44 481,010.26 105,645.77
60,258.99		13,795.36		
<u>\$ 60,258.99</u>	<u>\$ 490,247.05</u>	<u>\$ 876,045.44</u>	<u>\$ 288,995.22</u>	<u>\$ 5,166,661.06</u>
\$ 16.12	\$	\$	\$	\$ 172,804.37 46,490.30 122,495.47 375,383.44 4,802.61 36,759.92 112,235.00 61,661.39
6,732.94		10,211.04		
53,509.93				
	112,235.00 61,661.39			
60,258.99	173,896.39	10,211.04		932,632.50
				105,645.77
	316,350.66	865,834.40	15,116.31 273,878.91	632,178.30 331,466.97 1,139,713.31 114,548.05 48,844.57
	<u>316,350.66</u>	<u>865,834.40</u>	<u>288,995.22</u>	<u>2,266,751.20</u>
				<u>1,861,631.59</u>
	316,350.66	865,834.40	288,995.22	4,234,028.56
<u>\$ 60,258.99</u>	<u>\$ 490,247.05</u>	<u>\$ 876,045.44</u>	<u>\$ 288,995.22</u>	<u>\$ 5,166,661.06</u>

**MADISON COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2012**

Total Fund Balances - Governmental Funds	\$ 4,234,028.56
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	34,785,112.67
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Long-term liabilities are not due and payable in the fiscal year and, therefore, are not reported reported as liabilities in the governmental funds. Long-term liabilities at fiscal year-end consist of:

Installment-Purchase Payable	\$ 619,875.27	
Bonds Payable	2,797,765.00	
Other Postemployment Benefits Payable	458,714.00	
Compensated Absences Payable	3,010,162.78	
	(6,886,517.05)	

Total Net Assets - Governmental Activities	\$ 32,132,624.18
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The accompanying notes to financial statements are an integral part of this statement.

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**MADISON COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2012**

	General Fund	Special Revenue - Food Service Fund	Special Revenue - Other Fund
Revenues			
Intergovernmental:			
Federal Direct	\$	\$	\$ 645,508.27
Federal Through State and Local	93,632.38	1,176,986.13	3,493,175.23
State	12,344,397.71	22,599.00	
Local:			
Property Taxes	4,045,154.79		
Charges for Services - Food Service		270,186.89	
Miscellaneous	476,213.57	512.01	
Total Local Revenues	4,521,368.36	270,698.90	
Total Revenues	16,959,398.45	1,470,284.03	4,138,683.50
Expenditures			
Current - Education:			
Instruction	9,139,860.17		2,013,703.42
Pupil Personnel Services	489,600.79		317,472.97
Instructional Media Services	203,393.73		44,053.11
Instruction and Curriculum Development Services	530,030.63		1,062,236.60
Instructional Staff Training Services	58,148.55		346,702.24
Instruction Related Technology	155,062.85		2,553.99
School Board	215,894.82		
General Administration	285,583.34		176,888.56
School Administration	1,234,686.75		2,309.01
Facilities Acquisition and Construction	11,455.00		
Fiscal Services	316,888.86		
Food Services	19,487.80	1,385,164.79	
Central Services	147,203.77		5,561.06
Pupil Transportation Services	1,371,618.96		41,746.39
Operation of Plant	2,246,319.55		50,001.45
Maintenance of Plant	188,630.11		
Administrative Technology Services	245,783.69		
Community Services	325.00		1,000.00
Fixed Capital Outlay:			
Facilities Acquisition and Construction	11,795.00		
Other Capital Outlay	29,009.70		74,454.70
Debt Service:			
Principal			
Interest and Fiscal Charges			
Total Expenditures	16,900,779.07	1,385,164.79	4,138,683.50
Excess (Deficiency) of Revenues Over Expenditures	58,619.38	85,119.24	
Other Financing Sources (Uses)			
Transfers In	402,800.01		
Inception of Installment-Purchase			
Insurance Loss Recoveries	16,515.04		
Transfers Out			
Total Other Financing Sources (Uses)	419,315.05		
Net Change in Fund Balances	477,934.43	85,119.24	
Fund Balances, Beginning	2,084,757.84	115,036.77	
Fund Balances, Ending	\$ 2,562,692.27	\$ 200,156.01	\$ 0.00

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

Special Revenue - Federal Economic Stimulus Fund	Debt Service - District Revenue Bonds Fund	Capital Projects - Local Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
\$	\$	\$	\$	\$
959,860.20	59,500.00			705,008.27
	217,000.00		105,195.64	5,723,653.94
		974,447.70		12,689,192.35
				5,019,602.49
	1,171.39	229.75	1,423.57	270,186.89
	1,171.39	974,677.45	1,423.57	479,550.29
				5,769,339.67
959,860.20	277,671.39	974,677.45	106,619.21	24,887,194.23
325,893.05		2,321.60		11,481,778.24
1,827.43				808,901.19
9,891.76				257,338.60
235,788.41				1,828,055.64
206,563.91		175.00		611,589.70
42,310.21				199,927.05
				215,894.82
25,660.06				488,131.96
				1,236,995.76
		262,171.05	1,979.61	275,605.66
				316,888.86
				1,404,652.59
				152,764.83
				1,413,365.35
				2,296,321.00
				188,630.11
43,471.60		16,505.77		305,761.06
				1,325.00
		49,494.74	1,164,220.39	1,225,510.13
68,453.77		11,371.04	933,784.00	1,117,073.21
	112,235.00	313,908.73	55,000.00	481,143.73
	109,300.00	8,766.27	23,328.47	141,394.74
959,860.20	221,535.00	664,714.20	2,178,312.47	26,449,049.23
	56,136.39	309,963.25	(2,071,693.26)	(1,561,855.00)
				402,800.01
			933,784.00	933,784.00
				16,515.04
	(133,000.00)	(269,800.01)		(402,800.01)
	(133,000.00)	(269,800.01)	933,784.00	950,299.04
	(76,863.61)	40,163.24	(1,137,909.26)	(611,555.96)
	393,214.27	825,671.16	1,426,904.48	4,845,584.52
\$ 0.00	\$ 316,350.66	\$ 865,834.40	\$ 288,995.22	\$ 4,234,028.56

**MADISON COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2012**

Net Change in Fund Balances - Governmental Funds \$ (611,555.96)

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

Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital outlays in excess of depreciation expense in the current fiscal year. 378,184.27

Long-term debt proceeds provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceed repayments in the current fiscal year.

Inception of Installment-Purchase	\$ (933,784.00)	
Installment-Purchase Principal Payments	313,908.73	
Bond Principal Payments	<u>167,235.00</u>	(452,640.27)

In the statement of activities, the cost of compensated absences is measured by the amounts earned during the fiscal year, while in the governmental funds, expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences earned in excess of the amount paid in the current fiscal year. (83,517.44)

Other postemployment benefits costs are recorded in the statement of activities under the full accrual basis of accounting, but are not recorded in the governmental funds until paid. This is the net increase in the other postemployment benefits liability for the current fiscal year. (123,483.00)

Change in Net Assets - Governmental Activities \$ (893,012.40)

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

**MADISON COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES -
FIDUCIARY FUNDS
June 30, 2012**

	Agency Funds
ASSETS	
Cash and Cash Equivalents	\$ 137,851.18
LIABILITIES	
Internal Accounts Payable	\$ 137,851.18

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

**MADISON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity. The Madison County District School Board (Board) has direct responsibility for operation, control, and supervision of District schools and is considered a primary government for financial reporting. The Madison County School District (District) is considered part of the Florida system of public education. The governing body of the District is the Board, which is composed of five elected members. The elected Superintendent of Schools is the executive officer of the Board. Geographic boundaries of the District correspond with those of Madison County.

