

MADISON COUNTY DISTRICT SCHOOL BOARD

Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended
June 30, 2014



STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD MEMBERS AND SUPERINTENDENT

Board members and the Superintendent who served during the 2013-14 fiscal year are listed below:

	<u>District No.</u>
Fain Poppell, Vice Chair to 11-19-13, Chair from 11-20-13	1
Kenneth Hall, Vice Chair from 11-20-13	2
VeEtta L. Hagan	3
Dr. Karen Pickles	4
Bart Alford, Chair to 11-19-13	5

K. Douglas Brown, Superintendent

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 Glenda K. Hart, CPA, and the audit was supervised by Cathy L. Bandy, CPA. Please address inquiries regarding this report to Douglas R. Conner, CPA, Audit Manager, by e-mail at dougconner@aud.state.fl.us or by telephone at (850) 412-2730.

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

**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, with the exception of the aggregate discretely presented component units.

Summary of Report on Internal Control and Compliance

We noted a certain matter involving the District's internal control over financial reporting and its operation that we consider to be a material weakness, as summarized below.

MATERIAL WEAKNESS

Finding No. 1: District efforts to monitor financial activities of charter schools could be improved to ensure that corrective action plans are developed with charter schools subject to expedited reviews, timely submitted to the Florida Department of Education (FDOE) as required, and appropriately monitored; and required audits of charter schools are timely completed for consideration in the audit of the District's financial statements.

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. 2: The District did not timely and prominently post all required budget information on its Web site.

Finding No. 3: Controls over electronic funds transfers and bank withdrawals could be enhanced.

Finding No. 4: 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. 5: The District did not always timely obtain required background screenings for instructional and noninstructional personnel.

Finding No. 6: Procurement procedures could be enhanced to provide for routine review of required statements of financial interests for consideration in making procurement decisions.

Finding No. 7: The District needed to enhance its procedures to require verification of eligibility of all dependents covered by the District's health insurance plan.

Finding No. 8: District records did not always evidence that ad valorem tax levy proceeds were used only for purposes advertised, resulting in \$61,650 of questioned costs.

Finding No. 9: Improvements were needed in controls over the reporting of instructional contact hours for adult general education classes to the FDOE.

Finding No. 10: 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 Charter Schools, Twenty-First Century, and School Improvement Grants Cluster 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, except for the Charter Schools program. Noncompliance and control deficiency findings are summarized below.

Federal Awards Finding No. 2014-001: Subrecipient monitoring deficiencies for Charter School Program expenditures resulted in \$7,875 of questioned costs.

Federal Awards Finding No. 2014-002: Required documentation to support personnel charges of Federal programs was not always maintained, contrary to Federal regulations.

Federal Awards Finding No. 2014-003: Federal equipment use was not always limited to grant purposes, resulting in \$25,749.44 of questioned costs.

Audit Objectives and Scope

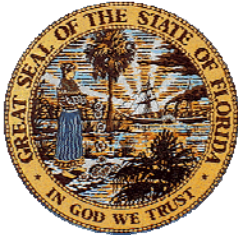
Our audit objectives were to determine whether the Madison County District School Board and its officers with administrative and stewardship responsibilities for District operations had:

- 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. 2014-112.

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, 2014. 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.



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

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, 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, 2014, and the related notes to the financial statements. We were engaged to audit the financial statements of the aggregate discretely presented component units. These financial statements collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the school internal funds, which represent 17 percent of the assets and 78 percent of the liabilities of the aggregate remaining fund information. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the school internal funds is based solely on the report 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. However, because of the matter described in the Basis for Disclaimer of Opinion on the Aggregate Discretely Presented Component Units paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the aggregate discretely presented component units.

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

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

Basis for Disclaimer of Opinion on the Aggregate Discretely Presented Component Units

During the 2013-14 fiscal year, the Board sponsored two charter schools: New Millennium Charter School, Inc. (NMCS), and James Madison Preparatory High School, Inc. Although required to be included in the aggregate discretely presented component units on the accompanying basic financial statements, the District did not report NMCS financial statement information because the information was not audited. In October 2014, the Board terminated the NMCS charter and NMCS ceased operations.

Disclaimer of Opinion on the Aggregate Discretely Presented Component Units

Because of the significance of the matter described in the Basis for Disclaimer of Opinion on the Aggregate Discretely Presented Component Units paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the aggregate discretely presented component units. Accordingly, we do not express an opinion on the aggregate discretely presented component units.

Unmodified Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information for the Madison County District School Board as of June 30, 2014, 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.

Other Matters

Required Supplementary Information

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.

Supplementary Information

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. The **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** 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. Such 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 as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of the District'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Respectfully submitted,



David W. Martin, CPA

Tallahassee, Florida

March 24, 2015

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, 2014. 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 2013-14 fiscal year are as follows:

- As of June 30, 2014, the assets exceed the liabilities by \$29,178,650.85. This amount represents total net position for the District and includes net investment in capital assets of \$29,518,905.55, restricted net position of \$1,384,815.13, and a deficit unrestricted net position of \$1,725,069.83.
- In total, net position decreased \$2,227,752.13, which represents a 7 percent decrease from the 2012-13 fiscal year.
- During the current fiscal year, General Fund expenditures exceeded revenues by \$1,230,927.17. This may be compared to the prior fiscal year's results in which General Fund revenues exceeded expenditures by \$146,502.72.
- The General Fund unassigned fund balance totals \$1,848,647.38, which is available for general appropriation by the Board, and is comparable to the unassigned fund balance of \$2,050,012.74 at June 30, 2013.

OVERVIEW OF FINANCIAL STATEMENTS

The basic financial statements consist of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to financial statements. This report also includes supplementary information intended to furnish additional details to support the basic 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 position 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 position provides information about the District's financial position, its assets and liabilities, using an economic resources measurement focus. Assets less liabilities equal net position, which is a measure of the District's financial health. The statement of activities presents information about the change in the District's net position, the results of operations, during the fiscal year. An increase or decrease in net position 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 units – The District component units consist of two charter schools. The James Madison Preparatory High School, Inc. (JMPHS), and The New Millennium Charter School, Inc. (NMCS), began charter school operations in the 2013-14 fiscal year. They are legally separate organizations and component units of the Madison County District School Board that should be included in this report because they meet

the criteria for inclusion provided by generally accepted accounting principles. Financial information for JMPHS is reported separately from the financial information presented for the primary government. No financial information was available to be reported for NMCS at June 30, 2014.

- NMCS is an elementary school focusing on grades K-3. NMCS's estimated enrollment of 108 students was revised in September 2013 to match the actual enrollment of 36. Enrollment for the 2013-2014 fiscal year ended with 27 students.
- JMPHS began the fiscal year by focusing only on grade 9. With a maximum capacity of 50 students for the 2013-14 fiscal year, JMPHS's beginning enrollment was 35 students. The 2013-2014 fiscal year ending enrollment was 38. JMPHS has a capacity of 50 students per grade level. Plans are to add up to 50 students per grade level each year until reaching the maximum of 200 students in 9-12 grade levels. Funding for JMPHS is derived from FEFP funds and a two year, \$350,000, startup grant from Florida Department of Education.

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 entity wide 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 spendable 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 to facilitate this comparison between governmental funds and governmental activities.

The governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances provide detailed information about the District's most significant funds. The District's major funds are the General Fund, Special Revenue – Other Fund, Special Revenue – Federal Economic Stimulus Fund, Debt Service – ARRA Economic Stimulus Fund, and Capital Projects – ARRA Economic Stimulus 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.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the District's progress in funding its obligation to provide other postemployment benefits to its employees.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position over time may serve as a useful indicator of a government's financial health. The following is a summary of the District's net position as of June 30, 2014, compared to net position as of June 30, 2013:

	Net Position, End of Year	
	Governmental Activities	
	6-30-14	6-30-13
Current and Other Assets	\$ 3,995,067.36	\$ 5,093,451.82
Capital Assets	31,960,656.55	33,424,148.70
Total Assets	35,955,723.91	38,517,600.52
Long-Term Liabilities	6,094,116.51	6,426,015.71
Other Liabilities	682,956.55	685,181.83
Total Liabilities	6,777,073.06	7,111,197.54
Net Position:		
Net Investment in Capital Assets	29,518,905.55	30,488,316.10
Restricted	1,384,815.13	2,253,829.91
Unrestricted Deficit	(1,725,069.83)	(1,335,743.03)
Total Net Position	\$ 29,178,650.85	\$ 31,406,402.98

The largest portion of the District's net position is investment in capital assets (e.g., land; buildings; 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. Although the investment in capital assets is reported net of related debt, the resources used to repay the debt must be provided from other sources, since the capital assets cannot be used to liquidate these liabilities.

The restricted portion of the District's net position represents resources that are subject to external restrictions on how they may be used. The deficit unrestricted net position was the result, in part, of accruing \$3,041,503.51 in compensated absences payable and \$610,862 in other postemployment benefit obligations.

The key elements of the changes in the District's net position for the fiscal years ended June 30, 2014, and June 30, 2013, are as follows:

Operating Results for the Fiscal Year Ended			
		Governmental Activities	
		6-30-14	6-30-13
Program Revenues:			
Charges for Services	\$	185,651.35	\$ 245,123.45
Operating Grants and Contributions		1,407,064.38	1,206,674.09
Capital Grants and Contributions		106,217.88	107,049.65
General Revenues:			
Property Taxes, Levied for Operational Purposes		3,900,799.09	4,162,584.32
Property Taxes, Levied for Capital Projects		987,098.23	982,211.73
Grants and Contributions Not Restricted to Specific Programs		19,144,046.93	18,773,233.02
Unrestricted Investment Earnings		60,964.74	8,933.07
Miscellaneous		510,351.41	800,473.82
Total Revenues		26,302,194.01	26,286,283.15
Functions/Program Expenses:			
Instruction		12,413,095.22	11,949,182.21
Student Personnel Services		691,001.02	740,732.45
Instructional Media Services		233,078.01	251,939.67
Instruction and Curriculum Development Services		1,760,761.08	1,821,184.93
Instructional Staff Training Services		655,474.60	759,302.67
Instruction Related Technology		350,862.95	150,367.66
School Board		275,276.68	262,796.14
General Administration		682,839.40	633,018.09
School Administration		1,383,679.24	1,251,275.02
Facilities Acquisition and Construction		619,974.58	340,470.28
Fiscal Services		347,692.71	317,612.72
Food Services		1,683,098.94	1,461,560.87
Central Services		201,057.75	160,240.04
Student Transportation Services		2,066,338.71	2,033,924.00
Operation of Plant		2,484,035.88	2,384,277.22
Maintenance of Plant		258,809.34	209,200.25
Administrative Technology Services		303,288.19	238,830.13
Community Services		509,645.81	417,977.94
Unallocated Interest on Long-Term Debt		130,055.84	145,351.59
Unallocated Depreciation Expense		1,479,880.19	1,483,260.47
Total Functions/Program Expenses		28,529,946.14	27,012,504.35
Change in Net Position		(2,227,752.13)	(726,221.20)
Net Position - Beginning		31,406,402.98	32,132,624.18
Net Position - Ending	\$	29,178,650.85	\$ 31,406,402.98

The largest revenue source is the State of Florida (53 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.

