

**The James Madison Preparatory
High School, Inc.**

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

**Financial Statements
June 30, 2018**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
The James Madison Preparatory High School, Inc.

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 James Madison Preparatory High School, Inc. ("School"), a charter school and component unit of the District School Board of Madison County, Florida, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, 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 of The James Madison Preparatory High School, Inc., as of June 30, 2018, and the respective changes in financial position thereof for the year ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, historical pension information, and the budgetary comparison schedule, as shown in the table of contents, be presented to supplement the basic financial statements. Such information, although not 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 historic 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 methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2019, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Buescher & Company, LLC

Buescher & Company, LLC

Madison, Florida
January 11, 2019

The James Madison Preparatory High School, Inc. Management's Discussion and Analysis (Unaudited)

Introduction

The Management and Discussion Analysis (MD&A) of the annual financial report of James Madison Preparatory High School (JMPHS) provides an overview of the School's activities for the fiscal year ended June 30, 2018. Because the information contained in this section is intended to highlight transactions, events, and conditions, it should be considered in conjunction with financial statements and financial statements notes found on pages 17-30.

Overview of School

JMPHS is a college preparatory high school that promotes student ownership of learning through a content-rich liberal arts curriculum emphasizing science, technology, engineering, and math (STEM). It was created to provide a public education option for parents and students that did not exist. Opening in August 2013 with a 9th grade class of 40 students, JMPHS currently serves Grades 9 - 12 with a maximum capacity of 200 students (50 students in each grade). Operations remained consistent with prior year with 187 students in Grades 9 - 12 with nine full-time instructors, two part-time instructors, three school administrators, an office manager, a school counselor, a records coordinator, and two custodians.

Financial Highlights

- For the fiscal year ended June 30, 2018, the School's expenses exceeded revenues as shown in the School's statement of activities by \$47,339.
- As shown on the statement of net position, the School's total net position was (\$95,330).

Overview of Financial Statements

The basic financial statements consist of the following four components:

- Government-Wide Financial Statements
- Fund Financial Statements
- Fiduciary Financial Statements
- Notes to Financial Statements

Government-Wide Financial Statements: The government-wide financial statements provide short-term and long-term information about the School's overall financial condition, including a statement of net position and a statement of activities. These statements provide consolidated financial information on the governmental activities of the School using an accrual basis of accounting. The statement of net position provides information on the financial health of the School by providing information about the difference between assets and liabilities (i.e., net position). The statement of activities provides information on the change in net position and the results of operations during the fiscal year. A change in net position indicates improving or deteriorating financial health of the School. However, it is important to note that non-financial factors, such as changes in student funding base level, must also be considered when assessing the financial health of the School.

Fund Financial Statements: Fund financial statements are one of the components of the basic financial statements. A fund is a grouping of related accounts used to maintain control over resources segregated for specific activities or objectives. These statements provide more detailed information about the School's financial activities than the government-wide statements by focusing on its most significant funds rather than fund types.

**The James Madison Preparatory High School, Inc.
Management's Discussion and Analysis (Unaudited)**

Although governmental funds are used to account for essentially the same functions as the government-wide statements, the focus is on spendable financial resources measurement rather than economic resources management. This focus allows governmental funds statements to provide information on near-term inflows and outflows of spendable resources in addition to balances of spendable resources available at the end of the fiscal year. Therefore, these statements provide a short-term view useful in evaluating the School's near-term financing requirements and in comparing to the long-term view of governmental activities in the government-wide financial statements. This comparison is facilitated using the government funds balance sheet and the government funds statement of revenues, expenditures, and changes in fund balances, which provide a reconciliation of governmental funds to governmental activities.

The School operates a General Fund, which accounts for general operations and internal account activities and a Special Revenue Fund, which accounts for any earmarked funds such as grants and item-specific donations. The School adopts an annual budget for its governmental funds. A budgetary comparison schedule, as required, has been provided for the General Fund to demonstrate compliance with the budget.

Fiduciary Financial Statements: Fiduciary financial statements report detailed information about funds held by the School in a trustee or agency capacity for others. Thus, these funds cannot be used to support the school's own programs. They are included in this report as they were deemed material.

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

Government-Wide Financial Analysis

Net position may serve over time as a useful indicator of a government's financial position. The following is a summary of the School's net position as of June 30, 2018 and 2017.

	Net Position, End of Year Governmental Activities <u>June 30, 2018</u>	Net Position, End of Year Governmental Activities <u>June 30, 2017</u>
Assets		
Current & Other Assets	\$ 12,905	\$ 15,192
Capital Assets, Net	91,452	91,245
Total Assets	104,357	106,437
Deferred Outflows		
Deferred Outflows related to Pensions	531,644	380,054
Liabilities		
Current Liabilities	58,551	70,173
Long-term Liabilities	638,863	461,627
Total Liabilities	697,414	531,800
Deferred Inflows		
Deferred Inflows related to Pensions	33,917	2,682
Net Position		
Net Investment in Capital Assets	91,452	91,245
Restricted	4,626	3,665
Unrestricted	(191,408)	(142,901)
Total Net Position	\$ (95,330)	\$ (47,991)

The current assets of the school primarily consist of cash and cash equivalents and amounts due from other government agencies. Liabilities primarily consisted of accounts payable and short-term loans and long-term notes to the JMPHS Foundation to cover operational expenses. The School's net position was

**The James Madison Preparatory High School, Inc.
Management's Discussion and Analysis (Unaudited)**

\$(95,330) as of June 30, 2018, which included an unrestricted net position of (\$191,408). This net position is a decrease of \$47,339 over prior year operations. The primary reasons for this decrease are the significant increases in Deferred Outflows Related to Pensions and in Net Pension Liabilities. The school did incur short-term debt to the Foundation, but did not incur any additional long-term debt to the Foundation.