Criteria for determining if other entities are potential component units that should be reported within the District's basic financial statements are identified and described in the Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600. The application of these criteria provides for identification of any entities for which the Board is financially accountable and other organizations for which the nature and significance of their relationship with the Board are such that exclusion would cause the District's basic financial statements to be misleading or incomplete.

Based on the application of these criteria, the following component unit is included within the District's reporting entity:

Discretely Presented Component Unit. The component unit columns in the government-wide financial statements includes the financial data of the District's component unit.

The Madison County Foundation for Excellence in Education, Inc. (Foundation), is a separate not-for-profit corporation organized and operated as a direct-support organization to receive, hold, invest, and administer property and to make expenditures to and for the benefit of the District. Because of the nature and significance of its relationship with the District, the Foundation is considered a component unit.

The financial data reported on the accompanying statements was derived from the Foundation's audited financial statements for the fiscal year ended June 30, 2012. The audit report is filed in the District's administrative offices.

Basis of Presentation:

- **Government-wide Financial Statements** - Government-wide financial statements, i.e., the statement of net assets and the statement of activities, present information about the District as a whole. These statements include the nonfiduciary financial activity of the District and its component unit.

Government-wide financial statements are prepared using the economic resources measurement focus. The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are thereby clearly identifiable to a particular function. Depreciation expense associated with the District's transportation department is allocated to the pupil transportation services function, while remaining depreciation expense is not readily associated with a particular function and is reported as unallocated.

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

**MADISON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

The effects of interfund activity have been eliminated from the government-wide financial statements.

- **Fund Financial Statements** - Fund financial statements report detailed information about the District in the governmental and fiduciary funds. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is reported in a separate column. Nonmajor funds are aggregated and reported in a single column. Because the focus of governmental fund financial statements differs from the focus of government-wide financial statements, a reconciliation is presented with each of the governmental fund financial statements.

The District reports the following major governmental funds:

- **General Fund** – to account for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.
- **Special Revenue – Food Service Fund** – to account for the District’s Food Service Program.
- **Special Revenue – Other Fund** – to account for certain Federal grant program resources.
- **Special Revenue – Federal Economic Stimulus Fund** – to account for certain Federal grant program resources related to the American Recovery and Reinvestment Act (ARRA) and other Federal stimulus programs.
- **Debt Service – District Revenue Bonds Fund** – to account for the accumulation of resources for, and the payment of, debt principal, interest, and related costs for the Series 2010A Refunding Bonds, and Series 2010B Qualified School Construction Bonds.
- **Capital Projects – Local Capital Improvement Fund** – to account for the financial resources generated by the local capital improvement tax levy to be used for educational capital outlay needs, including new construction, renovation and remodeling projects, and debt service payments on installment-purchases for school buses.

Additionally, the District reports the following fiduciary fund type:

- **Agency Funds** – to account for resources of the school internal funds, which are used to administer moneys collected at several schools in connection with school, student athletic, class, and club activities.

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

Government-wide financial statements are prepared using the accrual basis of accounting, as are the fiduciary funds financial statements. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized in the year for which they are levied. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are prepared using the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. When grant terms provide that the expenditure of resources is the prime

**MADISON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made. Under the modified accrual basis of accounting, expenditures are generally recognized when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, other postemployment benefits, and compensated absences, which are recognized when due. Allocations of cost, such as depreciation, are not recognized in governmental funds.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed. When committed, assigned, or unassigned resources are available for use in governmental fund financial statements, it is the District's policy to use committed resources first, followed by assigned resources, and then unassigned resources as they are needed.

The Foundation is accounted for under the not-for-profit basis of accounting and uses the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred.

Deposits and Investments. The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term, highly liquid investments with original maturities of three months or less. Investments classified as cash equivalents include amounts placed with the State Board of Administration (SBA) in Florida PRIME, formerly known as the Local Government Surplus Funds Trust Fund Investment Pool.

Cash deposits are held by banks qualified as public depositories under Florida law. All deposits are insured by Federal depository insurance, up to specified limits, or collateralized with securities held in Florida's multiple financial institution collateral pool as required by Chapter 280, Florida Statutes.

Investments consist of amounts placed in the SBA debt service accounts for investment of debt service moneys, amounts placed with the SBA for participation in the Florida PRIME and Fund B Surplus Funds Trust Fund (Fund B) investment pools created by Sections 218.405 and 218.417, Florida Statutes. These investment pools operate under investment guidelines established by Section 215.47, Florida Statutes.

The District's investments in Florida PRIME, which the SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. These investments are reported at fair value, which is amortized cost.

The District's investments in Fund B are accounted for as a fluctuating net asset value pool, with a fair value factor of 0.83481105 at June 30, 2012. Fund B is not subject to participant withdrawal requests. Distributions from Fund B, as determined by the SBA, are effected by transferring eligible cash or securities to Florida PRIME, consistent with the pro rata allocation of pool shareholders of record at the creation date of Fund B. One hundred percent of such distributions from Fund B are available as liquid balance within Florida PRIME.

Types and amounts of investments held at fiscal year-end are described in a subsequent note.

Inventories. Inventories consist of expendable supplies held for consumption in the course of District operations. Purchased food inventories are stated at last invoice, which approximates the first-in, first-out basis. Transportation inventories are valued at cost determined on a specific identification basis. United States Department of Agriculture donated foods are stated at their fair value as determined at the time of donation to

**MADISON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

the District's food service program by the Florida Department of Agriculture and Consumer Services, Bureau of Food Distribution. The costs of inventories are recorded as expenditures when purchased during the year, and are adjusted at year-end to reflect year-end physical inventories.

Capital Assets. Expenditures for capital assets acquired or constructed for general District purposes are reported in the governmental fund that financed the acquisition or construction. The capital assets so acquired are reported at cost in the government-wide statement of net assets but are not reported in the governmental fund financial statements. Capital assets are defined by the District as those costing more than \$750. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at fair value at the date of donation. Land and buildings acquired or constructed prior to July 1, 1989, are stated at estimated historical cost using price levels at the time of acquisition and, as a result, \$182,565 of stated land values and \$6,213,707 of stated building values are based on these estimates.

Capital assets are depreciated using the composite method over the following estimated useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Improvements Other Than Buildings	15 - 35 years
Buildings and Fixed Equipment	20 - 50 years
Furniture, Fixtures, and Equipment	5 - 15 years
Motor Vehicles	5 - 10 years
Audio Visual Materials and Computer Software	5 years

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

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

In the governmental fund financial statements, bonds and other long-term obligations are not recognized as liabilities until due.

In the government-wide financial statements, compensated absences (i.e., paid absences for employee vacation leave and sick leave) are accrued as liabilities to the extent that it is probable that the benefits will result in termination payments. A liability for these amounts is reported in the governmental fund financial statements only if it has matured, such as for occurrences of employee resignations and retirements.

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

State Revenue Sources. Significant revenues from State sources for current operations include the Florida Education Finance Program administered by the Florida Department of Education (Department) under the provisions of Section 1011.62, Florida Statutes. In accordance with this law, the District determines and reports the number of full-time equivalent (FTE) students and related data to the Department. The Department

**MADISON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

performs certain edit checks on the reported number of the FTE and related data, and calculates the allocation of funds to the District. The District is permitted to amend its original reporting for a period of five months following the date of the original reporting. Such amendments may impact funding allocations for subsequent years. The Department may also adjust subsequent fiscal period allocations based upon an audit of the District's compliance in determining and reporting the FTE and related data. Normally, such adjustments are treated as reductions or additions of revenue in the year when the adjustments are made.