Grants and contributions not restricted to specific programs revenues increased by \$370,813.91, or 2 percent, primarily due to an increase in FEFP revenues from the State partially offset by a decrease in Federal grant funding.

Instruction expenses represent 44 percent of total governmental expenses in the 2013-14 fiscal year. Instruction expenses increased by \$463,913.01, or 4 percent, from the previous fiscal year due mainly from changes to the employee salary schedule for step increases and an increase in mandatory employer retirement contributions.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Governmental Funds

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. Specifically, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as it represents the portion of fund balance that has not been limited to a particular purpose by an external party, the District, or a group or individual delegated authority by the Board to assign resources for particular purposes.

The total fund balances of governmental funds decreased by \$1,096,159.18 during the fiscal year to \$3,312,110.81 at June 30, 2014. Approximately 56 percent of this amount is unassigned fund balance (\$1,848,647.38), which is available for spending at the District's discretion. The remainder of the fund balance is nonspendable, restricted, or assigned to indicate that it is 1) not in spendable form (\$86,476.61), 2) restricted for particular purposes (\$1,319,774.99), or 3) assigned for particular purposes (\$57,211.83).

Major Governmental Funds

The General Fund is the District's chief operating fund. At the end of the current fiscal year, assigned and unassigned fund balance total \$1,905,859.21, while the total fund balance is \$2,508,243.12. As a measure of the General Fund's liquidity, it may be useful to compare the total assigned and unassigned fund balances to General Fund total revenues. The total assigned and unassigned fund balance is 11 percent of the total General Fund revenues, while total fund balance represents 14 percent of total General Fund revenues.

Total fund balance decreased by \$522,358.27 during the fiscal year. Key factors impacting the change in fund balance are as follows:

- Decreases in the local property tax rate resulted in decreased tax revenues of \$261,785.23.
- Decreased tax revenues were offset by increased state revenues of \$1,099,621.80 resulting primarily from an increase in FEFP funding.
- Total expenditures increased by \$1,865,867.05, or 11 percent, due mainly to an increase in instruction and instruction related costs and renovation of various facilities.

The Special Revenue – Other and Special Revenue - Federal Economic Stimulus Funds have total revenues and expenditures of \$4,922,275.66 and \$293,325.62 each, respectively, and the funding was mainly used to supplement instruction related costs. Because grant revenues attributed to the grants accounted for in these funds are not recognized until expenditures are incurred, these funds generally do not accumulate fund balances. Activity in the Special Revenue – Federal Economic Stimulus fund decreased substantially due to a reduction of Federal Stimulus program funding.

The Debt Service – ARRA Economic Stimulus Fund has a total fund balance of \$64,630.39. The Debt Service – ARRA Fund was established to account for the financial resources used for the payment of principal, interest, and related costs for the 2010A, Refunding, and 2010B Qualified School Construction Bonds. The fund balance

decreased by \$240,748.69 due mainly to a one-time transfer to the General Fund of fund balance not obligated for debt service payments.

The Capital Projects – ARRA Economic Stimulus Fund is used to account for the financial resources used for construction projects associated with the 2010A, Refunding, and 2010B Qualified School Construction Bonds. No significant activity occurred in this fund during the fiscal year as the projects were all completed in prior fiscal years. As of June 30, 2014, the Capital Projects – ARRA Economic Stimulus Fund has a total fund balance of \$2,969.78.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the 2013-14 fiscal year, the District amended its General Fund budget several times, which resulted in a decrease in total budgeted revenues of \$356,168.16, or 2 percent. At the same time, final appropriations increased from the original budgeted amounts by \$27,958.52. Budget revisions occurred primarily from changes in estimated State funding levels and corresponding adjustments to planned expenditures to ensure maintenance of an adequate fund balance.

Actual revenues are in line with the final budgeted amounts while actual expenditures are \$1,591,102.52, or 8 percent, less than final budget amounts. The decrease in expenditures was primarily due to continued cost containment measures implemented by the District. The actual ending fund balance exceeded the estimated fund balance contained in the final amended budget by \$2,008,227.28.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The District's investment in capital assets for governmental activities as of June 30, 2014, is \$31,960,656.55 (net of accumulated depreciation). This investment in capital assets includes land; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; and audio visual materials and computer software. The total decrease in capital assets for the current fiscal year was approximately 4 percent.

Major capital asset events included the following:

- During the current fiscal year, the District spent approximately \$345,000 to upgrade student computer technology, a large portion of which was facilitated through Federal grant funding.
- Depreciation expense, \$1,985,447.17, exceeded additions to capital assets by \$1,463,492.15.
- The District disposed of capital assets with a historical cost of \$464,129.52. The majority of these disposals consisted of outdated computer technology and other obsolete equipment.

Additional information on the District's capital assets can be found in notes I.F.4 and II.C to the financial statements.

Long-Term Debt

At June 30, 2014, the District's only long-term debt outstanding consisted of bonds payable in the amount of \$2,441,751. During the current fiscal year, retirement of debt was \$494,081.60, of which \$314,107.60 was the final payment on the District's installment-purchase agreement used to fund the purchase of nine buses in a prior fiscal year.

The District's bonds payable consist of state school bonds and district revenue bonds. State school bonds, which have an outstanding balance of \$290,000, are secured by a pledge of the District's portion of the State-assessed motor vehicle license tax. District revenue bonds, in contrast, have an outstanding balance of \$2,151,751 and are secured from the District's pari-mutuel tax proceeds distributed annually by the State.

Additional information on the District's long-term debt can be found in notes I.F.5 and II.H to the financial statements.

OTHER MATTERS OF SIGNIFICANCE

The District has experienced a decline in full time equivalent (FTE) students used for funding purposes over the past several years. It is anticipated that this trend will continue based on the latest enrollment projections.

Employer contributions to the Florida Retirement System increased for regular employees from 6.95 to 7.37 percent of payroll for the 2014-15 fiscal year.

Pursuant to Section 1013.14, Florida Statutes, the District received a special allocation in the 2014-15 fiscal year for specific construction needs through the Public Education Capital Outlay and Debt Service Trust Fund – Special Facility Construction account. On September 5, 2014, the District received the first of two Public Education Capital Outlay Special Facilities encumbrance authorizations in the amount of \$7,600,000. The second allocation is approved for \$9,200,000 for the 2015-16 fiscal year. The funding will be used for the remodeling and renovation of the Madison County High School.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning information provided in the MD&A or other required supplementary information, and financial statements and notes thereto, or requests for additional financial information should be addressed to the Chief Financial Officer, Madison County District School Board, 210 NE Duval Street, Madison, Florida, 32340.

BASIC FINANCIAL STATEMENTS

MADISON COUNTY DISTRICT SCHOOL BOARD STATEMENT OF NET POSITION June 30, 2014

	Primary Government Governmental Activities	Component Units (Unaudited)
ASSETS		
Cash and Cash Equivalents	\$ 3,427,501.88	\$ 6,444.00
Investments	15,668.96	
Accounts Receivable	1,677.79	4,071.00
Due from Other Agencies	471,824.61	
Inventories	78,394.12	
Capital Assets:		
Nondepreciable Capital Assets	709,829.03	4,056.00
Depreciable Capital Assets, Net	31,250,827.52	38,874.00
TOTAL ASSETS	35,955,723.91	53,445.00
LIABILITIES		
Salaries and Benefits Payable	245,805.53	
Payroll Deductions and Withholdings	51,175.45	
Accounts Payable	155,133.86	9,861.00
Matured Installment-Purchase Payable	119,974.00	
Matured Interest Payable	58,998.24	
Due to Other Agencies	6,735.13	6,000.00
Deposits Payable	45,134.34	
Long-Term Liabilities:		
Portion Due Within One Year	393,141.42	
Portion Due After One Year	5,700,975.09	12,400.00
TOTAL LIABILITIES	6,777,073.06	28,261.00
NET POSITION		
Net Investment in Capital Assets	29,518,905.55	42,930.00
Restricted for:		
State Required Carryover Programs	509,469.48	
Debt Service	72,216.86	
Capital Projects	572,244.77	
Food Service	159,406.06	
Fuel Tax Rebate	71,477.96	
Unrestricted	(1,725,069.83)	(17,746.00)
TOTAL NET POSITION	\$ 29,178,650.85	\$ 25,184.00

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

**MADISON COUNTY
DISTRICT SCHOOL BOARD
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2014**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
Instruction	\$ 12,413,095.22	\$ 5,714.20	\$	\$
Student Personnel Services	691,001.02			
Instructional Media Services	233,078.01			
Instruction and Curriculum Development Services	1,760,761.08			
Instructional Staff Training Services	655,474.60			
Instruction Related Technology	350,862.95			
School Board	275,276.68			
General Administration	682,839.40			
School Administration	1,383,679.24			
Facilities Acquisition and Construction	619,974.58			30,196.63
Fiscal Services	347,692.71			
Food Services	1,683,098.94	167,133.75	1,407,064.38	
Central Services	201,057.75			
Student Transportation Services	2,066,338.71	12,803.40		
Operation of Plant	2,484,035.88			
Maintenance of Plant	258,809.34			
Administrative Technology Services	303,288.19			
Community Services	509,645.81			
Unallocated Interest on Long-Term Debt	130,055.84			76,021.25
Unallocated Depreciation Expense*	1,479,880.19			
Total Primary Government	28,529,946.14	185,651.35	1,407,064.38	106,217.88
Component Units				
Charter Schools	\$ 388,520.00	\$ 12,851.00	\$ 0.00	\$ 171,652.00

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 Position

Net Position - Beginning

Net Position - 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 Position	
Primary Government Governmental Activities	Component Units (Unaudited)
\$ (12,407,381.02)	\$
(691,001.02)	
(233,078.01)	
(1,760,761.08)	
(655,474.60)	
(350,862.95)	
(275,276.68)	
(682,839.40)	
(1,383,679.24)	
(589,777.95)	
(347,692.71)	
(108,900.81)	
(201,057.75)	
(2,053,535.31)	
(2,484,035.88)	
(258,809.34)	
(303,288.19)	
(509,645.81)	
(54,034.59)	
(1,479,880.19)	
(26,831,012.53)	
	(204,017.00)
3,900,799.09	
987,098.23	
19,144,046.93	227,118.00
60,964.74	8.00
510,351.41	2,075.00
24,603,260.40	229,201.00
(2,227,752.13)	25,184.00
31,406,402.98	
\$ 29,178,650.85	\$ 25,184.00

**MADISON COUNTY
DISTRICT SCHOOL BOARD
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2014**

	General Fund	Special Revenue - Other Fund	Special Revenue - Federal Economic Stimulus Fund
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and Cash Equivalents	\$ 2,483,560.32	\$	\$
Investments	6,172.17		
Accounts Receivable		1,617.34	60.45
Due from Other Funds	305,040.23		
Due from Other Agencies	133,368.84	315,935.90	10,712.40
Inventories	15,264.30		
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 2,943,405.86</u>	<u>\$ 317,553.24</u>	<u>\$ 10,772.85</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Salaries and Benefits Payable	\$ 245,445.90	\$	\$ 359.63
Payroll Deductions and Withholdings	51,175.45		
Accounts Payable	87,368.23	41,148.63	
Matured Installment-Purchase Payable			
Matured Interest Payable			
Due to Other Funds		275,708.30	10,413.22
Due to Other Agencies	6,038.82	696.31	
Deposits Payable	45,134.34		
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>435,162.74</u>	<u>317,553.24</u>	<u>10,772.85</u>
Fund Balances:			
Nonspendable:			
Inventories	15,264.30		
SBA Fund B Investments	6,172.17		
Total Nonspendable Fund Balance	<u>21,436.47</u>		
Restricted for:			
State Required Carryover Programs	509,469.48		
Debt Service			
Capital Projects			
Food Service			
Fuel Tax Rebate	71,477.96		
Total Restricted Fund Balance	<u>580,947.44</u>		
Assigned for Purchase Obligations	57,211.83		
Unassigned Fund Balance	<u>1,848,647.38</u>		
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>2,508,243.12</u>		
	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 2,943,405.86</u>	<u>\$ 317,553.24</u>	<u>\$ 10,772.85</u>