The key elements of changes in the School's net position as of June 30, 2018 and 2017 are as follows:

	Operating Results for the Year <u>Governmental Activities</u> <u>June 30, 2018</u>	Operating Results for the Year <u>Governmental Activities</u> <u>June 30, 2017</u>
Revenues:		
State Sources	\$ 1,181,948	\$ 1,239,777
Local & Other	144,222	53,254
Total Revenues	1,326,170	1,293,031
Expenses:		
Instruction	731,851	791,768
Support Services	124,351	85,176
Community Services	10,000	10,000
General Support	506,176	470,441
Interest on Debt	1,131	871
Total Expenses	1,373,509	1,358,256
Increase (Decrease) in Net Position	\$ (47,339)	\$ (65,225)

The School's largest source of revenue was the State of Florida (89%), primarily received through Florida Education Finance Program (FEFP). Part of the reason for the increase in local funds was the Local Capital Improvement Revenue that the School received this year. The School also experienced increased donations from the community. (\$72,119 2017-18).

Concentration of expenses was primarily split between Instruction (53%) and General Support (37%). General Support consisted of administration and operations expenses. Instruction consisted of teacher salaries, curriculum resources, and classroom furniture and equipment. Support Services consisted of guidance and professional development services. The significant differences in all expenses were primarily due to changes in staffing. Decreases in instruction expenses were primarily due to decreases in instructional salaries and benefits resulting from changes in instructional staff and decreases in curriculum materials due to the fewer new course offerings. Increases in support services were due to increase in school counselor salaries and the addition of a full-time records coordinator. Increases in general support expenses were primarily due to increases in administrative staff salaries, renovations and maintenance on facilities, and increase in facility rent due to the use of a new building.

Financial Analysis of School's Funds

The governmental funds reported a combined fund balance of (\$45,646) as of June 30, 2018, an increase of \$9,335 from the prior year.

The James Madison Preparatory High School, Inc. Management's Discussion and Analysis (Unaudited)

Financial Analysis of School's Fiduciary Funds

The fiduciary funds reported a liability to clubs and other agencies of \$10,950 as of June 30, 2018, an increase of \$4,841 from the prior year.

Budgetary Highlights

The budget for the General Fund developed for 2017-18 was based on anticipated revenues and expenditures and expected full-time enrollment (FTE) for the school year. The final General Fund budget was approved in March 2018 and not amended the remainder of the year.

Overall, the School was slightly under-budget for revenues and slightly over-budget for expenses. State revenue was lower than projected due to changes in full-time enrollment (FTE) and FEFP revenue worksheet calculations between July 2017 and June 2018 and significant changes in other state revenues, such as capital outlay funds. The School also received unanticipated revenue from local sources. Expenses were slightly higher than projected due to payments made toward facilities and other start-up costs in June for the 2018-19 school year. Refer to the Budgetary Comparison Schedule for additional information regarding the General Fund budget.

Capital Assets

The School's capital assets as of June 30, 2018, were \$91,452 (net of accumulated depreciation). Thus, capital assets increased slightly over prior year operations. This slight increase in capital assets is due to an offset between new capital assets acquired and accumulated depreciation applied. Investment in capital assets includes building, furniture, fixtures, equipment, and audio-visual materials. Refer to Notes to Financial Statements for more information on capital assets.

Requests for Information

The financial report is designed to provide a general overview of the School's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Director of Finance, James Madison Preparatory High School, 176 NW Crane Ave., Madison, Florida, 32340.

The James Madison Preparatory High School, Inc.
Statement of Net Position

Governmental Activities
 June 30, 2018

Assets	
Current assets	
Cash and cash equivalents	\$ 9,229
Due from agency funds	3,676
Total current assets	12,905
Capital assets, net	
Building, equipment, and leasehold improvements	16,806
Furniture, fixtures, and equipment	53,879
Audio visual materials	13,267
Construction in progress	7,500
Total capital assets, net	91,452
Total assets	104,357
Deferred outflows of resources	
Deferred outflows related to pensions	531,644
Total deferred outflows of resources	531,644
Liabilities	
Current liabilities	
Accounts payable	4,299
Accrued expenses	30,252
Line of credit – Foundation	18,000
Current portion of long-term debt – Foundation	6,000
Total current liabilities	58,551
Long-term liabilities	
Net Pension Liability	637,463
Due to the Foundation	1,400
Total long-term liabilities	638,863
Total liabilities	697,414
Deferred inflows of resources	
Deferred inflows related to pensions	33,917
Total deferred inflows of resources	33,917
Net position	
Invested in capital assets, net of related debt	91,452
Restricted for:	
Capital projects	3,963
Specific programs	663
Unrestricted	(191,408)
Total net position	\$ (95,330)

See accompanying notes to financial statements

The James Madison Preparatory High School, Inc.
Statement of Activities

Governmental Activities
Year ended June 30, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Instruction	\$ (731,851)	\$ -	\$ 5,801	\$ -	\$ (726,050)
Support services	(124,351)	-	-	-	(124,351)
Community services	(10,000)	-	10,000	-	-
General support	(506,176)	20,196	-	89,747	(396,233)
Interest on debt	(1,131)	-	-	-	(1,131)
Total Governmental Activities	\$ (1,373,509)	\$ 20,196	\$ 15,801	\$ 89,747	\$ (1,247,765)