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

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

District Property Taxes. The Board is authorized by State law to levy property taxes for district school operations, capital improvements, and debt service.

Property taxes consist of ad valorem taxes on real and personal property within the District. Property values are determined by the Madison County Property Appraiser, and property taxes are collected by the Madison County Tax Collector.

The Board adopted the 2011 tax levy on September 8, 2011. Tax bills are mailed in October and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to 4 percent for early payment.

Taxes become a lien on the property on January 1, and are delinquent on April 1, of the year following the year of assessment. State law provides for enforcement of collection of personal property taxes by seizure of the property to satisfy unpaid taxes, and for enforcement of collection of real property taxes by the sale of interest-bearing tax certificates to satisfy unpaid taxes. The procedures result in the collection of essentially all taxes prior to June 30 of the year following the year of assessment.

Property tax revenues are recognized in the government-wide financial statements when the Board adopts the tax levy. Property tax revenues are recognized in the governmental fund financial statements when taxes are received by the District, except that revenue is accrued for taxes collected by the Madison County Tax Collector at fiscal year-end but not yet remitted to the District.

Millages and taxes levied for the current year are presented in a subsequent note.

Federal Revenue Sources. The District 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.

**MADISON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

2. BUDGETARY COMPLIANCE AND ACCOUNTABILITY

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

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

3. INVESTMENTS

As of June 30, 2012, the District has the following investments and maturities:

Investments	Maturities	Fair Value
SBA:		
Florida PRIME (1)	38 Day Average	\$ 2,785,562.49
Fund B	5.73 Year Average	67,401.62
Debt Service Accounts	6 Months	15,116.31
Total Investments, Primary Government		<u>\$ 2,868,080.42</u>

Notes: (1) This investment is reported as a cash equivalent for financial statement reporting purposes.

➤ Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses from increasing interest rates.

Florida PRIME had a weighted average days to maturity (WAM) of 38 days at June 30, 2012. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the portfolio to interest rate changes. Due to the nature of the securities in Fund B, the interest rate risk information required by GASB Statement No. 40 (i.e., specific identification, duration, weighted average maturity, segmented time distribution, or simulation model) is not available. An estimate of the weighted average life (WAL) is available. In the calculation of the WAL, the time at which an expected principal amount is to be received, measured in years, is weighted by the principal amount received at that time divided by the sum of all expected principal payments. The principal amounts used in the WAL calculation are not discounted to present value as they would be in a weighted average duration calculation. At June 30, 2012, based on expected future cash flows, the WAL of Fund B is estimated at 5.73 years. However, because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the WAL. Participation in Fund B is involuntary.

**MADISON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

➤ **Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Section 218.415(17), Florida Statutes, limits investments to the SBA's Florida PRIME, or any other intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Section 163.01, Florida Statutes; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits in qualified public depositories, as defined in Section 280.02, Florida Statutes; and direct obligations of the United States Treasury. The District does not have a formal investment policy that limits its investment choices.

The District's investments in the SBA debt service accounts are to provide for debt service payments on bond debt issued by the State Board of Education for the benefit of the District. The District relies on policies developed by the SBA for managing interest rate risk and credit risk for this account.

The District's investment in Florida PRIME is rated AAAM by Standard & Poor's. Fund B is unrated.

4. CHANGES IN CAPITAL ASSETS

Changes in capital assets are presented in the table below:

	Beginning Balance	Additions	Deletions	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	\$ 747,629.03	\$	\$	\$ 747,629.03
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	1,794,400.55	1,225,510.13		3,019,910.68
Buildings and Fixed Equipment	43,555,427.49		13,015.00	43,542,412.49
Furniture, Fixtures, and Equipment	4,336,163.75	179,039.21	277,737.57	4,237,465.39
Motor Vehicles	3,578,742.46	933,784.00	405,528.00	4,106,998.46
Audio Visual Materials and Computer Software	898,650.08	4,250.00	45,319.87	857,580.21
Total Capital Assets Being Depreciated	54,163,384.33	2,342,583.34	741,600.44	55,764,367.23
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	1,142,961.60	67,344.01		1,210,305.61
Buildings and Fixed Equipment	11,750,425.52	870,848.25	13,015.00	12,608,258.77
Furniture, Fixtures, and Equipment	3,599,827.95	577,990.28	277,737.57	3,900,080.66
Motor Vehicles	3,112,219.81	443,966.53	405,528.00	3,150,658.34
Audio Visual Materials and Computer Software	898,650.08	4,250.00	45,319.87	857,580.21
Total Accumulated Depreciation	20,504,084.96	1,964,399.07	741,600.44	21,726,883.59
Total Capital Assets Being Depreciated, Net	33,659,299.37	378,184.27		34,037,483.64
Governmental Activities Capital Assets, Net	\$ 34,406,928.40	\$ 378,184.27	\$ 0.00	\$ 34,785,112.67

**MADISON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Pupil Transportation Services	\$ 443,966.53
Unallocated	1,520,432.54
Total Depreciation Expense - Governmental Activities	<u>\$ 1,964,399.07</u>

5. INSTALLMENT-PURCHASE PAYABLE

Nine school buses with an asset balance of \$933,784 are being acquired under an installment-purchase agreement. Future minimum installment-purchase payments and the present value of the minimum installment-purchase payments as of June 30 are as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
2013	\$ 322,675.00	\$ 305,767.67	\$ 16,907.33
2014	322,675.00	314,107.60	8,567.40
Total Installment-Purchase Payments	<u>\$ 645,350.00</u>	<u>\$ 619,875.27</u>	<u>\$ 25,474.73</u>

The stated interest rate is 2.91 percent.

6. BONDS PAYABLE

Bonds payable at June 30, 2012, are as follows:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 2005B, Refunding	\$ 410,000.00	5.0	2018
District Revenue Bonds:			
Series 2010A, Refunding	1,197,765.00	3.39	2021
Series 2010B	1,190,000.00	5.39	2027
Total Bonds Payable	<u>\$ 2,797,765.00</u>		

**MADISON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

The various bonds were issued to finance capital outlay projects of the District. The following is a description of the bonded debt issues:

➤ State School Bonds

These bonds are issued by the State Board of Education on behalf of the District. The bonds mature serially, and are secured by a pledge of the District's portion of the State-assessed motor vehicle license tax. The State's full faith and credit is also pledged as security for these bonds. Principal and interest payments, investment of Debt Service Fund resources, and compliance with reserve requirements are administered by the State Board of Education and the State Board of Administration.

➤ District Revenue Bonds

The School Board issued District Revenue Bonds, Series 2010A, Refunding, and Series 2010B Qualified School Construction Bonds. Due to the issuance of the Series 2010B bonds as Qualified School Construction Bonds, a portion of the interest paid on the Series 2010B bonds will be rebated to the Board by the United States Treasury pursuant to the ARRA. These bonds are authorized by Chapter 65-1869, Laws of Florida, which provides that the bonds be secured from the pari-mutuel tax proceeds distributed annually to Madison County from the State's Pari-mutuel Tax Collection Trust Fund pursuant to Chapter 550, Florida Statutes (effective July 1, 2000, tax proceeds are distributed pursuant to Section 212.20(6)(d)7.a., Florida Statutes (2001), now Section 212.20(6)(d)6.a., Florida Statutes (2011)). The annual distribution is remitted by the Florida Department of Financial Services to the District. As required by the bond resolution, the District has established the sinking fund and reserve account and has accumulated and maintained adequate resources in the sinking fund and reserve account.