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

Debt Service - ARRA Economic Stimulus Fund	Capital Projects - ARRA Economic Stimulus Fund	Other Governmental Funds	Total Governmental Funds
\$ 243,602.63	\$ 2,969.78	\$ 697,369.15 9,496.79	\$ 3,427,501.88 15,668.96 1,677.79 305,040.23 471,824.61 78,394.12
		11,807.47 63,129.82	
<u>\$ 243,602.63</u>	<u>\$ 2,969.78</u>	<u>\$ 781,803.23</u>	<u>\$ 4,300,107.59</u>
\$	\$	\$	\$ 245,805.53 51,175.45 155,133.86 119,974.00 58,998.24 305,040.23 6,735.13 45,134.34
119,974.00 58,998.24		26,617.00 18,918.71	
<u>178,972.24</u>		<u>45,535.71</u>	<u>987,996.78</u>
		63,129.82 1,910.32 65,040.14	78,394.12 8,082.49 86,476.61
64,630.39		7,586.47 567,364.67 96,276.24	509,469.48 72,216.86 570,334.45 96,276.24 71,477.96
	2,969.78		
<u>64,630.39</u>	<u>2,969.78</u>	<u>671,227.38</u>	<u>1,319,774.99</u> 57,211.83 1,848,647.38
64,630.39	2,969.78	736,267.52	3,312,110.81
<u>\$ 243,602.63</u>	<u>\$ 2,969.78</u>	<u>\$ 781,803.23</u>	<u>\$ 4,300,107.59</u>

**MADISON COUNTY
DISTRICT SCHOOL BOARD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2014**

Total Fund Balances - Governmental Funds	\$	3,312,110.81
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		31,960,656.55
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Long-term liabilities are not due and payable in the fiscal year and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at fiscal year-end consist of:

Bonds Payable	\$ 2,441,751.00	
Compensated Absences Payable	3,041,503.51	
Other Postemployment Benefits Payable	610,862.00	
		(6,094,116.51)

Net Position - Governmental Activities	\$	29,178,650.85
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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, 2014**

	General Fund	Special Revenue - Other Fund	Special Revenue - Federal Economic Stimulus Fund
Revenues			
Intergovernmental:			
Federal Direct	\$	\$ 597,072.53	\$
Federal Through State and Local	95,259.92	4,325,203.13	293,325.62
State	13,617,771.35		
Local:			
Property Taxes	3,900,799.09		
Charges for Services - Food Service			
Miscellaneous	504,996.80		
Total Local Revenues	4,405,795.89		
Total Revenues	18,118,827.16	4,922,275.66	293,325.62
Expenditures			
Current - Education:			
Instruction	10,024,302.29	2,046,180.80	180,429.73
Student Personnel Services	409,786.68	281,214.34	
Instructional Media Services	193,969.85	39,108.16	
Instruction and Curriculum Development Services	688,941.92	1,042,106.19	29,712.97
Instructional Staff Training Services	314,754.76	335,432.42	5,287.42
Instruction Related Technology	213,603.61	470.00	
School Board	274,976.68	300.00	
General Administration	362,865.55	308,181.28	11,792.57
School Administration	1,335,179.56	29,757.02	18,742.66
Facilities Acquisition and Construction	324,777.82		3,357.32
Fiscal Services	347,692.71		
Food Services	42,956.21	2,863.51	
Central Services	197,487.27	3,570.48	
Student Transportation Services	1,524,607.96	36,163.77	
Operation of Plant	2,417,096.13	66,939.75	
Maintenance of Plant	258,809.34		
Administrative Technology Services	278,578.32		16,116.00
Community Services	269.39	509,376.42	
Fixed Capital Outlay:			
Facilities Acquisition and Construction			
Other Capital Outlay	139,098.28	220,611.52	27,886.95
Debt Service:			
Principal			
Interest and Fiscal Charges			
Total Expenditures	19,349,754.33	4,922,275.66	293,325.62
Excess (Deficiency) of Revenues Over Expenditures	(1,230,927.17)		
Other Financing Sources (Uses)			
Transfers In	693,612.46		
Insurance Loss Recoveries	14,956.44		
Transfers Out			
Total Other Financing Sources (Uses)	708,568.90		
Net Change in Fund Balances	(522,358.27)		
Fund Balances, Beginning	3,030,601.39		
Fund Balances, Ending	\$ 2,508,243.12	\$ 0.00	\$ 0.00

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

Debt Service - ARRA Economic Stimulus Fund	Capital Projects - ARRA Economic Stimulus Fund	Other Governmental Funds	Total Governmental Funds
\$ 55,216.00	\$	\$	\$ 652,288.53
217,000.00		1,385,922.38	6,099,711.05
		125,774.26	13,960,545.61
		987,098.23	4,887,897.32
		167,133.75	167,133.75
567.44	5.56	14,091.51	519,661.31
567.44	5.56	1,168,323.49	5,574,692.38
272,783.44	5.56	2,680,020.13	26,287,237.57
			12,250,912.82
			691,001.02
			233,078.01
			1,760,761.08
			655,474.60
		136,789.34	350,862.95
			275,276.68
			682,839.40
			1,383,679.24
		276,351.65	604,486.79
		1,637,279.22	347,692.71
			1,683,098.94
			201,057.75
			1,560,771.73
			2,484,035.88
			258,809.34
		8,593.87	303,288.19
			509,645.81
		66,644.84	66,644.84
		83,201.22	470,797.97
119,974.00		374,107.60	494,081.60
101,561.48		28,494.36	130,055.84
221,535.48		2,611,462.10	27,398,353.19
51,247.96	5.56	68,558.03	(1,111,115.62)
			693,612.46
			14,956.44
(291,996.65)		(401,615.81)	(693,612.46)
(291,996.65)		(401,615.81)	14,956.44
(240,748.69)	5.56	(333,057.78)	(1,096,159.18)
305,379.08	2,964.22	1,069,325.30	4,408,269.99
\$ 64,630.39	\$ 2,969.78	\$ 736,267.52	\$ 3,312,110.81

**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, 2014**

Net Change in Fund Balances - Governmental Funds \$ (1,096,159.18)

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

Capital outlays are reported in the governmental funds as expenditures.

However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

This is the amount of depreciation expense in excess of capital outlays in the current fiscal year.

(1,463,492.15)

Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount of repayments in the current fiscal year.

Installment-Purchase Principal Payments
Bond Principal Payments

\$ 314,107.60
179,974.00

494,081.60

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.

(88,866.40)

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.

(73,316.00)

Change in Net Position - Governmental Activities

\$ (2,227,752.13)

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, 2014**

	<u>Agency Funds</u>
ASSETS	
Cash and Cash Equivalents	<u>\$ 160,703.33</u>
LIABILITIES	
Internal Accounts Payable	<u>\$ 160,703.33</u>

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

**MADISON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. All fiduciary activities are reported only in the fund financial statements. Governmental activities are normally supported by taxes, intergovernmental revenues, and other nonexchange transactions. The primary government is reported separately from a certain legally separate component unit for which the primary government is financially accountable.

The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Madison County School District's (District) 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 student transportation services function, while remaining depreciation expense is not readily associated with a particular function and is reported as unallocated.

B. 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 District is considered part of the Florida system of public education, operates under the general direction of the Florida Department of Education, and is governed by State law and State Board of Education (SBE) rules. 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 legally separate 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. Based on the application of these criteria, the following component units are included within the District's reporting entity:

Discretely Presented Component Units. The component unit columns in the government-wide financial statements include the financial data of the District's component unit. A separate column is used to emphasize that it is legally separate from the District.

The James Madison Preparatory High School, Inc. and New Millennium Charter School, Inc., are not-for-profit corporations organized pursuant to Chapter 617, Florida Statutes, the Florida Not For Profit Corporation Act, and Section 1002.33, Florida Statutes. The charter schools operate under a charter

**MADISON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

approved by its sponsor, the Board. The charter schools are considered to be component units of the District because the District is financially accountable for the charter schools as the District established the charter schools by approval of the charter, which is tantamount to the initial appointment of the charter schools, and there is the potential for the charter schools to impose specific financial burdens on the District. In addition, pursuant to the Florida Constitution, the charter schools are public schools and the District is responsible for the operation, control, and supervision of public schools within the District.

The financial data reported on the accompanying statements for the component unit columns was derived from the audited financial statements of the James Madison Preparatory High School, Inc., for the fiscal year ended June 30, 2014, and the audit report is filed in the District's administrative offices. However, no audited financial statements were prepared for the New Millennium Charter School, Inc., and no financial information for this charter school is included in the District's financial statements.

C. Basis of Presentation: Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

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

D. Basis of Presentation: Fund Financial Statements

The fund financial statements provide information about the District's funds, including the fiduciary funds. Separate statements for each fund category – governmental and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the 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 – 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).
- Debt Service – ARRA Economic Stimulus Fund – to account for the accumulation of resources for, and the payment of, debt principal, interest, and related costs for the Series 2010A, Refunding, and Series 2010B Qualified School Construction Bonds (QSCBs).
- Capital Projects – ARRA Economic Stimulus Capital Projects Fund – to account for capital outlay activities for the Series 2010A, Refunding, and Series 2010B-QSCBs.

**MADISON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

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.

During the course of operations the District has activity between funds for various purposes. Any residual balances outstanding at fiscal year-end are reported as due from/to other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in and out. While reported in fund financial statements, transfers between the funds included in governmental activities are eliminated in the preparation of the government-wide financial statements.

E. Basis of Accounting

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

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

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. 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 factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of fiscal year-end). Expenditures are generally recognized when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, claims and judgments, other postemployment benefits, and compensated absences, are only recorded when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources. Allocations of cost, such as depreciation, are not recognized in governmental funds.

**MADISON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

The agency funds have no measurement focus but utilize the accrual basis of accounting for reporting assets and liabilities.

The charter schools are accounted for as a governmental organization and follows the same accounting model as the District's governmental activities.

F. Assets, Liabilities, and Net Position/Fund Balance

1. Cash and Cash Equivalents

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.

2. Investments

Investments consist of amounts placed in the SBA debt service accounts for investment of debt service moneys and 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 1.84438408 at June 30, 2014. 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.

3. Inventories

Inventories consist of expendable supplies held for consumption in the course of District operations. Purchased food inventories are stated at cost on the last invoice, which approximates the first-in, first-out basis, except that the United States Department of Agriculture donated foods are stated at

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their fair value as determined at the time of donation to the District's food service program by the Florida Department of Agriculture and Consumer Services, Bureau of Food Distribution. Transportation inventories are valued at cost determined on a specific identification basis. 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.