General Revenues:

State Revenue:

Florida Education Finance Program	\$ 1,142,064
Best & Brightest Scholarship	7,200
Unrestricted Grants and Contributions	49,668
Unrestricted Invested Earnings	29
Unrestricted Other Operating	1,465

Total General Revenues 1,200,426

Change in Net Position (47,339)

Net Position – Beginning (47,991)

Net Position – End \$ (95,330)

See accompanying notes to financial statements

The James Madison Preparatory High School, Inc.
Balance Sheet

Governmental Funds
June 30, 2018

	General Fund	Total Governmental Funds
Assets		
Current assets		
Cash and cash equivalents	\$ 9,229	\$ 9,229
Due from agency funds	3,676	3,676
Total assets	\$ 12,905	\$ 12,905
Liabilities and fund balances		
Current liabilities		
Accounts payable	\$ 4,299	\$ 4,299
Salaries and payroll tax payable	30,252	30,252
Line of Credit – Foundation	18,000	18,000
Due to Foundation	6,000	6,000
Total liabilities	58,551	58,551
Fund balance		
Restricted for:		
Capital projects	3,963	3,963
Specific program	12	12
Committed to specific program	651	651
Spendable, unassigned	(50,272)	(50,272)
Total fund balances	(45,646)	(45,646)
Total liabilities and fund balances	\$ 12,905	\$ 12,905

Reconciliation to the Statement of Net Position

Total Fund Balances – Governmental Funds	\$ (45,646)
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources, therefore, are not reported as assets in governmental funds	91,452
Deferred Outflows and Inflows of resources are not available in the current period and not reported in the governmental funds	497,727
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds	
Due to the Foundation	(1,400)
Net Pension Liability	(637,463)
Total Net Position – Governmental Activities	\$ (95,330)

See accompanying notes to financial statements

The James Madison Preparatory High School, Inc.
Statement of Revenues, Expenditures and Changes in Fund Balances

Fund Financial Statements Year ended June 30, 2018	General Fund	Total Governmental Funds
Revenue		
State sources	\$ 1,181,948	\$ 1,181,948
Local sources	50,413	50,413
Gifts, grants, bequests	72,119	72,119
Student lunches	20,034	20,034
Miscellaneous Revenue	1,627	1,627
Investment Income	29	29
Total revenue	1,326,170	1,326,170
Instruction Expenditures		
Salaries	431,530	431,530
Additions to Teacher Salaries	11,888	11,888
Teacher FRS	37,032	37,032
Teacher FICA	33,849	33,849
Teacher worker's compensation	2,463	2,463
Teacher unemployment taxes	187	187
Instructional stipends	3,001	3,001
Travel	3,256	3,256
Subscriptions	33,278	33,278
Supplies	4,495	4,495
Textbooks	16,828	16,828
Noncapital furniture, fixtures & equipment	26,099	26,099
Other teacher services	47,687	47,687
Instruction capital outlay	5,058	5,058
Total instruction expenditures	656,651	656,651

See accompanying notes to financial statements

The James Madison Preparatory High School, Inc.
Statement of Revenues, Expenditures and Changes in Fund Balances

Support Services Expenditures

Guidance services	47,000	47,000
Guidance support services	24,833	24,833
Guidance FRS	6,177	6,177
Guidance FICA	5,483	5,483
Guidance worker's compensation	406	406
Guidance unemployment taxes	38	38
Media magazine subscriptions	84	84
Teacher training	456	456
Noncapital computer hardware	3,298	3,298
Technology professional services	23,224	23,224
Support services capital outlay	5,204	5,204
Total support services expenditures	116,203	116,203

Administrative Expenditures

Administration salaries	143,417	143,417
Additions to administrative salaries	4,000	4,000
Administration FRS	12,560	12,560
Administration FICA	11,243	11,243
Administration worker's compensation	617	617
Administration unemployment taxes	41	41
Administration services	3,983	3,983
Administration travel	820	820
Administration rentals	2,708	2,708
Administration office supplies	3,426	3,426
Administration miscellaneous expenditures	632	632
Dues and fees	2,486	2,486
Board professional services	12,844	12,844
Board insurance	1,726	1,726
Board travel	692	692
Board miscellaneous expenditures	2,445	2,445
Fiscal administrative salaries	25,000	25,000
Fiscal services FRS	2,074	2,074
Fiscal services FICA	1,913	1,913

See accompanying notes to financial statements

The James Madison Preparatory High School, Inc.
Statement of Revenues, Expenditures and Changes in Fund Balances

Fiscal services worker's compensation	205	205
Fiscal services unemployment taxes	13	13
Professional services	5,534	5,534
Fiscal services subscriptions	300	300
Fiscal services supplies	248	248
Food service expenditures	39,004	39,004
Food service equipment	1,522	1,522
Food service other	119	119
Food service supplies	161	161
IS purchased services	6,295	6,295
IS rentals	1,980	1,980
IS supplies	19	19
IS miscellaneous	40	40
Transportation other	20,900	20,900
Operations salaries	21,000	21,000
Operations FRS	1,788	1,788
Operations FICA	1,606	1,606
Operations unemployment taxes	13	13
Operations worker's compensation	411	411
Operations supplies	8,176	8,176
Operations noncapital equipment	1,340	1,340
Property and liability insurance	14,140	14,140
Property repairs and maintenance	1,529	1,529
Property rentals	73,953	73,953
Property telephone	5,037	5,037
Property water	2,610	2,610
Property purchased services	10,222	10,222
Property electricity	14,757	14,757
Administrative capital outlay	25,301	25,301
Total administration expenditures	490,850	490,850