The District has pledged a total of \$3,401,558.50 of pari-mutuel tax revenues in connection with the District Revenue Bonds, described above. During the 2011-12 fiscal year, the District recognized pari-mutuel tax revenues totaling \$217,000 and expended \$220,785 (102 percent) of these revenues for debt service directly collateralized by these revenues.

**MADISON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

Annual requirements to amortize all bonded debt outstanding as of June 30, 2012, are as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
State School Bonds:			
2013	\$ 80,500.00	\$ 60,000.00	\$ 20,500.00
2014	77,500.00	60,000.00	17,500.00
2015	79,500.00	65,000.00	14,500.00
2016	81,250.00	70,000.00	11,250.00
2017	82,750.00	75,000.00	7,750.00
2018	84,000.00	80,000.00	4,000.00
Total State School Bonds	485,500.00	410,000.00	75,500.00
District Revenue Bonds:			
2013	220,785.00	116,040.00	104,745.00
2014	220,785.00	119,974.00	100,811.00
2015	220,785.00	124,041.00	96,744.00
2016	220,785.00	128,246.00	92,539.00
2017	220,785.00	132,593.00	88,192.00
2018-2022	1,145,614.33	775,204.33	370,410.00
2023-2027	1,152,019.17	991,666.67	160,352.50
Total District Revenue Bonds	3,401,558.50	2,387,765.00	1,013,793.50
Total	\$ 3,887,058.50	\$ 2,797,765.00	\$ 1,089,293.50

7. CHANGES IN LONG-TERM LIABILITIES

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

Description	Beginning Balance	Additions	Deductions	Ending Balance	Due In One Year
GOVERNMENTAL ACTIVITIES					
Installment-Purchase Payable	\$	\$ 933,784.00	\$ 313,908.73	\$ 619,875.27	\$ 305,767.67
Bonds Payable	2,965,000.00		167,235.00	2,797,765.00	176,040.00
Compensated Absences Payable	2,926,645.34	408,901.52	325,384.08	3,010,162.78	178,378.63
Other Postemployment Benefits Payable	335,231.00	274,302.00	150,819.00	458,714.00	
Total Governmental Activities	\$ 6,226,876.34	\$ 1,616,987.52	\$ 957,346.81	\$ 6,886,517.05	\$ 660,186.30

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

**MADISON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

8. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The following is a summary of interfund receivables and payables reported in the fund financial statements:

Funds	Interfund	
	Receivables	Payables
Major:		
General	\$ 367,366.20	\$ 8,017.24
Special Revenue:		
Food Service	8,017.24	87,738.90
Other		226,117.37
Federal Economic Stimulus		53,509.93
Total	<u>\$ 375,383.44</u>	<u>\$ 375,383.44</u>

Interfund receivables and payables include amounts due for expenditures paid by a particular fund on behalf of another fund and temporary loans to cover deficit cash balances in pooled accounts. These amounts are expected to be repaid within one year.

The following is a summary of interfund transfers reported in the fund financial statements:

Funds	Interfund	
	Transfers In	Transfers Out
Major:		
General	\$ 402,800.01	\$
Debt Service:		
District Revenue Bonds		133,000.00
Capital Projects:		
Local Capital Improvement		269,800.01
Total	<u>\$ 402,800.01</u>	<u>\$402,800.01</u>

Interfund transfers were to move fund balances not obligated for debt service payments in the Debt Service - District Revenue Bonds Fund to the General Fund and to move the restricted capital outlay revenues to offset eligible expenditures for maintenance salaries and property and casualty insurance premiums paid from the General Fund.

9. FUND BALANCE REPORTING

The District reports its governmental fund balances in the following categories, as applicable:

➤ **Nonspendable**

The net current financial resources that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. Generally, not in spendable form means that an item is not expected to be converted to cash.

**MADISON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

➤ **Restricted**

The portion of fund balance on which constraints have been placed by creditors, grantors, contributors, laws or regulations of other governments, constitutional provisions, or enabling legislation. Restricted fund balance places the most binding level of constraint on the use of fund balance.

➤ **Committed**

The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the highest level of decision-making authority (i.e., the Board). These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same action it employed to previously commit the amounts. The District did not have any committed fund balances at June 30, 2012.

➤ **Assigned**

The portion of fund balance that is intended to be used for specific purposes, but is neither restricted nor committed. Assigned amounts include those that have been set aside for a specific purpose by an authorized government body or official, but the constraint imposed does not satisfy the criteria to be classified as restricted or committed. This category includes any remaining positive amounts, for governmental funds other than the General Fund, not classified as nonspendable, restricted, or committed. The District also classifies amounts as assigned that are constrained to be used for specific purposes based on actions of the Superintendent and Finance Director as authorized by Board Policy 7.01 and not included in other categories.

➤ **Unassigned**

The portion of fund balance that is the residual classification for the General Fund. This balance represents amounts that have not been assigned to other funds and that have not been restricted, committed, or assigned for specific purposes.

➤ **Minimum Fund Balance Policy**

The District has adopted Board Policy 7.01 which provides at least five percent of the current year's accumulated fund balance to be reserved for contingency purposes. In the event these reserves are needed, a vote of four or more members of the Board is required before using these funds, upon recommendation of the Superintendent at a public hearing called for the purpose of encumbering the reserved funds.

10. SCHEDULE OF STATE REVENUE SOURCES

The following is a schedule of the District's State revenue sources for the 2011-12 fiscal year:

Source	Amount
Florida Education Finance Program	\$ 9,526,591.00
Categorical Educational Program - Class Size Reduction	2,478,815.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	106,781.26
School Recognition	71,230.00
Workforce Development Program	57,918.00
Mobile Home License Tax	30,629.07
Food Service Supplement	22,599.00
Discretionary Lottery Funds	7,613.00
Miscellaneous	387,016.02
Total	\$ 12,689,192.35

**MADISON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

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

11. PROPERTY TAXES

The following is a summary of millages and taxes levied on the 2011 tax roll for the 2011-12 fiscal year:

	<u>Millages</u>	<u>Taxes Levied</u>
<u>GENERAL FUND</u>		
Nonvoted School Tax:		
Required Local Effort	5.474	\$ 3,655,572.04
Basic Discretionary Local Effort	0.748	499,519.10
<u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	1.500	1,001,710.66
Total	<u>7.722</u>	<u>\$ 5,156,801.80</u>

12. FLORIDA RETIREMENT SYSTEM

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

Employees enrolled in the Plan prior to July 1, 2011, vest at six years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at eight years of creditable service. All vested members, enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of service. All members enrolled in the Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 65 or any time after 33 years of creditable service. Members of both Plans may include up to 4 years of credit for military service toward creditable service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost-of-living adjustments.

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

**MADISON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined-benefit plan. District employees participating in DROP are not eligible to participate in this program. Employer and employee contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The Investment Plan is funded by employer and employee contributions that are based on salary and membership class (Regular Class, Elected County Officers Class, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Employees in the Investment Plan vest at one year of service.

The State of Florida establishes contribution rates for participating employers and employees. Contribution rates during the 2011-12 fiscal year were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	3.00	4.91
Florida Retirement System, Elected County Officers	3.00	11.14
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	4.42
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.11 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.03 percent for administrative costs of the Investment Plan.