4. 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 position 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.

5. 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 position.

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

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

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6. Net Position Flow Assumption

The District occasionally funds outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. To calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. Consequently, it is the District’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

7. Fund Balance Flow Assumptions

The District may fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). To calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District’s policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

8. Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification may include amounts that can be used only for the specific purposes determined by a formal action of the District’s highest level of decision-making authority. The Board is the highest level of decision-making authority for the District that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation. The District did not have any committed fund balances at June 30, 2014.

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The Board has by resolution authorized the finance director to assign fund balance. The Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year’s appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

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In addition, the District has adopted Board Policy 7.01, which provides at least 5 percent of the current year's annual estimated General Fund revenues to be reserved for contingency purposes. In the event these reserves are needed, a vote of four or more members 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.

G. Revenues and Expenditures/Expenses

1. Program Revenues

Amounts reported as 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. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than program revenues. 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.

2. 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 performs certain edit checks on the reported number of 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 FTE and related data. Normally, such adjustments are treated as reductions or additions of revenue in the fiscal year when the adjustments are made.

The State provides financial assistance to administer certain educational programs. SBE 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 balance of categorical and earmarked educational program resources.

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

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3. 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 2013 tax levy on September 10, 2013. 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.

4. 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.

5. Compensated Absences

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. The liability for compensated absences includes salary-related benefits, where applicable.

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II. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Cash Deposits with Financial Institutions

Custodial Credit Risk-Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to the District. The District does not have a policy for custodial credit risk. All bank balances of the District are fully insured or collateralized as required by Chapter 280, Florida Statutes.

Cash balances from all funds are combined and invested to extent available. Earnings are allocated monthly to each fund based on ending monthly balances.

B. Investments

As of June 30, 2014, the District had the following investments and maturities:

Investments	Maturities	Fair Value
SBA:		
Florida PRIME (1)	40 Day Average	\$ 2,466,087.82
Fund B	2.86 Year Average	8,082.49
Debt Service Accounts	6 Months	7,586.47
Total Investments		<u>\$ 2,481,756.78</u>

Note: (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 40 days at June 30, 2014. 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. The WAL, based on expected future cash flows, of Fund B at June 30, 2014, is estimated at 2.86 years. However, because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the WAL. Participation in Fund B is involuntary.

➤ 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

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Cooperation Act as provided in Section 163.01, Florida Statutes; Securities and Exchange Commission (SEC) 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 SBE 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.

C. 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	\$ 709,829.03	\$	\$	\$ 709,829.03
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	3,383,676.68			3,383,676.68
Buildings and Fixed Equipment	43,542,412.49	51,700.00		43,594,112.49
Furniture, Fixtures, and Equipment	4,322,409.74	415,254.38	456,089.52	4,281,574.60
Motor Vehicles	4,041,039.46	55,000.64		4,096,040.10
Audio Visual Materials and Computer Software	840,341.33		8,040.00	832,301.33
Total Capital Assets Being Depreciated	56,129,879.70	521,955.02	464,129.52	56,187,705.20
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	1,355,465.34	145,159.73		1,500,625.07
Buildings and Fixed Equipment	13,479,107.02	871,882.25		14,350,989.27
Furniture, Fixtures, and Equipment	4,150,173.22	462,838.21	456,089.52	4,156,921.91
Motor Vehicles	3,590,473.12	505,566.98		4,096,040.10
Audio Visual Materials and Computer Software	840,341.33		8,040.00	832,301.33
Total Accumulated Depreciation	23,415,560.03	1,985,447.17	464,129.52	24,936,877.68
Total Capital Assets Being Depreciated, Net	32,714,319.67	(1,463,492.15)		31,250,827.52
Governmental Activities Capital Assets, Net	\$ 33,424,148.70	\$ (1,463,492.15)	\$ 0.00	\$ 31,960,656.55

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Depreciation expense was charged to functions as follows:

Function	Amount
GOVERNMENTAL ACTIVITIES	
Student Transportation Services	\$ 505,566.98
Unallocated	1,479,880.19
Total Depreciation Expense - Governmental Activities	\$ 1,985,447.17

D. 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), with 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.

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

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by employer and employee contributions that are based on salary and membership class (Regular, Elected County Officers, 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 2013-14 fiscal year were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (A)
FRS, Regular	3.00	6.95
FRS, Elected County Officers	3.00	33.03
DROP - Applicable to		
Members from All of the Above Classes	0.00	12.84
FRS, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.20 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, 2012, June 30, 2013, and June 30, 2014, totaled \$907,428.35, \$999,591.09, and \$1,417,038.42, respectively, which were equal to the required contributions for each fiscal year.

There were 25 District participants in the Investment Plan during the 2013-14 fiscal year. The District's contributions including employee contributions to the Investment Plan totaled \$83,098.72, which was equal to the required contribution for the 2013-14 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, Bureau of Financial Reporting Statewide Financial Reporting Section by mail at 200 E. Gaines Street, Tallahassee, Florida 32399-0364; by telephone at (850)413-5511; or at the Department's Web site (www.myfloridacfo.com). 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, Research and Education Section, by mail at P.O. Box 9000, Tallahassee, Florida 32315-9000; by telephone toll free at (877)377-1737 or (850)488-5706; by e-mail at rep@dms.myflorida.com; or at the Division's Web site (www.frs.myflorida.com).

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E. Other Postemployment Benefit Obligations

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 2013-14 fiscal year, 47 retirees received other postemployment benefits. The District provided required contributions of \$156,663 toward the annual OPEB cost, net of retiree contributions totaling \$328,040, which represents 3.6 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:

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Description	Amount
Normal Cost (service cost for one year)	\$ 84,424
Amortization of Unfunded Actuarial Accrued Liability	175,340
Annual Required Contribution	259,764
Interest on Net OPEB Obligation	19,083
Adjustment to Annual Required Contribution	(48,868)
Annual OPEB Cost (Expense)	229,979
Contribution Toward the OPEB Cost	(156,663)
Increase in Net OPEB Obligation	73,316
Net OPEB Obligation, Beginning of Year	537,546
Net OPEB Obligation, End of Year	\$ 610,862

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, 2014, and the two preceding fiscal years, were as follows:

Fiscal Year Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011-12	\$ 274,302	55.0%	\$ 458,714
2012-13	224,317	64.9%	537,546
2013-14	229,979	68.1%	610,862

Funded Status and Funding Progress. As of October 1, 2012, the most recent valuation date, the actuarial accrued liability for benefits was \$1,830,410, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$1,830,410 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$9,190,666, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 19.9 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.

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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, 2012 used the entry age normal cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2014, and to estimate the District's 2013-14 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 3.55 percent per year, projected salary increases as of 4.0 to 8.25 percent, and an annual healthcare cost trend rate of 8.5 percent initially beginning October 1, 2013, reduced by 0.5 percent per year, to 5 percent after seven years, and then increased to an ultimate rate of 5.44 percent in 2024. 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, 2014, was 10 years.

F. 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, 2014:

Major Funds			
General	Special Revenue - Other	Nonmajor Governmental Funds	Total Governmental Funds
<u>\$ 170,756</u>	<u>\$ 120,157</u>	<u>\$ 496,444</u>	<u>\$ 787,357</u>

G. 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 District 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, employee dishonesty, equipment breakdown, and other coverage deemed necessary by the members of the Consortium. Section 1001.42(12)(k), Florida Statutes, provides the authority for the District to enter into such a risk management

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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.

H. Long-Term Liabilities

1. Bonds Payable

Bonds payable at June 30, 2014, are as follows:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State School Bonds:			
Series 2005B, Refunding	\$ 290,000.00	5	2018
District Revenue Bonds:			
Series 2010A, Refunding	961,751.00	3.39	2021
Series 2010B	1,190,000.00	5.39	2027
Total Bonds Payable	<u>\$ 2,441,751.00</u>		

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 SBE 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 SBE and the SBA.

➤ District Revenue Bonds

The School Board issued District Revenue Bonds, Series 2010A, Refunding, and Series 2010B Qualified School Construction Bonds (QSCBs), 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. The ARRA of 2009, signed into law on February 17, 2009, created a new category of direct subsidy debt for school districts, QSCBs. The QSCB does not represent incremental Federal funding; it must be repaid by the District.

The Series 2010B-QSCBs are designated as "qualified school construction bonds" as defined in Section 54F of the Internal Revenue Code (Code), and pursuant to Section 6431 of the Code, the

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

Board has elected to receive Federal subsidy payments on each interest payment date for the Series 2010B-QSCBs in an amount equal to the lesser of the amount of interest payable with respect to the Series 2010B-QSCBs on such date or the amount of interest which would have been payable with respect to the Series 2010B-QSCBs if the interest were determined at the applicable tax credit rate for the Series 2010B-QSCBs pursuant to Section 54A(b)(3) of the Code. The interest rate is 5.39 percent with an allowed Federal subsidy of 5.0 percent, yielding a net amount of 0.39 percent. 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 (2013)). 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 \$2,959,988.50 of pari-mutuel revenues in connection with the District Revenue Bonds, described above. During the 2013-14 fiscal year, the District recognized pari-mutuel revenues totaling \$217,000 and expended \$221,535 (102 percent) of these revenues for debt service directly collateralized by these revenues.

Annual requirements to amortize all bonded debt outstanding as of June 30, 2014, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
State School Bonds:			
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	<u>327,500.00</u>	<u>290,000.00</u>	<u>37,500.00</u>
District Revenue Bonds:			
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	220,785.00	137,088.00	83,697.00
2019	220,785.00	141,735.00	79,050.00
2020-2024	1,196,922.49	893,047.99	303,874.50
2025-2027	659,141.01	595,000.01	64,141.00
Total District Revenue Bonds	<u>2,959,988.50</u>	<u>2,151,751.00</u>	<u>808,237.50</u>
Total	<u>\$ 3,287,488.50</u>	<u>\$ 2,441,751.00</u>	<u>\$ 845,737.50</u>

**MADISON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

2. 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	\$ 314,107.60	\$	\$ 314,107.60	\$	\$
Bonds Payable	2,621,725.00		179,974.00	2,441,751.00	189,041.00
Compensated Absences Payable	2,952,637.11	532,482.02	443,615.62	3,041,503.51	204,100.42
Other Postemployment Benefits Payable	537,546.00	229,979.00	156,663.00	610,862.00	
Total Governmental Activities	<u>\$6,426,015.71</u>	<u>\$ 762,461.02</u>	<u>\$ 1,094,360.22</u>	<u>\$6,094,116.51</u>	<u>\$ 393,141.42</u>

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

I. Fund Balance Reporting

In addition to committed and assigned fund balance categories discussed in the **Fund Balance Policies** note disclosure, fund balances may be classified as follows:

- **Nonspendable Fund Balance.** Nonspendable fund balance is 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.
- **Restricted Fund Balance.** Restricted fund balance is 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.
- **Unassigned Fund Balance.** The unassigned fund balance is 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.

**MADISON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

J. Interfund Receivables and Payables

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

Funds	Interfund	
	Receivables	Payables
Major:		
General	\$ 305,040.23	\$
Special Revenue:		
Other		275,708.30
Federal Economic Stimulus		10,413.22
Nonmajor Governmental		18,918.71
Total	<u>\$ 305,040.23</u>	<u>\$ 305,040.23</u>

Interfund receivables and payables include amounts due for expenditures paid by the General Fund on behalf of another fund and temporary loans to cover deficit cash balances in pooled accounts.