See accompanying notes to financial statements

The James Madison Preparatory High School, Inc.
Statement of Revenues, Expenditures and Changes in Fund Balances

Debt Service Expenditures			
Principal payments		42,000	42,000
Interest payments		1,131	1,131
Total debt service expenditures		43,131	43,131
Community Services Expenditures			
Scholarship payments		10,000	10,000
Total Expenditures		1,316,835	1,316,835
Excess(Deficiency) of Revenues Over/(Under) Expenditures		9,335	9,335
Other Financing Sources (Uses):			
Loans from Foundation		18,000	18,000
Repayment of Loans from Foundation		(18,000)	(18,000)
Total Other Financing Sources (Uses):		-	-
Increase (Decrease) in Fund Balance		9,335	9,335
Fund Balance – beginning of the year		(54,981)	(54,981)
Fund Balance – end of the year	\$	(45,646)	\$ (45,646)

See accompanying notes to financial statements

The James Madison Preparatory High School, Inc.

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, 2018

Net Change in Fund Balances – Governmental Funds	\$	9,335
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. Capital outlays (\$35,563) are in excess of Depreciation expense (\$35,356) in the current period.</p>		207
<p>Principal payments on long-term debt reported as an expenditure in the Governmental Funds and a reduction to long-term debt in the Statement of Net Position.</p>		42,000
<p>Net effect of various transactions in the statement of activities that do not require the use of current financial resources are not reported in the government funds:</p>		
Pension Expense (calculated for net pension liability)		(145,628)
Pension contributions made subsequent to the pension liability measurement date of 6/30/17		46,747
Change in Net Position – Governmental Activities	\$	<u>(47,339)</u>

The James Madison Preparatory High School, Inc.
Statement of Net Position

Fiduciary Activities
 June 30, 2018

Agency Funds

Assets	
Current assets	
Cash and cash equivalents	\$ 14,626
Total current assets	14,626
<hr/>	
Total assets	\$ 14,626
<hr/>	
Liabilities and net position	
Current liabilities	
Due to general fund	\$ 3,676
Due to clubs and other agencies	10,950
Total current liabilities	14,626
<hr/>	
Total liabilities	14,626
<hr/>	
Net position	
Unrestricted	-
Total net position	-
<hr/>	
Total liabilities and net position	\$ 14,626
<hr/>	

See accompanying notes to financial statements

The James Madison Preparatory High School, Inc.
Statement of Activities

Fiduciary Activities

Year ended June 30, 2018

Agency Funds

Receipts	
11 th Grade	4,528
12 th Grade	3,449
Art Department	275
Beta	7,044
Extracurricular	2,136
FFA	2,257
Fishing Club	200
Math Department	600
Music	71
PTO	10,100
Spanish Department	586
Student Council	5,074
Tech Student Association	201
Yearbook	8,368
Other	25
Total fiduciary receipts	44,914
Disbursements	
10 th Grade	222
11 th Grade	5,178
12 th Grade	3,568
Beta	7,678
Extracurricular	2,171
FFA	2,173
Fishing Club	93
History Department	55
Math Department	600
PTO	9,247
Spanish Department	476
Student Council	4,581
Tech Student Association	250
Yearbook	3,781
Total fiduciary disbursements	40,073
Excess receipts over disbursements	4,841
Liabilities to clubs and other agencies - beginning of year	6,109
Liabilities to clubs and other agencies - end of year	\$ 10,950

See accompanying notes to financial statements

The James Madison Preparatory High School, Inc.
Notes to the Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The James Madison Preparatory High School, Inc. ("School"), is a component unit of the District School Board of Madison County ("District"). The School is sponsored by the District and is a not-for-profit corporation organized pursuant to Chapter 617, Florida Statutes, the Florida Not-for-Profit Corporation Act and Section 1002.33, Florida Statutes. The governing body of the School is comprised of seven members. The financial information presented is that of the School.

The general operating authority of the School is contained in Section 1002.33, Florida Statutes. The current charter is effective until June 30, 2023. The District may choose not to renew or terminate the charter for good cause or in following the procedures in Section 1002.33(8), Florida Statutes. In the event of termination of the charter, the District shall assume operation of the School. The School is considered a component unit of the District; therefore, for financial reporting purposes, the School is required to follow generally accepted accounting principles applicable to state and local governmental units.

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

Basis of Presentation

Government-wide Financial Statements - The government-wide financial statements, including the statement of net position and the statement of activities, present information about the school as a whole.

Government-wide financial statements are prepared using the economic resources measurement focus. The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the School's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are thereby clearly identifiable to a particular function.

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

Fund Financial Statements – Fund financial statements report detailed information about the School in governmental funds. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is reported in a separate column.

The School's major governmental funds are as follows:

- General Fund – to account for all financial resources not required to be accounted for in another fund.

The James Madison Preparatory High School, Inc.
Notes to the Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fiduciary Financial Statements – Fiduciary financial statements report detailed information about funds held by the School in a trustee or agency capacity for others; therefore, these funds cannot be used to support the School's own programs.