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

The District's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the District. The District's contributions, including employee contributions, for the fiscal years ended June 30, 2010, June 30, 2011, and June 30, 2012, totaled \$1,319,660.23, \$1,457,555.81, and \$907,428.35, respectively, which were equal to the required contributions for each fiscal year.

There were 27 District participants in the Investment Plan during the 2011-12 fiscal year. The District's contributions, including employee contributions, to the Investment Plan totaled \$38,585.19, which was equal to the required contribution for the 2011-12 fiscal year.

Financial statements and other supplementary information of the FRS are included in the State's Comprehensive Annual Financial Report, which is available from the Florida Department of Financial Services. An annual report on the FRS, which includes its financial statements, required supplementary information, actuarial report, and other relevant information, is available from the Florida Department of Management Services, Division of Retirement.

**MADISON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

13. OTHER POSTEMPLOYMENT BENEFITS PAYABLE

Plan Description. The Other Postemployment Benefits Plan (OPEB Plan) is a single-employer defined benefit plan administered by the District. Pursuant to the provisions of Section 112.0801, Florida Statutes, employees who retire from the District are eligible to participate in the District's health and hospitalization plan for medical and prescription drug coverage. The District subsidizes the premium rates paid by retirees by allowing them to participate in the OPEB Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the OPEB Plan on average than those of active employees. Additionally, certain retirees receive insurance coverage at a lower (explicitly subsidized) premium rate than active employees pursuant to Board Policy 6.193. Under this retirement incentive, retirees receive a \$100 per month rate subsidy for 24 months following their date of retirement. Retirees are assumed to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible. The OPEB Plan does not issue a stand-alone report, and is not included in the report of a public employee retirement system or other entity.

Funding Policy. Plan contribution requirements of the District and OPEB Plan members are established and may be amended through recommendations of the Insurance Committee and action from the Board. The District has not advance-funded or established a funding methodology for the annual OPEB costs or the net OPEB obligation, and the OPEB Plan is financed on a pay-as-you-go basis. For the 2011-12 fiscal year, 42 retirees received other postemployment benefits. The District provided required contributions of \$150,819 toward the annual OPEB cost, net of retiree contributions totaling \$291,573, which represents 3.5 percent of covered payroll.

Annual OPEB Cost and Net OPEB Obligation. The District's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the District's annual OPEB cost for the fiscal year, the amount actually contributed to the OPEB Plan, and changes in the District's net OPEB obligation:

**MADISON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

Description	Amount
Normal Cost (service cost for one year)	\$ 105,882
Amortization of Unfunded Actuarial Accrued Liability	<u>181,641</u>
Annual Required Contribution	287,523
Interest on Net OPEB Obligation	11,900
Adjustment to Annual Required Contribution	<u>(25,121)</u>
Annual OPEB Cost (Expense)	274,302
Contribution Toward the OPEB Cost	<u>(150,819)</u>
Increase in Net OPEB Obligation	123,483
Net OPEB Obligation, Beginning of Year	<u>335,231</u>
Net OPEB Obligation, End of Year	<u><u>\$ 458,714</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the OPEB Plan, and the net OPEB obligation as of June 30, 2012, and the two preceding years, were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009-10	\$ 236,704	54.8%	\$ 212,055
2010-11	266,677	53.8%	335,231
2011-12	274,302	55.0%	458,714

Funded Status and Funding Progress. As of October 1, 2010, the most recent valuation date, the actuarial accrued liability for benefits was \$2,290,358, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$2,290,358 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$8,346,253, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 27.4 percent.

Actuarial valuations of an ongoing OPEB Plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and termination, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the OPEB Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The required schedule of funding progress immediately following the notes to financial statements presents multiyear trend information about whether the actuarial value of OPEB Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**MADISON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive OPEB Plan provisions, as understood by the employer and participating members, and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and participating members. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The District's OPEB actuarial valuation as of October 1, 2010, used the entry age normal cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2012, and the frozen entry age normal cost actuarial method to estimate the District's 2011-12 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 3.55 percent rate of return on invested assets, which is the District's long-term expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 4 percent per year, and an annual healthcare cost trend rate of 8.5 percent for the 2011-12 fiscal year, reduced by 0.5 percent per year, to an ultimate rate of 5 percent after seven years. The investment rate of return and payroll growth rate include a general price inflation of 3 percent. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2012, was 12 years.

14. OTHER SIGNIFICANT COMMITMENTS

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

The following is a schedule of encumbrances at June 30, 2012:

Major Funds						
General	Special Revenue - Food Service	Special Revenue - Other	Special Revenue - Federal Economic Stimulus	Capital Projects - Local Capital Improvement	Nonmajor Governmental Funds	Total Governmental Funds
<u>\$ 98,435</u>	<u>\$ 1,753</u>	<u>\$ 235,637</u>	<u>\$ 16,393</u>	<u>\$ 68,621</u>	<u>\$ 1,038</u>	<u>\$ 421,877</u>

15. RISK MANAGEMENT PROGRAMS

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Madison County District School Board is a member of the Panhandle Area Educational Consortium - Risk Management Consortium (Consortium) under which several district school boards have established a combined limited self-insurance program for property protection, general liability, automobile liability, workers' compensation, money and securities, employee fidelity and faithful performance, boiler and machinery, and other coverage deemed necessary by the members of the Consortium.

**MADISON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

Section 1001.42(12)(k), Florida Statutes, provides the authority for the District to enter into such a risk management program. The Consortium is self-sustaining through member assessments (premiums), and purchases coverage through commercial companies for claims in excess of specified amounts. The Board of Directors for the Consortium is composed of superintendents of all participating districts. The Washington County District School Board serves as fiscal agent for the Consortium.

Employee group health, hospitalization, and life insurance coverage are being provided through purchased commercial insurance with minimum deductibles for each line of coverage.

Settled claims resulting from these risks have not exceeded commercial coverage in any of the past three fiscal years.

OTHER REQUIRED SUPPLEMENTARY INFORMATION

**MADISON COUNTY
DISTRICT SCHOOL BOARD**
REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE -
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 2012