K. Revenues and Expenditures/Expenses

1. Schedule of State Revenue Sources

The following is a schedule of the District's State revenue sources for the 2013-14 fiscal year:

Source	Amount
Florida Education Finance Program	\$ 10,754,257.00
Categorical Educational Program - Class Size Reduction	2,478,389.00
Voluntary Prekindergarten Program	161,144.82
Motor Vehicle License Tax (Capital Outlay and Debt Service)	106,217.88
Workforce Development Program	60,936.00
Discretionary Lottery Funds	22,288.00
Mobile Home License Tax	21,863.27
Food Service Supplement	21,142.00
Miscellaneous	334,307.64
Total	<u>\$ 13,960,545.61</u>

Accounting policies relating to certain State revenue sources are described in note I.G.2.

**MADISON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

2. Property Taxes

The following is a summary of millages and taxes levied on the 2013 tax roll for the 2013-14 fiscal year:

	<u>Millages</u>	<u>Taxes Levied</u>
<u>GENERAL FUND</u>		
Nonvoted School Tax:		
Required Local Effort	5.172	\$ 3,504,990.34
Basic Discretionary Local Effort	0.748	506,908.89
<u>CAPITAL PROJECTS FUNDS</u>		
Nonvoted Tax:		
Local Capital Improvements	1.500	1,016,528.52
Total	<u>7.420</u>	<u>\$ 5,028,427.75</u>

L. Interfund Transfers

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

<u>Funds</u>	<u>Interfund</u>	
	<u>Transfers In</u>	<u>Transfers Out</u>
Major:		
General	\$ 693,612.46	\$
Debt Service:		
ARRA Economic Stimulus		291,996.65
Nonmajor Governmental		401,615.81
Total	<u>\$ 693,612.46</u>	<u>\$ 693,612.46</u>

Interfund transfers were to move fund balances not obligated for debt service payments in the Debt Service – ARRA Economic Stimulus Fund to the General Fund and to move restricted capital outlay revenues to offset eligible expenditures for maintenance salaries and property insurance premiums paid from the General Fund.

III. SUBSEQUENT EVENT

Pursuant to Section 1013.64, Florida Statutes, the District received a special allocation in the 2014-15 fiscal year for specific construction needs through the Public Education Capital Outlay and Debt Service Trust Fund – Special Facility Construction account. As a condition for receiving these funds, other construction funding must be pledged for the project, including a portion of the capital outlay millage levied pursuant to Section 1011.71(2), Florida Statutes, for the following three fiscal years. During the three-year period,

**MADISON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

reductions to the special allocations are made to the extent of collections from the required pledged sources. The funding will be used for the remodeling and renovation of the Madison County High School. On September 5, 2014, the District received the first of two Public Education Capital Outlay Special Facilities encumbrance authorizations in the amount of \$7,600,000. The second allocation is approved for \$9,200,000 for the 2015-16 fiscal year. On March 12, 2015, the Board approved a construction management contract for the first phase of the project with a guaranteed maximum price of \$6,233,194.

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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, 2014**

	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	100,000.00	95,259.92	(4,740.08)
State	13,997,392.14	13,561,928.70	13,617,771.35	55,842.65
Local:				
Property Taxes	3,842,342.00	3,842,342.00	3,900,799.09	58,457.09
Miscellaneous	287,908.67	367,203.95	504,996.80	137,792.85
Total Local Revenues	4,130,250.67	4,209,545.95	4,405,795.89	196,249.94
Total Revenues	18,227,642.81	17,871,474.65	18,118,827.16	247,352.51
Expenditures				
Current - Education:				
Instruction	11,209,955.02	10,997,881.16	10,024,302.29	973,578.87
Student Personnel Services	478,062.87	464,702.15	409,786.68	54,915.47
Instructional Media Services	209,580.09	201,623.73	193,969.85	7,653.88
Instruction and Curriculum Development Services	648,824.55	688,941.92	688,941.92	
Instructional Staff Training Services	267,992.23	358,752.91	314,754.76	43,998.15
Instruction Related Technology	192,862.33	217,061.84	213,603.61	3,458.23
School Board	265,074.84	275,824.02	274,976.68	847.34
General Administration	935,925.24	580,162.53	362,865.55	217,296.98
School Administration	1,365,362.91	1,345,069.20	1,335,179.56	9,889.64
Facilities Acquisition and Construction	417,467.95	362,060.10	324,777.82	37,282.28
Fiscal Services	341,240.80	348,405.63	347,692.71	712.92
Food Services	15,146.72	51,894.79	42,956.21	8,938.58
Central Services	494,882.22	334,030.20	197,487.27	136,542.93
Student Transportation Services	1,407,008.92	1,524,607.96	1,524,607.96	
Operation of Plant	1,975,121.80	2,417,096.13	2,417,096.13	
Maintenance of Plant	267,205.30	263,969.51	258,809.34	5,160.17
Administrative Technology Services	417,307.44	367,382.69	278,578.32	88,804.37
Community Services	2,292.10	2,292.10	269.39	2,022.71
Fixed Capital Outlay:				
Other Capital Outlay		139,098.28	139,098.28	
Debt Service:				
Interest and Fiscal Charges	1,585.00			
Total Expenditures	20,912,898.33	20,940,856.85	19,349,754.33	1,591,102.52
Deficiency of Revenues Over Expenditures	(2,685,255.52)	(3,069,382.20)	(1,230,927.17)	1,838,455.03
Other Financing Sources				
Transfers In	604,654.13	538,796.65	693,612.46	154,815.81
Insurance Loss Recoveries			14,956.44	14,956.44
Total Other Financing Sources	604,654.13	538,796.65	708,568.90	169,772.25
Net Change in Fund Balances	(2,080,601.39)	(2,530,585.55)	(522,358.27)	2,008,227.28
Fund Balances, Beginning	3,030,601.39	3,030,601.39	3,030,601.39	
Fund Balances, Ending	\$ 950,000.00	\$ 500,015.84	\$ 2,508,243.12	\$ 2,008,227.28

Special Revenue - Other Fund				Special Revenue - Federal Economic Stimulus Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
\$ 829,155.74 1,786,438.87	\$ 829,155.74 5,217,954.01	\$ 597,072.53 4,325,203.13	\$ (232,083.21) (892,750.88)	\$ 256,211.28	\$ 563,362.95	\$ 293,325.62	\$ (270,037.33)
2,615,594.61	6,047,109.75	4,922,275.66	(1,124,834.09)	256,211.28	563,362.95	293,325.62	(270,037.33)
960,270.48 235,363.87 13,907.82 820,963.30 85,119.21 51,496.22 13,000.00 193,190.90 4,020.00	2,598,339.70 462,385.88 64,827.99 1,147,887.30 389,518.33 16,501.61 3,501.00 385,871.37 35,729.22	2,046,180.80 281,214.34 39,108.16 1,042,106.19 335,432.42 470.00 300.00 308,181.28 29,757.02	552,158.90 181,171.54 25,719.83 105,781.11 54,085.91 16,031.61 3,201.00 77,690.09 5,972.20	183,930.15 582.20 17,916.23 10,731.47 6,733.32 12,345.53 13,321.08 4,365.39	367,143.88 582.20 44,326.55 10,731.47 26,452.09 14,844.83 43,321.08 4,365.39	180,429.73 29,712.97 5,287.42 11,792.57 18,742.66 3,357.32	186,714.15 582.20 14,613.58 5,444.05 26,452.09 3,052.26 24,578.42 1,008.07
1,829.40 43,670.00 105,657.00	5,516.22 3,723.91 96,451.85 105,063.43	2,863.51 3,570.48 36,163.77 66,939.75	2,652.71 153.43 60,288.08 38,123.68	6,285.91	23,708.51	16,116.00	7,592.51
87,106.41	581,180.41 220,611.52	509,376.42 220,611.52	71,803.99		27,886.95	27,886.95	
2,615,594.61	6,117,109.74	4,922,275.66	1,194,834.08	256,211.28	563,362.95	293,325.62	270,037.33
	(69,999.99)		69,999.99				
	(69,999.99)		69,999.99				
\$ 0.00	\$ (69,999.99)	\$ 0.00	\$ 69,999.99	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

**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 [(B-A)/C]
	(A)	(B)	(B-A)	(A/B)	(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%
October 1, 2012	0	1,830,410	1,830,410	0.0%	9,190,666	19.9%

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

**MADISON COUNTY
DISTRICT SCHOOL BOARD
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2014**

I. BUDGETARY BASIS OF ACCOUNTING

The Board follows procedures established by State statutes and State Board of Education (SBE) 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 SBE rules.
- Appropriations are controlled at the object level (e.g., salaries, purchased services, and capital outlay) within each activity (e.g., instruction, student 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.
- Budgets are prepared using the same modified accrual basis as is used to account for governmental funds.
- 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.

II. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS

The October 1, 2012, unfunded actuarial accrued liability of \$1,830,410 was significantly less than the October 1, 2010, liability of \$2,290,358 as a result of benefit changes and other changes in liabilities and costs as discussed below:

- The number of enrolled retirees was expected to increase to 330; however, enrolled retirees decreased from 48 in the July 1, 2010, valuation to 43 in the October 1, 2012, valuation.
- Similarly, the number of active employees decreased from 239 to 225 in the current valuation.
- In the previous valuation, the cost of coverage was expected to increase from \$608 to \$719 per employee per month; however, the cost actually decreased to \$600 per employee per month for the 2012-13 fiscal year.
- The assumed annual healthcare cost trend for medical and prescription costs was revised. In the previous valuation, the initial healthcare cost trend was assumed to increase at 8 percent in the first year, decreasing by 0.5 percent each year to an ultimate rate of 5 percent after five years. In the current valuation, the trend is assumed to be an increase of 8.5 percent in the first year, decreasing by 0.5 percent each year to an ultimate rate of 5 percent after ten years.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

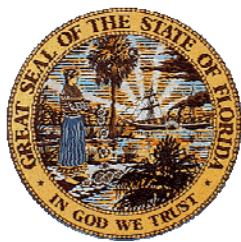
**MADISON COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2014**

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)	Amount Provided to Subrecipients
United States Department of Agriculture:				
Indirect:				
Child Nutrition Cluster:				
Florida Department of Agriculture and Consumer Services:				
School Breakfast Program	10.553	13002	\$ 279,081.29	\$
National School Lunch Program	10.555 (2)	13001, 13003	1,031,923.56	
Summer Food Service Program for Children	10.559	13006, 13007	9,556.80	
Total Child Nutrition Cluster			<u>1,320,561.65</u>	
Fresh Fruits and Vegetable Program	10.582	13004	<u>65,360.73</u>	
Total United States Department of Agriculture			<u>1,385,922.38</u>	
United States Department of Education:				
Direct:				
Safe and Drug-Free Schools and Communities - National Programs	84.184	N/A	<u>597,072.53</u>	
Indirect:				
Florida Department of Education:				
Special Education Cluster:				
Special Education - Grants to States	84.027	263	727,025.12	
Special Education - Preschool Grants	84.173	267	<u>63,838.30</u>	
Total Special Education Cluster			<u>790,863.42</u>	
School Improvement Grants Cluster:				
Florida Department of Education:				
School Improvement Grants	84.377	126	891,335.26	
ARRA - School Improvement Grants, Recovery Act	84.388	126	<u>44,213.31</u>	
Total School Improvement Grants Cluster			<u>935,548.57</u>	
Florida Department of Education:				
Adult Education - Basic Grants to States	84.002	191	58,274.73	
Title I Grants to Local Educational Agencies	84.010	212, 223, 226	1,337,509.11	
Migrant Education - State Grant Program	84.011	217	109,060.59	
Career and Technical Education - Basic Grants to States	84.048	161	53,634.62	
Charter Schools	84.282	298	259,612.55	253,948.30
Twenty-First Century Community Learning Centers	84.287	244	561,310.56	
Rural Education	84.358	110	50,644.29	
Improving Teacher Quality State Grants	84.367	224	196,914.77	
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395 (3)	RD211, RG311, RG411, RL111, RS611	249,112.31	
Florida Gulf Coast University:				
Special Education - State Personnel Development	84.323	None	15,573.23	
Washington County District School Board:				
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395 (3)	None	<u>11,048.28</u>	
Total Indirect			<u>4,629,107.03</u>	253,948.30
Total United States Department of Education			<u>5,226,179.56</u>	253,948.30
Total Expenditures of Federal Awards			<u>\$ 6,612,101.94</u>	<u>\$ 253,948.30</u>

Notes: (1) Basis 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 - National School Lunch Program. Includes \$123,460.59 of donated food received during the 2013-14 fiscal year. Donated foods are valued at fair value as determined at the time of donation.