Basis of Accounting

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

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

Governmental fund financial statements are prepared using the modified accrual basis of accounting. Revenues are recognized when they become measurable and available. Revenues are measurable when the amount of the transaction can be determined. Revenues are available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The School considers revenues to be available if they are collected within 30 days of the end of the current fiscal year. When grant terms provide that the expenditure of funds is the prime factor for determining eligibility for Federal, State, and other grant funds, revenue is recognized at the time the expenditure is made. Expenditures are recorded when the related fund liability is incurred, except for long-term debt principal and interest which are reported as expenditures in the year due.

Budgets and Budgetary Accounting

Budgets are presented on the modified accrual basis of accounting. During the fiscal year, expenditures are controlled at the object level (e.g. salaries and benefits, purchased services, materials and supplies) within each activity (e.g. instruction, support services and administration). Budgets may be amended by resolution at any Board meeting prior to the date for the annual report.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, money in interest bearing checking and savings accounts, time deposits, money market funds, and short-term investments with original maturities of three months or less.

Cash deposits are held by banks qualified as public depositories under Florida law. All deposits are insured by the Federal Deposit Insurance Corporation.

Interfund Balances

Interfund balances exist due to resources of the general fund being used to cover expenditures of the fiduciary funds. These funds are expected to be repaid within one year. The total amount due to the General Fund from the Agency Fund was \$3,676 at June 30, 2018.

The James Madison Preparatory High School, Inc.
Notes to the Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Expenditures for capital assets acquired for general school purposes are reported in the governmental fund that financed the acquisition. The capital assets acquired are reported at cost in the statement of net position. Capital assets are defined by the School as those assets whose useful life extends beyond one year and costing more than \$750. Such assets are recorded at historical cost. Donated property and equipment are recorded at fair value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Furniture, Fixtures and Equipment	3 – 7 years
Software and Licenses	3 years
Audio Visual Equipment	5 years
Buildings, Equipment and Leasehold Improvements	10 – 39 years

Net Pension Liability

As a participating employer in the Florida Retirement System, the School recognizes its proportionate share of the collective net pension liabilities of the FRS cost-sharing multiple-employer defined benefit plans. As of June 30, 2018, the School's proportionate share of the net pension liability totaled \$637,463. A subsequent note includes a complete discussion of defined benefit pension plans.

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, 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.

Deferred Outflows / Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then.

The James Madison Preparatory High School, Inc.
Notes to the Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position and Fund Balance Classifications

Government-wide and Fiduciary financial statements – net position is classified and reported in three components:

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

Fund financial statements – GASB Codification Section 1800.165, *Fund Balance Reporting*, defines the different types of fund balances that a governmental entity must use for financial reporting purposes. GASB requires the fund balance amounts to be reported within one of the following fund balance categories:

- Non-spendable - fund balance associated with inventories, prepaid expenses, long-term loans, notes receivable, and property held for resale (unless the proceeds are restricted, committed, or assigned).
- Restricted – fund balance that can be spent only for the specific purposes stipulated by the constitution, external resource providers, or through enabling legislation.
- Committed – fund balance that can be used only for the specific purposes determined by a formal action of the School’s Board of Governance.
- Assigned – fund balance that is intended to be used by the School’s management for specific purposes but does not meet the criteria to be classified as restricted or committed.
- Unassigned – fund balance that is the residual amount for the School’s general fund and includes all spendable amounts not contained in the other classifications.

Order of Fund Balance Spending Policy

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

Revenue Sources

Revenues for current operations are received primarily from the District pursuant to the funding provisions included in the School’s charter. In accordance with the funding provisions of the charter and Section 1002.33(17), Florida Statutes, the School reports the number of full-time equivalent students and related data to the District.

The James Madison Preparatory High School, Inc.
Notes to the Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

In addition, the School received state funds through the Charter School Capital Outlay Program pursuant to Section 1013.62, Florida Statutes, the Best and Brightest Teacher Scholarship Program pursuant to Section 1012.731, Florida Statutes, and Local Capital Improvement Revenue pursuant to Section 1013.62, Florida Statutes. The School also receives donations through fundraising efforts and school lunch sales.

Income Taxes

The School is exempt from Federal Income Tax under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been included in the accompanying financial statements.

Use of Estimates

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

NOTE 2 – RISK MANAGEMENT PROGRAMS

Worker's compensation and general liability coverage are being provided through purchased commercial insurance with minimum deductibles for each line of coverage. The School recognizes no liabilities in relation to claims existing at the end of fiscal year 2018.

NOTE 3 – FUNDING AND CREDIT CONCENTRATIONS

The School receives substantially all of its support and revenue from federal, state, and local funding sources, passed through the District. Continuing operation of the School is greatly dependent upon the continued support of these governmental agencies.