	General Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	\$	\$	\$	\$
Federal Through State and Local	100,000.00	93,632.38	93,632.38	
State	12,556,890.00	12,344,397.71	12,344,397.71	
Local:				
Property Taxes	4,381,652.57	4,446,962.66	4,045,154.79	(401,807.87)
Charges for Services - Food Service			476,213.57	476,213.57
Miscellaneous				
Total Local Revenues	4,381,652.57	4,446,962.66	4,521,368.36	74,405.70
Total Revenues	17,038,542.57	16,884,992.75	16,959,398.45	74,405.70
Expenditures				
Current - Education:				
Instruction	10,651,581.99	10,077,381.64	9,139,860.17	937,521.47
Pupil Personnel Services	518,828.88	550,850.57	489,600.79	61,249.78
Instructional Media Services	224,321.71	229,653.47	203,393.73	26,259.74
Instruction and Curriculum Development Services	553,544.79	596,528.31	530,030.63	66,497.68
Instructional Staff Training Services	42,784.48	74,331.29	58,148.55	16,182.74
Instruction Related Technology	154,623.78	221,183.86	155,062.85	66,121.01
School Board	213,881.38	238,911.16	215,894.82	23,016.34
General Administration	717,626.13	309,401.47	285,583.34	23,818.13
School Administration	1,208,534.82	1,283,934.36	1,234,686.75	49,247.61
Facilities Acquisition and Construction	15,862.26	27,317.26	11,455.00	15,862.26
Fiscal Services	322,254.48	327,065.04	316,888.86	10,176.18
Food Services	18,284.71	22,716.80	19,487.80	3,229.00
Central Services	221,604.25	268,127.82	147,203.77	120,924.05
Pupil Transportation Services	1,404,792.27	1,446,880.68	1,371,618.96	75,261.72
Operation of Plant	2,047,839.56	2,458,803.49	2,246,319.55	212,483.94
Maintenance of Plant	193,734.56	197,105.01	188,630.11	8,474.90
Administrative Technology Services	213,247.76	277,128.06	245,783.69	31,344.37
Community Services		360.00	325.00	35.00
Fixed Capital Outlay:				
Facilities Acquisition and Construction		11,795.00	11,795.00	
Other Capital Outlay		29,009.70	29,009.70	
Total Expenditures	18,723,347.81	18,648,484.99	16,900,779.07	1,747,705.92
Excess (Deficiency) of Revenues Over Expenditures	(1,684,805.24)	(1,763,492.24)	58,619.38	1,822,111.62
Other Financing Sources				
Transfers In	478,000.00	478,000.00	402,800.01	(75,199.99)
Insurance Loss Recoveries	5,000.00	5,000.00	16,515.04	11,515.04
Total Other Financing Sources	483,000.00	483,000.00	419,315.05	(63,684.95)
Net Change in Fund Balances	(1,201,805.24)	(1,280,492.24)	477,934.43	1,758,426.67
Fund Balances, Beginning	2,058,500.00	2,058,500.00	2,084,757.84	26,257.84
Fund Balances, Ending	\$ 856,694.76	\$ 778,007.76	\$ 2,562,692.27	\$ 1,784,684.51

Special Revenue - Food Service Fund				Special Revenue - Other Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
\$ 968,320.03	\$ 1,012,770.03	\$ 1,176,986.13	\$ 164,216.10	\$ 4,061,775.14	\$ 5,861,957.97	\$ 645,508.27	\$ 645,508.27
22,585.48	22,585.48	22,599.00	13.52			3,493,175.23	(2,368,782.74)
		270,186.89	270,186.89				
275,758.46	275,758.46	512.01	(275,246.45)				
275,758.46	275,758.46	270,698.90	(5,059.56)				
1,266,663.97	1,311,113.97	1,470,284.03	159,170.06	4,061,775.14	5,861,957.97	4,138,683.50	(1,723,274.47)
				1,637,537.36	2,757,769.07	2,013,703.42	744,065.65
				383,589.15	454,543.45	317,472.97	137,070.48
				1,687.78	70,437.78	44,053.11	26,384.67
				1,226,576.36	1,321,855.90	1,062,236.60	259,619.30
				494,582.41	737,784.43	346,702.24	391,082.19
				10,000.00	6,399.57	2,553.99	3,845.58
				171,542.08	267,478.98	176,888.56	90,590.42
				19,007.47	20,957.88	2,309.01	18,648.87
1,247,581.65	1,386,917.74	1,385,164.79	1,752.95	9,391.83	14,569.06	5,561.06	9,008.00
				17,823.14	59,407.57	41,746.39	17,661.18
				84,003.56	75,299.58	50,001.45	25,298.13
				6,034.00	1,000.00	1,000.00	
					74,454.70	74,454.70	
1,247,581.65	1,386,917.74	1,385,164.79	1,752.95	4,061,775.14	5,861,957.97	4,138,683.50	1,723,274.47
19,082.32	(75,803.77)	85,119.24	160,923.01				
19,082.32	(75,803.77)	85,119.24	160,923.01				
113,524.95	113,524.95	115,036.77	1,511.82				
\$ 132,607.27	\$ 37,721.18	\$ 200,156.01	\$ 162,434.83	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

**MADISON COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE -
GENERAL AND MAJOR SPECIAL REVENUE FUNDS (Continued)
For the Fiscal Year Ended June 30, 2012**

	Special Revenue - Federal Economic Stimulus Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental:				
Federal Direct	\$	\$	\$	\$
Federal Through State and Local State	548,047.55	1,208,041.21	959,860.20	(248,181.01)
Local:				
Property Taxes				
Charges for Services - Food Service				
Miscellaneous				
Total Local Revenues				
Total Revenues	<u>548,047.55</u>	<u>1,208,041.21</u>	<u>959,860.20</u>	<u>(248,181.01)</u>
Expenditures				
Current - Education:				
Instruction	201,685.08	395,292.62	325,893.05	69,399.57
Pupil Personnel Services	21,503.51	9,673.81	1,827.43	7,846.38
Instructional Media Services	10,598.24	10,273.12	9,891.76	381.36
Instruction and Curriculum Development Services	146,775.69	279,606.25	235,788.41	43,817.84
Instructional Staff Training Services	83,285.69	287,956.87	206,563.91	81,392.96
Instruction Related Technology	40,000.00	43,175.00	42,310.21	864.79
School Board				
General Administration	30,919.26	36,535.31	25,660.06	10,875.25
School Administration	13,280.08			
Facilities Acquisition and Construction				
Fiscal Services				
Food Services				
Central Services				
Pupil Transportation Services				
Operation of Plant				
Maintenance of Plant				
Administrative Technology Services		77,074.46	43,471.60	33,602.86
Community Services				
Fixed Capital Outlay:				
Facilities Acquisition and Construction				
Other Capital Outlay		68,453.77	68,453.77	
Total Expenditures	<u>548,047.55</u>	<u>1,208,041.21</u>	<u>959,860.20</u>	<u>248,181.01</u>
Excess (Deficiency) of Revenues Over Expenditures				
Other Financing Sources				
Transfers In				
Insurance Loss Recoveries				
Total Other Financing Sources				
Net Change in Fund Balances				
Fund Balances, Beginning				
Fund Balances, Ending	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>

**MADISON COUNTY
DISTRICT SCHOOL BOARD
REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF FUNDING PROGRESS -
OTHER POSTEMPLOYMENT BENEFITS PLAN**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) (1)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(A)	(B)	(B-A)	(A/B)	(C)	[(B-A)/C]
October 1, 2007	\$ 0	\$ 2,165,083	\$ 2,165,083	0.0%	\$ 9,926,970	21.8%
October 1, 2010	0	2,290,358	2,290,358	0.0%	8,346,253	27.4%

Note: (1) The District's OPEB actuarial valuation used the entry age normal cost method to estimate the unfunded actuarial liability.

**MADISON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2012**

1. BUDGETARY BASIS OF ACCOUNTING

Budgets are prepared using the same modified accrual basis as is used to account for governmental funds.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**MADISON COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2012**