(3) ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act. Total CFDA 84.395 expenditures: \$260,160.59.



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

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

Report on the Financial Statements

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Madison County District School Board, as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements. We were engaged to audit the financial statements of the aggregate discretely presented component units. These financial statements collectively comprise the District's basic financial statements, and we have issued our report thereon dated March 24, 2015, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the school internal funds and we disclaimed an opinion on the aggregate discretely presented component units, as described in our report on the District's financial statements. 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.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report, we identified a certain deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider a certain deficiency as described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Financial Statement Finding No. 1 to be a material weakness.

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 in Exhibit A. We did not audit management's response and, accordingly, we express no opinion on it.

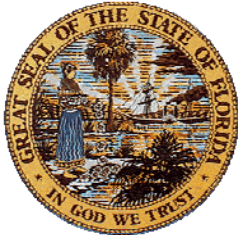
Purpose of this Report

The purpose of the **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS** is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
March 24, 2015



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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 FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Report on Compliance for Each Major Federal Program

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, 2014. The District's major Federal programs are identified in the **SUMMARY OF AUDITOR'S RESULTS** section of the accompanying **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major Federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major Federal program. However, our audit does not provide a legal determination of the District's compliance.

Basis for Qualified Opinion on Charter Schools Program

As described in the accompanying **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report, the District did not comply with requirements regarding CFDA No. 84.282 – Charter Schools as described in Federal Awards Finding No. 2014-001 for Subrecipient Monitoring. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

Qualified Opinion on Charter Schools Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion on Charter Schools Program paragraph, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Charter Schools program for the fiscal year ended June 30, 2014.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major Federal programs identified in the **SUMMARY OF AUDITOR'S RESULTS** section of the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** for the fiscal year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding Nos. 2014-002 and 2014-003. Our opinion on each major Federal program is not modified with respect to these matters.

Report on Internal Control Over Compliance

District management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be a material weakness or a significant deficiency.

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 control 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. We consider the deficiency in internal control over compliance described in the accompanying **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding No. 2014-001 to be a material weakness.

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. We consider the deficiency in internal control over compliance described in the accompanying **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding No. 2014-003 to be a significant deficiency.

Management's Response

Management's response to the findings identified in our audit is included in Exhibit A. Management's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
March 24, 2015

**MADISON COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Disclaimer of opinion on aggregate discretely presented component units. No modification to other opinions on the financial statements.
Internal control over financial reporting:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified?	Yes
Type of auditor's report issued on compliance for major programs:	Unmodified for all major programs except for the Charter Schools program (CFDA No. 84.282), which was qualified.
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:	
CFDA Numbers:	Name of Federal Program or Cluster:
84.282	Charter Schools
84.287	Twenty-First Century Community Learning Centers
84.377 and 84.388	School Improvement Grants Cluster
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, 2014**

MATERIAL WEAKNESS

Finding No. 1: Monitoring Charter Schools

Each charter school, pursuant to Section 1002.33(9)(g), Florida Statutes, must provide monthly¹ financial statements (reports) to its sponsor. Pursuant to Section 1002.345(1)(a)2., Florida Statutes, a charter school is subject to an expedited review by its sponsor if any one of four specified conditions occurs, including failure to file monthly financial reports pursuant to Section 1002.33(9)(g), Florida Statutes, whereby the sponsor is required to take the following actions:

- Pursuant to Section 1002.345(1)(b), Florida Statutes, the sponsor must notify the charter school governing board within 7 business days after the condition occurs.
- Pursuant to Section 1002.345(1)(c), Florida Statutes, the sponsor, with the charter school governing board, must develop a corrective action plan and file the plan with the Florida Department of Education (FDOE) within 30 business days after the notification pursuant to Section 1002.345(1)(b), Florida Statutes.

In addition, generally accepted accounting principles (GAAP) provide certain requirements for inclusion of discretely presented component units (DPCUs) as part of the District's financial statements. Also, the FDOE provided guidance directing school districts to report charter schools as DPCUs of school district reporting entities, unless the charter schools were reported as component units of other governmental entities in accordance with GAAP. Further, pursuant to Section 218.39(1)(e), Florida Statutes, each charter school is required to provide for an annual financial audit.

During the 2013-14 fiscal year, the District sponsored the James Madison Preparatory High School, Inc. (JMPHS), and the New Millennium Charter School, Inc. (NMCS), which are two charter schools operated by separate not-for-profit corporations organized to provide educational programs for students in kindergarten through twelfth grade. The JMPHS provided monthly financial reports to the District and obtained an audit of its financial statements and these amounts are reported in the DPCU column of the District financial statements. However, for NMCS, District records did not evidence compliance with the expedited review requirements, as follows:

- District records indicated that in September 2013 the District became aware that enrollment at NMCS was significantly less than originally projected and District personnel expressed concerns to NMCS that a corrective action plan should be developed. In October 2013, NMCS established a corrective action plan to reduce the personnel costs at NMCS; however, District records did not evidence that the District subjected NMCS to an expedited review process by filing the plan with the FDOE, contrary to Section 1002.345(1)(c), Florida Statutes. Further, District personnel indicated that since they did not have access to NMCS payroll records, they could not verify that payroll reductions were consistent with the corrective action plan.

¹ If the charter school is designated as a high-performing charter school pursuant to Section 1002.331, Florida Statutes, the high-performing charter school may provide quarterly financial statements.

However, District records did not evidence the basis upon which NMCS payroll records were not obtained to allow District personnel to appropriately monitor NMCS compliance with the plan.

- District records also indicated that NMCS provided financial reports periodically to the District and the District identified certain deficiencies in the NMCS monthly reporting process, such as untimely filed and incomplete reports. For example, reports for January, February, and March 2014 were not filed until May 16, 2014, or from 16 to 75 days late, and did not identify the financial position of NMCS for those months. On April 23, 2014, the District notified the NMCS governing board of the untimely reports; however, District records did not evidence that the District notified NMCS of the need to develop and file a corrective action plan with FDOE, contrary to Section 1002.345(1)(c), Florida Statutes. District personnel indicated that such notification was not made to NMCS because of changes in District personnel.

Failure to comply with the expedited review requirements, including notifying a charter school of the need to develop a correction action plan, filing the corrective action plan with the FDOE, and monitoring compliance with the plan, increases the risk that a charter school may not take the necessary actions to continue operations.

In addition, an audit of NMCS was not obtained and the District excluded the NMCS account balances and transactions from the DPCU column of its financial statements. In October 2014, because of the deficiencies discussed above, the Board decided to terminate the charter of NMCS. Additional discussions regarding NMCS Federal activities are in Federal Awards Finding No. 2014-001.

Professional auditing standards require that when a significant DPCU is omitted from the financial statements, appropriate disclosures (modification) should be made in the auditor's report. Therefore, our report on the District's financial statements includes a modification to that effect.

Recommendation: The District should enhance its procedures to ensure that corrective action plans are developed with charter schools subject to expedited reviews, timely submitted to FDOE as required, and appropriately monitored. In addition, the District should enhance controls to ensure timely completion of required audits of charter schools for consideration in the audit of the District's financial statements.

ADDITIONAL MATTERS

Finding No. 2: Budget Transparency

It is important that the District provide easy access to its budget and related information as this promotes responsible spending, citizen involvement, and improved accountability. Pursuant to Section 1011.035(2), Florida Statutes, the District must prominently post on its Web site a plain language version of each proposed, tentative, and official budget that describes each budget item in terms that are easily understandable and readily accessible to the public.

At the time of our review in November 2014, the District inadvertently had not posted the proposed, tentative, and official 2014-15 fiscal year budgets to the District's Web site, although the Board had approved the official budget on September 9, 2014. Subsequently, on January 27, 2015, the District posted the required 2014-15 fiscal year budgets to its Web site. Providing for the required budgetary transparency enhances citizen involvement and the ability to analyze the budget, monitor its implementation, and evaluate its outcomes.

Recommendation: The District should continue its efforts to ensure that proposed, tentative, and official budgets are timely and prominently posted on its Web site.

Finding No. 3: Electronic Funds Transfers and Bank Withdrawals

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, Section 1011.18(4), Florida Statutes, requires that the Superintendent and either the Board Chair or Vice Chair sign all checks.

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 initiators and authorizers of EFTs to confirm the authenticity of EFTs.

During the 2013-14 fiscal year, the District regularly used EFTs to make electronic disbursements for debt service payments and direct deposits of employee pay, payroll tax, and retirement contribution payments. The District had two bank accounts (general clearing and payroll) in one local bank, and four investment accounts in the State Board of Administration. At June 30, 2014, cash and cash equivalents and investments totaling \$3.4 million were available for electronic transfer, including balances of \$1.7 million in the general clearing bank account and \$74,000 in the payroll bank account. We noted that controls over EFTs and bank withdrawals could be enhanced as follows:

- The District used informal processes including oral instructions, e-mail directions, and other reviews to monitor and control EFTs; 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.
- For one of the banks, one current employee and one former employee were listed as administrator and user of the bank account although they were not authorized by the Board or identified on the current signature cards. Such authorization would allow these individuals to view, make, or delete EFTs.
- The signature cards on file at the bank authorized the Superintendent, Board Chair, and Director of Business Services to individually initiate and authorize EFTs, and sign checks to allow withdrawals from the two bank accounts without secondary approval, contrary to good business practice and Section 1011.18(4), Florida Statutes.