NOTE 4 – SHORT TERM DEBT ACTIVITY

The School maintains a line of credit from the James Madison Preparatory High School Foundation, Inc. ("The Foundation"), a related party, to offset timing differences between receipts and expenditures. The following is a summary of short term debt activity:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
Governmental Activities:				
LOC from Foundation	\$ 18,000	\$ 339,350	\$ (339,350)	\$ 18,000
Total Governmental Activities	<u>\$ 18,000</u>	<u>\$ 339,350</u>	<u>\$ (339,350)</u>	<u>\$ 18,000</u>

The James Madison Preparatory High School, Inc.
Notes to the Financial Statements

NOTE 5 – CAPITAL ASSETS

The following schedule provides a summary of changes in capital assets, acquired substantially with public funds, for the period ended June 30, 2018:

	Beginning	Additions	Retirements	Ending
Capital assets being depreciated				
Buildings and fixed equipment	\$ 5,174	\$ 13,237	\$ -	\$ 18,411
Furniture, fixtures and equipment	127,348	14,826	-	142,174
Software & licenses	1,295	-	-	1,295
Audio visual equipment	36,868	-	-	36,868
Construction in progress	-	7,500	-	7,500
Total capital assets	170,685	35,563	-	206,248
Less accumulated depreciation for:				
Buildings and fixed equipment	(470)	(1,135)	-	(1,605)
Furniture, fixtures and equipment	(61,483)	(26,812)	-	(88,295)
Software & licenses	(1,260)	(35)	-	(1,295)
Audio visual equipment	(16,227)	(7,374)	-	(23,601)
Total accumulated depreciation	(79,440)	(35,356)	-	(114,796)
Total capital assets - net	\$ 91,245	\$ 207	\$ -	\$ 91,452

Depreciation expense for the year ended June 30, 2018 was \$35,356. It was allocated among the functions in the following amounts:

Function	Amount
Instruction	\$ 18,853
Support	3,110
Administrative	13,393
Total	\$ 35,356

NOTE 6 – OPERATING LEASES

The School rents the educational facility from the Foundation, a related party, for \$2,500 per month. The original lease was for 5 years, commencing on August 31, 2013, and ending July 31, 2018. It was extended prior to expiration for an additional 5 years, ending July 31, 2023. In addition to the minimum lease payments, the School may pay such additional amounts as additional lease payments up to and including the amount expended by the Lessor in the construction and remodeling of the school building. The total amount of rent is determined by the Board. See Note 10 – Related Party Transactions for rent payments in the current fiscal year.

The School also rents a second educational facility from an unaffiliated party for \$2,000 per month. The facility houses a computer lab, engineering classroom, and other administrative offices. The lease is for one year with annual options to renew on each subsequent July 1st. The lease may be terminated by the lessor or the School upon receipt of 60-day notice.

See Note 13 – Rental Payments for additional lease payments.

The James Madison Preparatory High School, Inc.
Notes to the Financial Statements

NOTE 6 – OPERATING LEASES (CONTINUED)

Future minimum lease payments under operating leases are approximately the following:

<u>Fiscal year ending June 30,</u>	<u>Amount</u>
2019	30,000
2020	30,000
2021	30,000
2022	30,000
2023	30,000
2024 and thereafter	<u>2,500</u>
Total Minimum Lease Payments	<u>\$ 152,500</u>

NOTE 7 – COMMITMENTS AND CONTINGENT LIABILITIES

The school participates in State grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the School has not complied with rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivables at June 30, 2018 may be impaired. In the opinion of the School, there are no significant liabilities relating to compliance with the rules and regulations governing the respective grants. No provision has been recorded in the accompanying financial statements for such contingencies.

NOTE 8 – LEGAL MATTERS

In the normal course of conducting its operations, the School could become party to various legal actions and proceedings. The School has no legal actions or pending proceedings in progress.

NOTE 9 – FLORIDA RETIREMENT SYSTEM (FRS) – Defined Benefit Pension Plan

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

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

The School's pension expense totaled \$145,630 for the fiscal year ended June 30, 2018.

The James Madison Preparatory High School, Inc.
Notes to the Financial Statements

NOTE 9 – FLORIDA RETIREMENT SYSTEM (FRS) – Defined Benefit Pension Plan (Continued)

FRS Pension Plan

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

Regular Class – Members of the FRS who do not qualify for membership in the other classes.

Employees enrolled in the Plan prior to July 1, 2011, vest at 6 years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at 8 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. Employees enrolled in the Plan may include up to 4 years of credit for military service toward creditable service.

The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost-of-living adjustments to eligible participants.

DROP, subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with an FRS-participating employer. An employee may participate in DROP for a period not to exceed 60 months after electing to participate, except that certain instructional personnel may participate for up to 96 months. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest. The net pension liability does not include amounts for DROP participants, as these members are considered retired and are not accruing additional pension benefits.

Benefits Provided. Benefits under the Plan are computed on the basis of age and/or years of service, average final compensation, and service credit. Credit for each year of service is expressed as a percentage of the average final compensation. For members initially enrolled before July 1, 2011, the average final compensation is the average of the 5 highest fiscal years' earnings; for members initially enrolled on or after July 1, 2011, the average final compensation is the average of the 8 highest fiscal years' earnings. The total percentage value of the benefit received is determined by calculating the total value of all service, which is based on the retirement class to which the member belonged when the service credit was earned. Members are eligible for in-line-of-duty or regular disability and survivors' benefits. The following chart shows the percentage value for each year of service credit earned:

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

The James Madison Preparatory High School, Inc.
Notes to the Financial Statements

NOTE 9 – FLORIDA RETIREMENT SYSTEM (FRS) – Defined Benefit Pension Plan (Continued)

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

Contributions. The Florida Legislature establishes contribution rates for participating employers and employees. Contribution rates during the 2017-18 fiscal year were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (A)
FRS, Regular	3.00	7.92
FRS, Reemployed Retiree	(A)	(B)

- Notes:
- (A) Employer rates include 1.66 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.06 percent for administrative costs of the Investment Plan.
 - (B) Contribution rates are dependent upon retirement class in which reemployed.