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)
United States Department of Agriculture:			
Indirect:			
Child Nutrition Cluster:			
Florida Department of Education:			
School Breakfast Program	10.553	321	\$ 92,423.61
National School Lunch Program	10.555	300, 350	281,782.42
Summer Food Service Program for Children	10.559	323	15,437.70
Florida Department of Agriculture and Consumer Services:			
School Breakfast Program	10.553	321	153,315.42
National School Lunch Program	10.555 (2)(A)	300	571,957.82
Summer Food Service Program for Children	10.559	323	13,135.32
Total Child Nutrition Cluster			1,128,052.29
Florida Department of Agriculture and Consumer Services:			
Fresh Fruit and Vegetable Program	10.582	330	48,916.09
Total United States Department of Agriculture			1,176,968.38
United States Department of Energy:			
Indirect:			
University of Central Florida:			
ARRA - State Energy Program	81.041 (2)(B)	None	37,338.31
United States Department of Education:			
Direct:			
Safe and Drug-Free Schools and Communities - National Programs	84.184	N/A	645,230.03
Indirect:			
Florida Department of Education:			
Title I, Part A Cluster:			
Title I Grants to Local Educational Agencies	84.010	212, 222, 223, 226, 228	1,422,367.01
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	212, 226	37,806.92
Total Title I, Part A Cluster			1,460,173.93
Special Education Cluster:			
Special Education - Grants to States	84.027	263	752,456.71
Special Education - Preschool Grants	84.173	267	37,028.31
ARRA - Special Education - Grants to States, Recovery Act	84.391	263	13,814.29
Total Special Education Cluster			803,299.31
School Improvement Grants Cluster:			
School Improvement Grants	84.377	126	723,860.62
ARRA - School Improvement Grants, Recovery Act	84.388	126	561,775.39
Total School Improvement Grants Cluster			1,285,636.01
Adult Education - Basic Grants to States	84.002	191	71,436.07
Migrant Education - State Grant Program	84.011	217	127,140.28
Career and Technical Education - Basic Grants to States	84.048	161	121,710.80
Transition to Teaching	84.350	227	13,132.74
Rural Education	84.358	110	38,589.64
Improving Teacher Quality State Grants	84.367	224	185,453.05
ARRA - Education Technology State Grants, Recovery Act	84.386	121,122	54,293.34
ARRA - Education for Homeless Children and Youth, Recovery Act	84.387	127	6,499.85
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	RL111, RD211, RS611	260,941.83
Education Jobs Fund	84.410	541	24,728.58
Washington County District School Board:			
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395	None	6,216.56
Total Indirect			4,459,251.99
Total United States Department of Education			5,104,482.02
Total Expenditures of Federal Awards			\$ 6,318,788.71

Notes: (1) Basics of Presentation. The Schedule of Expenditures of Federal Awards represents amounts expended from Federal programs during the fiscal year as determined based on the modified accrual basis of accounting. The amounts reported on the Schedule have been reconciled to and are in material agreement with amounts recorded in the District's accounting records from which the basic financial statements have been reported.

(2) Noncash Assistance:

(A) National School Lunch Program - Includes \$106,182.92 of donated food used during the fiscal year. Donated foods are valued at fair value as determined at the time of donation.

(B) State Energy Program - Represents the Federally-paid portion of solar panels and related site preparation and installation costs.



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

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

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Madison County District School Board as of and for the fiscal year ended June 30, 2012, which collectively comprise the District's basic financial statements, and have issued our report thereon under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the basic financial statements includes a reference to other auditors. 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. Other auditors audited the financial statements of the school internal funds and the discretely presented component unit, as described in our report on the Madison County District School Board's financial statements. For the discretely presented component unit, this report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the school internal funds were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a

reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

We noted certain additional matters that are discussed in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report.

Management's response to the findings described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report is included as Exhibit A. We did not audit management's response and, accordingly, we express no opinion on it.

Our **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*** is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, Federal and other granting agencies, and applicable management and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



David W. Martin, CPA
February 27, 2013



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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Compliance

We have audited the Madison County District School Board's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major Federal programs for the fiscal year ended June 30, 2012. The District's major Federal programs are identified in the **SUMMARY OF AUDITOR'S RESULTS** section of the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of District management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the fiscal year ended June 30, 2012. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding No. 1.

Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding No. 1. A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Management's response to the findings described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report is included as Exhibit A. We did not audit management's response and, accordingly, we express no opinion on the response.

Restricted Purpose Relating to Testing of Internal Control Over Compliance

The purpose of the provisions of this report addressing internal control over compliance is solely to describe the scope of our testing of internal control over compliance with the requirements that could have a direct and material effect on a major Federal program, and the results of that testing, and not to provide an opinion on the effectiveness of internal control over compliance. These provisions of our report are an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Circular A-133 in considering the entity's internal control over compliance. Accordingly, these provisions of our report are not suitable for any other purpose.

Respectfully submitted,



David W. Martin, CPA
February 27, 2013

**MADISON COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be a material weakness(es)?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be a material weakness(es)?	Yes
Type of report the auditor issued on compliance for major programs:	Unqualified for all major programs
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	Yes
Identification of major programs:	Child Nutrition Cluster (CFDA Nos. 10.553, 10.555, and 10.559); Title I, Part A Cluster (CFDA Nos. 84.010 and 84.389 - ARRA); Special Education Cluster (CFDA Nos. 84.027, 84.173, and 84.391 - ARRA); School Improvement Grants Cluster (CFDA Nos. 84.377 and 84.388 - ARRA); and ARRA - State Fiscal Stabilization Fund - Race-to-the-Top Incentive Grants (CFDA No. 84.395 - ARRA)
Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	Yes

**MADISON COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

ADDITIONAL MATTERS

Finding No. 1: Compensation and Salary Schedules

Section 1001.42(5)(a), Florida Statutes, requires the Board to designate positions to be filled, prescribe qualifications for those positions, and provide for the appointment, compensation, promotion, suspension, and dismissal of employees, subject to the requirements of Chapter 1012, Florida Statutes. Section 1012.22(1)(c)4.b., Florida Statutes, provides that, for instructional personnel, the Board must provide differentiated pay based upon district-determined factors, including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties.

While compensation of instructional personnel is typically subject to collective bargaining, the Board had not established a documented process to identify the instructional personnel entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4.b., Florida Statutes. Such a documented process could specify the factors to be used as the basis for determining differentiated pay, the process for applying the factors, and the individuals responsible for making such determinations.

The 2011-12 fiscal year salary schedule and union contract for instructional personnel provided pay levels based on various factors such as job classification, years of experience, level of education, and other factors. The instructional personnel salary schedule and union contract provided salary supplements for additional activities that instructional personnel performed beyond the standard workday, such as supplements for athletic coaches and band directors. However, neither the salary schedule nor the union contract evidenced consideration of differentiated pay based on school demographics, critical shortage areas, and level of job performance difficulties for instructional personnel, contrary to Section 1012.22(1)(c)4.b., Florida Statutes.

District personnel indicated that, as of January 2013, salary schedule revisions to comply with the differentiated pay requirements were delayed to coincide with implementing instructional personnel performance pay plans. Without a Board-established documented process for identifying the basis for differentiated pay, the District may be limited in its ability to demonstrate that differentiated pay factors are consistently considered and applied. Similar findings were noted in our report Nos. 2011-093 and 2012-094.

Recommendation: The Board should establish a documented process for ensuring that differentiated pay of instructional personnel is appropriately identified on salary schedules, consistent with Section 1012.22(1)(c)4.b., Florida Statutes.

Finding No. 2: Electronic Funds Transfers

Section 1010.11, Florida Statutes, requires each school board to adopt written policies prescribing the accounting and control procedures under which funds are allowed to be moved by electronic transaction for any purpose including direct deposit, wire transfer, withdrawal, investment, or payment. This law also requires that electronic transactions

comply with the provisions of Chapter 668, Florida Statutes, which discusses the use of electronic signatures in electronic transactions between school boards and other entities. In addition, State Board of Education (SBE) Rule 6A-1.0012, Florida Administrative Code (FAC), authorizes the District to make electronic funds transfers (EFTs) provided adequate internal control measures are established and maintained, such as a written agreement with a financial institution that contains manual signatures of employees authorized to initiate EFTs. SBE Rule 6A-1.0012, FAC, also requires the District to maintain documentation signed by the initiator and authorizer of EFTs to confirm the authenticity of EFTs.