District personnel indicated that controls are in place, such as supervisory monitoring of budget to actual expenditures and independent bank reconciliations, to compensate, in part, for the lack of formal policies and procedures, and our tests did not disclose any bank transactions for unauthorized purposes. However, the lack of specific guidance in the form of Board-approved written policies and procedures; documented authorization for viewing, making, and deleting EFTs; and bank signature cards that limit check signers to those listed in Section 1011.18(4), Florida Statutes, increases the risk of misappropriation of funds without timely detection. Similar findings were noted in our report Nos. 2013-140 and 2014-112.

Recommendation: The Board should adopt written policies and procedures to address accounting and control procedures for EFTs, including the use of electronic signatures. Such policies and procedures should ensure documented appropriate authorization for viewing, making, and deleting EFTs, and limiting check signers to those listed in Section 1011.18(4), Florida Statutes.

Finding No. 4: 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 on 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 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.

District personnel indicated that 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 determining which instructional personnel are to receive differentiated pay, the District may be limited in its ability to demonstrate that the various differentiated pay factors are consistently considered and applied. Similar findings were noted in our report Nos. 2013-140 and 2014-112.

Recommendation: The Board should establish a documented process for identifying instructional personnel entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4.b., Florida Statutes.

Finding No. 5: Background Screenings

Pursuant to Section 1012.32(2)(a), Florida Statutes, instructional and noninstructional personnel must undergo background screenings required under Sections 1012.465 and 1012.56(10), Florida Statutes, whichever is applicable. Also, instructional and noninstructional personnel background rescreenings are required every five years following the initial screening upon employment. During the 2013-14 fiscal year, the District had 398 and 189 instructional and noninstructional personnel, respectively.

Human resource department personnel are responsible for assessing whether job applicants possess appropriate backgrounds for District employment and ensuring personnel are timely rescreened as required. District personnel indicated that human resource department personnel check monthly for employees approaching their rescreening date. The personnel clerk electronically transmits the fingerprints, previously obtained upon employment, of the employees identified for rescreening to the Florida Department of Law Enforcement (FDLE), and the FDLE transmits the screening results to the District, which are printed, evaluated, and filed in the employee personnel files.

Our test of background screening records for 25 employees (10 instructional and 15 noninstructional) disclosed that four (16 percent) employees (3 instructional and 1 noninstructional) had not been rescreened within five years, contrary to law. Also, for 2 of the instructional employees who had not been rescreened, District records did not evidence that the employee had ever been screened. District personnel indicated that the lack of the required background screenings occurred due to oversight. Given the number of employees identified in our test who did not have the required background screenings, the total number of employees who had not obtained required screenings was not readily available.

Subsequent to our inquiry, the District obtained background screenings of the four personnel noted in our test and the screenings identified no inappropriate backgrounds. Absent timely background screenings, there is an increased risk that personnel with unsuitable backgrounds may be allowed access to students.

Recommendation: The District should enhance its procedures to ensure that required background screenings are timely performed. The District should also take appropriate action to identify any employees who have not obtained the required background screening, promptly obtain and evaluate background screenings for such employees, and take personnel actions, as necessary, based on evaluations of the screenings.

Finding No. 6: Purchasing Procedures

Board-adopted policies prohibit conflicts of interest and the District had certain procedures to reduce the risk of contractual relationships that cause conflicts of interest. For example, Board members voluntarily disclose relationships and abstain from voting in situations that may cause a conflict of interest.

The Superintendent, Board members, and Chief Financial Officer were required to file statements of financial interests pursuant to Section 112.3145, Florida Statutes. While the statements of financial interests were filed as required, these statements were not provided to personnel responsible for procurement decisions for review. Providing for routine review of statements of financial interests by personnel responsible for procurement decisions would enhance the District's procurement practices and reduce the risk of questioned procurement transactions or contractual obligations.

Recommendation: The District should strengthen its procedures to provide for routine review of statements of financial interests by personnel responsible for making procurement decisions.

Finding No. 7: Health Insurance Plan – Participant Eligibility

For the 2013-14 fiscal year, the Board-adopted salary schedule required the District to contribute \$3,325 per year toward certain healthcare coverage for each employee. Also, pursuant to Section 112.0801, Florida Statutes, retired employees and their dependents were allowed to participate in the District's health insurance plan at their own expense, but at the rate of current employees. District personnel were responsible for deducting the insurance premium costs from employee pay, collecting insurance premiums from retirees, and submitting payments to the insurance carrier. Employees may enroll in the District's health insurance plan upon employment, during open enrollment periods, and make changes to their coverage outside of enrollment periods for certain qualifying events such as marriage, divorce, death, or birth of a dependent. For the 2013-14 fiscal year, 382 employees contributed a total of \$833,987 and 47 retirees contributed a total of \$328,040 to participate in the District's health insurance plan and the District contributed \$1,260,202 for current employees.

District personnel reconciled health insurance billings to payroll records to ensure that insurance premiums and related claims payments were only for eligible employees and retirees. The District also required employees and retirees making dependent insurance changes outside of open enrollment periods to provide documentation, such as birth certificates, evidencing the dependent's eligibility for insurance coverage. However, during open enrollment, the District did not require employees or retirees electing to purchase health insurance coverage for dependents to provide documentation evidencing the dependents' eligibility. Without verifying the eligibility of all dependents covered through the District's health insurance plan, there is an increased risk that the dependents receiving insurance coverage may be ineligible participants.

Although employees are required to pay health insurance premiums for dependent coverage, future premium rates for the District's health insurance plan are based on claims experience. Therefore, claims for an ineligible dependent could result in future increases in health insurance premiums paid by the District for the employees' healthcare coverage.

Recommendation: **The District should enhance its procedures to require verification of eligibility of all dependents participating in the District's health insurance plan.**

Finding No. 8: Ad Valorem Taxation

Section 1011.71, Florida Statutes, allows the District to levy ad valorem taxes for capital outlay purposes within specified millage rates subject to certain precedent conditions. Allowable uses of ad valorem tax levy proceeds include, among other things, funding new construction and remodeling projects; school bus purchases; and enterprise resource software (ERS) applications that are used to support district-wide administration or State-mandated reporting requirements subject to certain conditions and limitations. The District accounts for the ad valorem tax levy proceeds and expenditures thereof in the Capital Projects – Local Capital Improvement (LCI) Fund.

The conditions precedent to the levy of such taxes have been narrowly construed by the courts (e.g., *Wilson vs. School Board of Marion County*, 424 So.2d 16 [Fla. 5th DCA 1983]), and failure to fully comply with such conditions may serve to invalidate the levies. Among the specific conditions imposed by Section 200.065(10)(a), Florida Statutes, are requirements to advertise, in advance of the adoption of a budget authorizing the expenditure of such tax levy proceeds, the purposes for which the Board intends to spend the proceeds of each such tax levy and to specify in the required notice of tax levy the projects to be funded by the assessment of such taxes. Further, Section 200.065(10)(b), Florida Statutes, establishes requirements for amending a list of capital outlay projects previously advertised and adopted.

During the 2013-14 fiscal year, the District had LCI Fund expenditures of \$869,076 and transfers of \$351,706, and we tested \$574,837 in expenditures and all of the transfers to determine their propriety. Our test disclosed that the District inadvertently spent ad valorem tax levy proceeds of \$61,650 for purposes that had not been advertised, contrary to Sections 1011.71 and 200.065(10)(a), Florida Statutes, including a portable building costing \$51,700 for the Primary Elementary School and related portable set-up costs of \$9,950. Although Section 200.065(10)(b), Florida Statutes, allows a school district to publish advertisements to announce the school district's proposal to use remaining ad valorem tax levy proceeds for other purposes, the District did not publish such announcements due to oversight. In the absence of the required advertisement of the proposed uses of funds, these expenditures totaling \$61,650 represent questioned costs.

Recommendation: **The District should enhance procedures to ensure advertisements identify the basis for ad valorem tax levy expenditures as required. In addition, the District should document to the FDOE the allowability of the \$61,650 of questioned costs or restore this amount to the LCI Fund.**

Finding No. 9: Adult General Education Classes

Section 1004.02(3), Florida Statutes, defines adult general education, in part, as comprehensive instructional programs designed to improve the employability of the State's workforce. The District received State funding for adult general education, and proviso language in Chapter 2013-40, Laws of Florida, Specific Appropriation 117, required that each school district report enrollment for adult general education programs identified in Section 1004.02, Florida Statutes, in accordance with FDOE instructional hours reporting procedures.

FDOE procedures stated that fundable instructional contact hours are those scheduled hours that occur between the date of enrollment in a class and the withdrawal date or end-of-class date, whichever is sooner. FDOE procedures also provided that school districts develop a procedure for withdrawing students for nonattendance and that the standard for setting the withdrawal date be six consecutive absences from a class schedule, with the withdrawal date reported as the day after the last date of attendance.

For the 2013-14 fiscal year, the District reported to FDOE 3,281 instructional contact hours for 31 students enrolled in 13 adult general education classes. We randomly selected a representative sample of 178 contact hours reported for 10 students enrolled in 2 adult general education classes to test the accuracy of the District's reporting procedures. Our test disclosed a total of 465 under-reported hours for 9 students enrolled in 2 classes and 1 over-reported hour for 1 student. District personnel indicated these exceptions occurred from miscalculations caused by the District's information system. Given the number of errors, the full extent of the class hours misreported was not readily available.

Since future funding may be based, in part, on enrollment data reported to the FDOE, it is important that the District reports data correctly. A similar finding was noted in our report No. 2014-112.

Recommendation: The District should strengthen its controls to ensure accurate reporting of instructional contact hours for adult general education classes to the FDOE. The District should also determine the extent of adult general hours misreported and contact the FDOE for proper resolution.

Finding No. 10: 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 that certain District security controls related to data loss prevention 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. Similar findings were communicated to management in connection with our report Nos. 2013-140 and 2014-112.

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

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Federal Awards Finding No. 2014-001:

Federal Agency: United States Department of Education

Pass-Through Entity: Florida Department of Education

Program: Charter Schools (CFDA No. 84.282)

Finding Type: Material Noncompliance and Material Weakness

Questioned Costs: \$7,875

Subrecipient Monitoring. United States Office of Management and Budget (OMB) Circular A-87, Attachment A, Section C, provides that for an expenditure to be allowable under Federal awards, costs must be necessary and reasonable for proper and efficient performance and administration of the Federal award and must be adequately documented. Also, pursuant to OMB Circular A-133, Section 400(d), entities that pass through Federal funding to

other entities are responsible, in part, for monitoring the subrecipients' activities to obtain reasonable assurance that the subrecipients administer Federal awards in compliance with Federal requirements. In addition, OMB Circular A-87, Attachment B, provides that, in determining the allowability of professional service costs, contracts should adequately establish an understanding between the contracting parties by describing the services, estimating the work time, and identifying compensation rates.

For the 2013-14 fiscal year, as noted in Financial Statement Finding No. 1, the District sponsored the JMPHS and NMCS charter schools. The District received Charter School Program (CSP) funding of \$259,613, including \$253,948 passed through to the schools for program expenditures and \$5,665 incurred for indirect costs. For the 2013-14 fiscal year, the District reimbursed \$171,652 and \$82,296 to JMPHS and NMCS, respectively.