The School's contributions, including employee contributions, to the Plan totaled \$35,206 for the fiscal year ended June 30, 2018.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2018, the School reported a liability of \$386,963 for its proportionate share of the Plan's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2017. The School's proportionate share of the net pension liability was based on the School's 2017-18 fiscal year contributions relative to the 2016-17 fiscal year contributions of all participating members. At June 30, 2017, the School's proportionate share was .001308220 percent, which was an increase of .000334547 percent from its proportionate share measured as of June 30, 2016. For the fiscal year ended June 30, 2018, the School recognized pension expense of \$95,999. In addition, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 35,515	\$ 2,144
Change in assumptions	130,047	-
Net difference between projected and actual earnings on FRS pension plan investments	-	9,590
Changes in proportion and differences between School FRS contributions and proportionate share of contributions	126,136	-
School FRS contributions subsequent to the measurement date	35,206	-
Total	\$ 326,904	\$ 11,734

The James Madison Preparatory High School, Inc.
Notes to the Financial Statements

NOTE 9 – FLORIDA RETIREMENT SYSTEM (FRS) – Defined Benefit Pension Plan (Continued)

The deferred outflows of resources related to pensions, totaling \$35,206, resulting from School contributions to the Plan subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending June 30,	Amount
2019	\$ 20,078
2020	53,367
2021	37,314
2022	7,624
2023	25,787
Thereafter	9,657

Actuarial Assumptions. The total pension liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60 percent
Salary Increases	3.25 percent, average, including inflation
Investment rate of return	Investment rate of return 7.10 percent, net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the July 1, 2017, valuation were based on the results of an actuarial experience study for the period July 1, 2008, through June 30, 2013.

The long-term expected rate of return on pension plan investments was not based on historical returns, but instead is based on a forward-looking capital market economic model. The allocation policy's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes an adjustment for the inflation assumption. The target allocation and best estimates of arithmetic and geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation (A)	Annual Arithmetic Return	Compound Annual (Geometric) Return	Standard Deviation
Cash	1%	3.0%	3.0%	1.8%
Fixed Income	18%	4.5%	4.4%	4.2%
Global Equity	53%	7.8%	6.6%	17.0%
Real Estate	10%	6.6%	5.9%	12.8%
Private Equity	6%	11.5%	7.8%	30.0%
Strategic Investments	12%	6.1%	5.6%	9.7%
Total	100%			

Assumed inflation - Mean 2.6% 1.9%

Note: (A) As outlined in the Plan's Investment policy and presented in the Plan's 2016-2017 CAFR

The James Madison Preparatory High School, Inc.
Notes to the Financial Statements

NOTE 9 – FLORIDA RETIREMENT SYSTEM (FRS) – Defined Benefit Pension Plan (Continued)

Discount Rate. The discount rate used to measure the total pension liability was 7.10 percent. The Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return. The discount rate used in the 2017 valuation was updated from 7.6 percent to 7.1 percent.

Sensitivity of the School's Proportionate Share of the Net Position Liability to Changes in the Discount Rate. The following presents the School's proportionate share of the net pension liability calculated using the discount rate of 7.10 percent, as well as what the School's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.10 percent) or 1 percentage-point higher (8.10 percent) than the current rate:

	1% Decrease (6.10%)	Current Discount Rate (7.10%)	1% Increase (8.10%)
School's proportionate share of the net pension liability	\$ 700,379	\$ 386,963	\$ 126,755

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

HIS Pension Plan

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

Benefits Provided. For the fiscal year ended June 30, 2017, eligible retirees and beneficiaries received a monthly HIS payment of \$5 for each year of creditable service completed at the time of retirement, with a minimum HIS payment of \$30 and a maximum HIS payment of \$150 per month, pursuant to Section 112.363, Florida Statutes. To be eligible to receive a HIS Plan benefit, a retiree under a State-administered retirement system must provide proof of health insurance coverage, which may include Medicare.

Contributions. The HIS Plan is funded by required contributions from FRS participating employers as set by the Florida Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the fiscal year ended June 30, 2017, the contribution rate was 1.66 percent of payroll pursuant to section 112.363, Florida Statutes. The School contributed 100 percent of its statutorily required contributions for the current and preceding year. HIS Plan contributions are deposited in a separate trust fund from which payments are authorized. HIS Plan benefits are not guaranteed and are subject to annual legislative appropriation. In the event the legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or canceled.

The School's contributions to the HIS Plan totaled \$11,541 for the fiscal year ended June 30, 2018.

The James Madison Preparatory High School, Inc.
Notes to the Financial Statements

NOTE 9 – FLORIDA RETIREMENT SYSTEM (FRS) – Defined Benefit Pension Plan (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2018, the School reported a net pension liability of \$250,500 for its proportionate share of the HIS Plan's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2017.

The School's proportionate share of the net pension liability was based on the School's 2016-17 fiscal year contributions relative to the total 2016-17 fiscal year contributions of all participating members. At June 30, 2017, the School's proportionate share was .002342772 percent, which was an increase of .000863753 percent from its proportionate share measured as of June 30, 2016.