The District regularly makes EFTs for direct deposit of employee pay, payroll tax, and retirement contribution payments, and vendor payments for debt service from one bank. According to District records, cash and cash equivalents of \$4,116,539 was available for electronic transfer at June 30, 2012. The District used informal processes including oral instructions, e-mail directions, and other reviews to monitor and control electronic transmission of funds; however, the Board had not adopted written policies prescribing the accounting and control procedures of EFTs, including the use of electronic signatures, contrary to Section 1010.11 and Chapter 668, Florida Statutes. Also, District records did not evidence an agreement with the bank to identify personnel authorized to initiate and authorize transfers or documentation signed by the initiator and authorizer of EFTs, contrary to SBE Rule 6A-1.0012, FAC.

District personnel indicated that controls are in place, such as supervisory review and approval of journal entries and bank reconciliations, to compensate, in part, for the lack of formal policies and procedures. While our tests did not disclose any EFTs for unauthorized purposes, the lack of a Board policy addressing the use of electronic signatures, an agreement with the bank identifying personnel authorized to initiate and authorize EFTs, and documentation signed by the initiator and authorizer of EFTs increases the risk of misappropriation of funds without timely detection. A similar finding was noted in our report No. 2012-094.

Recommendation: The Board should adopt written policies and procedures related to EFTs, including the use of electronic signatures. Such policies and procedures should ensure that EFT agreements identify personnel authorized to initiate and authorize transfers and EFTs are supported by documentation signed by EFT initiators and authorizers.

Finding No. 3: Information Technology – Security Controls – Data Loss Prevention

Security controls are intended to protect the confidentiality, integrity, and availability of data and information technology (IT) resources. Our audit disclosed certain District security controls related to data loss prevention that needed improvement. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising District data and IT resources. However, we have notified appropriate District management of the specific issues.

Without adequate security controls related to data loss prevention, the risk is increased that the confidentiality, integrity, and availability of District data and IT resources may be compromised. A similar finding was noted in our report No. 2012-094.

Recommendation: The District should improve security controls related to data loss prevention to ensure the continued confidentiality, integrity, and availability of District data and IT resources.

FEDERAL AWARDS FINDING AND QUESTIONED COSTS

Federal Awards Finding No. 1:**Federal Agency: United States Department of Education****Pass-Through Entity: Florida Department of Education****Program: School Improvement Grants Cluster (CFDA Nos. 84.377 and 84.388 - ARRA)****Finding Type: Noncompliance and Significant Deficiency****Questioned Costs: None**

Allowable Costs/Cost Principles – Documentation of Time and Effort. United States Office of Management and Budget Circular A-87, Attachment A, Section C.1, provides that charges to Federal awards for salaries and wages be based on payrolls documented in accordance with generally accepted practices of the governmental unit and approved by a responsible official of the governmental unit. Where employees are expected to work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. These reports must reflect an after-the-fact distribution of the actual activity of each employee, account for the total activity for which each employee is compensated, and be signed by the employee. Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.

For the 2011-12 fiscal year, the District reported total School Improvement Grants (SIG) program expenditures of \$1,285,636, of which salaries and benefits totaled \$929,986 for this program. To determine the propriety of SIG program salary and benefit expenditures, we tested the salary and benefits totaling \$307,698 for five SIG employees, three of which were fully-funded by the program and two partially-funded by the program. We noted that the District generally maintained appropriate documentation for three of the employees tested; however, District records did not evidence the required semiannual certifications or equivalent documentation for two fully-funded employees paid a total of \$107,617.

Subsequent to our inquiries, the employees documented that their duties and responsibilities were properly charged to the program. Absent effective procedures for timely documenting actual time devoted to Federal program activities, there is an increased risk that personnel costs may be inappropriately charged to a Federal program. A similar finding was noted in our report No. 2012-094.

Recommendation: The District should enhance its procedures to ensure that required documentation is maintained to support salaries and benefits charges to Federal programs.

District Contact Person: Julia Waldrep, Director of Teaching and Learning

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, and the **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS**, the District had taken corrective actions for findings included in our report No. 2012-094. The following table provides information on the District’s recurring audit findings:

Current Fiscal Year Finding Numbers	2010-11 Fiscal Year Audit Report and Finding Numbers	2009-10 Fiscal Year Audit Report and Finding Numbers
1	Audit Report No. 2012-094, Finding No. 1	Audit Report No. 2011-093, Finding No. 1
2	Audit Report No. 2012-094, Finding No. 6	NA
3	Audit Report No. 2012-094, Finding No. 8	NA
Federal Awards Finding No. 1	Audit Report No. 2012-094, Federal Awards Finding No. 1	NA

NA – Not Applicable

MANAGEMENT’S RESPONSE

Management’s response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

*MADISON COUNTY
DISTRICT SCHOOL BOARD
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2012*

Listed below is the District's summary of the status of the prior audit finding on Federal programs:

Audit Report No. and Federal Awards Finding No.	Program/Area	Brief Description	Status	Comments
2012-094 (1)	School Improvement Grants Cluster (CFDA Nos. 84.377 and 84.388); Educational Technology State Grants Cluster (CFDA Nos. 84.318 and 84.386) - Allowable Costs/Cost Principles	Controls to ensure costs are appropriately charged to Federal programs could be enhanced. Additionally, the District used School Improvement Grants moneys to purchase items not specified in the grant application, resulting in questioned costs of \$2,325.	Partially corrected.	The finance staff is continuing to work with grant coordinators to enhance procedures for gathering time and effort certifications.
2012-094 (2)	State Fiscal Stabilization Fund – Education State Grants (CFDA No. 84.394); School Improvement Grants, Recovery Act (CFDA No. 84.388); Title I Grants to Local Educational Agencies, Recovery Act (CFDA No. 84.389); Education Technology State Grants, Recovery Act (CFDA No. 84.386) - Reporting	District procedures for reporting American Recovery and Reinvestment Act (ARRA) expenditures needed improvement. Certain expenditures were not reported to the grantor, resulting in questioned costs of \$24,200 in the Education Technology State Grants, Recovery Act program.	Corrected.	The grantor did not require repayment of questioned costs.
2012-094 (3)	Title I, Part A Cluster (CFDA Nos. 84.010 and 84.389); Special Education Cluster (CFDA Nos. 84.027 and 84.391); Educational Technology State Grants Cluster (CFDA Nos. 84.318 and 84.386) - Special Tests and Provisions	District records did not always document that private schools were provided the opportunity to participate in Federal programs, and that private schools participating in Federal programs used Federal funds consistent with grant terms.	Corrected.	

EXHIBIT A
MANAGEMENT'S RESPONSE

District School Board of Madison County

210 NE Duval Avenue • Madison Florida 32340

February 27, 2013

Management Response to Preliminary and Tentative Findings

Additional Matters

Finding No. 1: Management agrees with this finding and is currently working with our labor union to develop a differentiated pay plan to comply with Florida Statute 1012.22(1)(c)4.b.

Finding No. 2: Management agrees with this finding and is working to adopt a policy that will enhance EFT controls.

Finding No. 3: Management agrees with this finding and is working to improve IT security controls relating to data loss prevention.

Federal Awards Findings

Finding No. 1: Management agrees with this finding and will work with staff to enhance procedures for documentation of personnel charges to Federal Programs.

Sincerely,



Doug Brown
Superintendent
Madison County School District

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Doug Brown Superintendent • Fain Poppell District 1 • Kenneth Hall District 2 • VeEtta L. Hagan District 3 • Karen Pickles District 4 • Bart Alford District 5

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