Our test of two reimbursement requests from NMCS totaling \$82,296 disclosed that records were generally supported by invoices to vendors for good and services, which were reviewed and approved by District personnel. However, two payments for services totaling \$7,500 were unsupported by written contracts or other District records to preauthorize and identify the expected or actual services, work time, and compensation rates. The documentation NMCS submitted to the District for reimbursement included copies of two checks and invoices that indicated the reimbursement requests were for the Director and another administrator's salary, although no payroll records, such as personnel activity reports or equivalent documentation, were provided to support these costs. Also, as the NMCS grant application did not identify contractual services as allowable costs of the CSP, and District records did not evidence a budget amendment submitted and approved by the FDOE to authorize these expenditures, these expenditures of \$7,500 plus associated indirect costs of \$375, or a total of \$7,875, represent questioned costs subject to disallowance by the grantor.

The FDOE conducted a monitoring visit at the NMCS that disclosed the NMCS submitted requests and received reimbursements from the District for goods and services that the NMCS did not order or did not pay for, resulting in \$14,892 that the FDOE questioned, including associated indirect costs of \$595. Based on the FDOE's suspension letter dated September 24, 2013, the District made no CSP reimbursements to the NMCS after that date.

Professional auditing standards require that when an auditee does not comply, in all material respects, with a compliance requirement that could have a direct and material effect on one of its major Federal programs, appropriate disclosures (modifications) should be made in the auditor's report. As the District did not comply with the requirement regarding Subrecipient Monitoring that is applicable to its CSP, our report on the District's compliance with this requirement includes a modification to that effect.

Recommendation: The District should enhance its subrecipient monitoring controls to ensure that Federal program expenditures are properly documented and approved. In addition, the District should document to the grantor (FDOE) the allowability of the \$7,875 of questioned costs or restore this amount to the Charter School Program.

District Contact Person and Title: Ray Griffin, Chief Financial Officer

Federal Awards Finding No. 2014-002:**Federal Agency: United States Department of Education****Pass-Through Entity: Florida Department of Education****Program: School Improvement Grant (CFDA Nos. 84.377 and 84.388)****Finding Type: Noncompliance****Questioned Costs: None**

Allowable Costs/Cost Principles – Documentation of Time and Effort. OMB Circular A-87 provides, for charges to Federal awards for salaries and wages, that for employees 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 employee 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 2013-14 fiscal year, the District reported School Improvement Grant (SIG) program expenditures of \$935,549, of which salaries and benefits totaled \$570,300. To determine the propriety of these expenditures, we tested salary and benefits totaling \$435,766 for 12 employees, 10 of which were fully-funded by the program. Due to oversight, the District did not maintain the required semiannual certification for one employee with total salary and benefits of \$61,075 to evidence the actual time the employee devoted to the SIG. Subsequent to our inquiry, the employee and their immediate supervisor 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. Similar findings were noted in our report Nos. 2013-140 and 2014-112.

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

District Contact Person and Title: Shirley D. Joseph, Coordinator of Assessments & School Effectiveness

Federal Awards Finding No. 2014-003:**Federal Agency: United States Department of Education****Pass-Through Entity: Florida Department of Education****Program: School Improvement Grant (CFDA Nos. 84.377 and 84.388)****Finding Type: Noncompliance and Significant Deficiency****Questioned Costs: \$25,749.44 (CFDA No. 84.377)**

Equipment Management. Title 34, Section 80.32, Code of Federal Regulations, requires the District to maintain adequate records for equipment purchased with Federal funds, and generally limits equipment use to the program for which the equipment was acquired.

During the 2013-14 fiscal year, the District expended \$935,549 in SIG awards approved for Madison County High School and Greenville Elementary School (GES). To determine the propriety and allowability of these expenditures, we tested 25 expenditures totaling \$580,292.20 and identified 30 laptops totaling \$24,140.10 purchased from SIG funds awarded to GES. However, District records and our observations disclosed that the laptops were located and used at Madison County Central School, which was not an approved school site per the grant award. District personnel indicated that this occurred because students at GES eventually transition to MCCS and computers were placed at MCCS to provide continued access to the program. However, since the laptops were not used to

accomplish grant activities in accordance with the approved grant award, these expenditures totaling \$24,140.10 represent questioned costs subject to disallowance by the grantor.

Also, District personnel could not locate 2 laptops included in our test totaling \$1,609.34 purchased with SIG funds. Although the laptops were included in the District's December 2014 physical inventory count and related property records, District personnel could not explain why the laptops could not be provided for audit review. Without evidence that the laptops existed and were used to accomplish grant activities, these expenditures of \$1,609.34 represent questioned costs subject to disallowance by the grantor.

Recommendation: The District should enhance its procedures to ensure that equipment use is limited to grant purposes. In addition, the District should document to the grantor (FDOE) the allowability of the \$25,749.44 of questioned costs or restore this amount to the SIG program.

District Contact Person and Title: Shirley D. Joseph, Coordinator of Assessments & School Effectiveness

PRIOR AUDIT FOLLOW UP

The District had taken corrective actions for findings included in our report No. 2014-112, except as noted in the following table:

Current Fiscal Year Finding Numbers	2012-13 Fiscal Year Audit Report and Finding Numbers	2011-12 Fiscal Year Audit Report and Finding Numbers
3	Audit Report No. 2014-112, Finding No. 2	Audit Report No. 2013-140, Finding No. 2
4	Audit Report No. 2014-112, Finding No. 1	Audit Report No. 2013-140, Finding No. 1
9	Audit Report No. 2014-112, Finding No. 4	NA
10	Audit Report No. 2014-112, Finding No. 7	Audit Report No. 2013-140, Finding No. 3
Federal Awards Finding No. 2014-002	Audit Report No. 2014-112, Federal Awards Finding No. 1	Audit Report No. 2013-140, Federal Awards Finding No. 1

NA – Not Applicable (Note: Above chart limits recurring findings to two previous audit reports.)

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, 2014*

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
2014-112 (1)	Twenty-First Century Community Learning Centers (CFDA No. 84.287) - Allowable Costs/Cost Principles	Required documentation to support personnel charges of Federal programs was not always maintained, contrary to Federal regulations.	Corrected.	

EXHIBIT A
MANAGEMENT'S RESPONSE

District School Board of Madison County

210 NE Duval Avenue · Madison Florida 32340

March 12, 2015

David W. Martin, CPA
Auditor General
111 West Madison Street
Tallahassee, FL 32399

Management Response to Preliminary and Tentative Findings

Dear Mr. Martin:

Finding No.1: District efforts to monitor financial activities of charter schools could be improved to ensure that corrective action plans are developed with charter schools subject to expedited reviews, timely submitted to the Florida Department of Education as required, and appropriately monitored; and required audits of charter schools are timely completed for consideration in the audit of the District's financial statements.

Response No.1: The District concurs with this finding. The District will enhance its procedures for charter schools to ensure that in the event that corrective actions are needed in the future that such plans will be developed with the charter school in an expedited manner as required by Section 1002.345(1)(a)2, Florida Statutes. Such plans will also be submitted to the Florida Department of Education in a timely manner as required by Florida Statutes and monitored appropriately. The District will also require audits of the charter schools in a timely manner so that the charter school's financial information will be included in the District's financial statements.

Finding No. 2: The District did not timely and prominently post all required budget information on its Web site.

Response No.2: The District concurs with this finding. This finding has been rectified. The District switched to a new Web site system in October 2014. Data was loaded onto the original site but failed to upload to the new site during conversion.

Finding No.3: Controls over electronic funds transfer and bank withdrawals could be enhanced.

Response No.3: The District concurs with this finding. The District has entered into an agreement with Neola, Inc. to review and/or rewrite all District policies and procedures.

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EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

District School Board of Madison County

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Finding No. 4: 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.

Response No.4: The District concurs with this finding. A Differentiated Pay Plan has been written by the District in conjunction with the Madison County Educational Association. Final review is in process and will be part of the negotiations in the development of the 2015-2018 Collective Bargaining Agreement, which should go into effect in July 2015.

Finding No. 5: The District did not always timely obtain required background screenings for instructional and non-instructional personnel.

Response No. 5: The District concurs with this finding. The District will enhance the background tracking system to ensure that all instructional and non-instructional personnel are processed through a background rescreening every five years as required by Florida Statutes.

Finding No. 6: Procurement procedures could be enhanced to provide for routine review of required statements of financial interests for consideration in making procurement decisions.

Response No.6: The District concurs with this finding. Procedures have been enacted to obtain copies of the statements of financial interests filed by the Superintendent, Board members, and Chief Financial Officer from the appropriate state agency by the procurement/accounts payable department. A review of all statements of financial interests will be completed to determine the possibility of any and all potential conflicts of interests regarding the District's procurement business. This process was completed as of February 2015 and no conflicts of interest were present for any of the above mentioned parties.

Finding No. 7: The District needed to enhance its procedures to require verification of eligibility of all dependents covered by the District's health insurance plan.

Response No. 7: The District concurs with this finding. The District has been in discussion with its health insurance provider to establish a joint verification system for dependent coverage for the 2015-2016 enrollment period that will occur in October 2015.

Finding No. 8: District records did not always evidence that ad valorem tax levy proceeds were used only for purposes advertised; resulting in \$61,650 of questioned costs.

Response No. 8: The District concurs with this finding. In following Department of Revenue's prescribed process for re-advertising Capital Outlay funds, the District submitted a revised ad in

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EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

District School Board of Madison County

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the local newspaper on February 6, 2015 to correct the omission in the original advertisement in 2013-2014 for the purchase of the portable classroom building in question. The District is now seeking guidance from FDOE concerning the allowability of the questioned costs.

Finding No. 9: Improvements were needed in controls over the reporting of instructional contact hours for adult general education classes to the Florida Department of Education.

Response No. 9: The District concurs with this finding. The District is reviewing procedures to ensure controls are in place for accurate reporting of instructional contact hours. The District will contact FDOE to determine the proper resolution.

Finding No. 10: Certain information technology security controls related to data loss prevention needed improvement.

Response No. 10: The District concurs with this finding. The District continues to review security controls in an effort to develop a plan sufficient to address the District's information technology security needs.

Federal Award Findings:

Federal Awards Finding No. 2014-001: Subrecipient monitoring deficiencies for Charter School Program (CSP) expenditures resulted in \$7,875 of questioned costs.

Response to No. 2014-001: The District concurs with this finding. The District attempted on several occasions during the 2013-2014 school year to gather the necessary and required information from NMCS but was either not provided the information or the information given was inaccurate. As a result of the difficulties in obtaining the required information, the District Board voted not to renew the charter for NMCS. NMCS was officially closed October 10, 2015. The District has contacted CSP within FDOE to determine the course of action the District must take to resolve the questioned costs mentioned.

Federal Awards Finding No. 2014-002: Required documentation to support personnel charges of Federal programs was not always maintained, contrary to Federal regulations.

Response to No. 2014-002: The District concurs with this finding. The audit mentions that one employee's time and effort documentation was not available during the audit. This oversight has been corrected, as noted in the audit. The District has instituted a procedure to timely review all grants to ensure that all time and effort documentation is completed on time and available prior to audit requests.

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EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

District School Board of Madison County

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Federal Awards Finding No. 2014-003: Federal equipment use was not always limited to grant purposes, resulting in \$25,749.44 of questioned costs.

Response to No. 2014-003: The District concurs with this finding. The District is seeking a review by FDOE of the expenditures in question to determine if expenditures are allowable and to institute a course of action to resolve the questioned costs.

Sincerely,



Doug Brown
Superintendent
District School Board of Madison County

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