For the fiscal year ended June 30, 2018, the School recognized pension expense of \$49,631. In addition, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 522
Change in assumptions	35,213	21,661
Net difference between projected and actual earnings on HIS pension plan investments	139	-
Changes in proportion and differences between School HIS contributions and proportionate share of contributions	157,847	-
School HIS contributions subsequent to the measurement date	11,541	-
Total	\$ 204,740	\$ 22,183

The deferred outflows of resources totaling \$11,541, resulting from School contributions to the HIS Plan subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending June 30,	Amount
2019	\$ 4,105
2020	4,079
2021	4,066
2022	3,048
2023	1,202
Thereafter	(3,332)

The James Madison Preparatory High School, Inc.
Notes to the Financial Statements

NOTE 9 – FLORIDA RETIREMENT SYSTEM (FRS) – Defined Benefit Pension Plan (Continued)

Actuarial Assumptions. The total pension liability in the July 1, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60 percent
Salary Increases	3.25 percent, average, including inflation
Municipal Bond Rate	3.58 percent

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

The actuarial assumptions used in the July 1, 2017 valuation were based on certain results of the most recent experience study for the FRS plan.

Discount Rate. The discount rate used to measure the total pension liability was 3.58 percent. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the HIS Plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable municipal bond index.

Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the School's proportionate share of the net pension liability calculated using the discount rate of 3.58 percent, as well as what the School's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.58 percent) or 1 percentage point higher (4.58 percent) than the current rate:

	1% Decrease (2.58%)	Current Discount Rate (3.58%)	1% Increase (4.58%)
School's proportionate share of the net pension liability	\$ 285,854	\$ 250,500	\$ 221,052

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

NOTE 10 – RELATED PARTY TRANSACTIONS

The School has significant transactions with the James Madison Preparatory High School Foundation, Inc. ("Foundation"). The Foundation's sole purpose is to provide financial support and oversight to the School. The Foundation's Board Members are the same as the School's. The Financial Statements of the Foundation are not audited and no procedures were performed by Buescher and Company, LLC regarding the Foundation. See below for a summary of transactions with the Foundation and other related parties for fiscal year 2018.

Line of credit balance from the Foundation, no interest or maturity, for operating expenses	7,400
Line of credit balance from the Foundation, interest charged at prime +1% 6.00% at June 30, 2018), due within 30 days, for payroll and operating expenses	18,000
Expenses paid to the Foundation	
Property rent	48,000

The James Madison Preparatory High School, Inc.
Notes to the Financial Statements

NOTE 11 – CHANGES IN LONG-TERM LIABILITIES

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Due in One Year</u>
Governmental Activities:					
Loan from Foundation	\$ 49,400	\$ -	\$ (42,000)	\$ 7,400	\$ 6,000
Net Pension Liability	<u>418,227</u>	<u>219,236</u>	<u> </u>	<u>637,463</u>	<u> </u>
Total Governmental Activities	<u>\$ 467,627</u>	<u>\$ 219,236</u>	<u>\$ (42,000)</u>	<u>\$ 644,863</u>	<u>\$ 6,000</u>

NOTE 12 – FUTURE PAYMENTS OF LONG-TERM LIABILITIES

The following is a summary of future minimum payments as required by the terms of the line of credit from the Foundation. The James Madison Preparatory High School Foundation, Inc. (a related party) issued a non-interest bearing line of credit to the School for operating expenses. As of June 30, 2018, the balance of the liability was \$7,400. Future minimum payments are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 6,000
2020	<u>1,400</u>
Total	<u>\$ 7,400</u>

NOTE 13 – RENTAL PAYMENTS

Rental payments for the prior two years were as follows:

<u>Payment Type</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Minimum Rental Payments	\$ 55,953	\$ 53,002
Contingent Amounts	<u>18,000</u>	<u>18,000</u>
Total	<u>\$ 73,953</u>	<u>\$ 71,002</u>

NOTE 14 – CUSTODIAL CREDIT RISK

In the case of deposits, this is the risk that in the event of a bank failure, the School's deposits may not be returned to the School. The School does not have a custodial credit risk policy. Deposits on hand at financial institutions are insured by the Federal Deposit Insurance Company (FDIC) up to \$250,000. As of June 30, 2018, the School was not exposed to custodial credit risk.

NOTE 15 – SUBSEQUENT EVENTS

The School performed an evaluation of subsequent events through January 11, 2019, which is the date the financial statements were issued, noting no additional events which affect the financial statements as of June 30, 2018.

The James Madison Preparatory High School, Inc.
Required Supplementary Information

Budgetary Comparison Schedule – General Fund (Unaudited)
For the Fiscal Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance with Final
Revenues				
State Revenue:				
Florida Education Finance Program	\$ 1,209,471	\$ 1,144,521	\$ 1,142,064	\$ (2,457)
Other State Revenue	50,000	32,633	39,884	7,251
Local Revenue:				
Local Revenue	51,900	142,313	144,222	1,909
Total Revenue	1,311,371	1,319,467	1,326,170	6,703
Expenditures and Changes in Fund Balances				
Current Expenditures:				
Instructional	653,333	655,034	656,651	1,617
Instructional Support Services	123,867	125,962	116,203	(9,759)
General Support	496,815	479,585	490,850	11,265
Community Support	10,000	10,000	10,000	-
Interest Payments	-	1,500	1,131	(369)
Total Expenditures	1,284,015	1,272,081	1,274,835	2,754
Excess (Deficiency) of Revenues Over/ (Under) Expenditures	30,356	47,386	51,335	3,949
Other Financing Sources (Uses):				
Loans from / (Payments to) Foundation, net	(42,000)	(42,000)	(42,000)	-
Transfers In/Out	-	-	-	-
Total Other Financing Sources (Uses)	(42,000)	(42,000)	(42,000)	-
Increase (Decrease) in Fund Balance	(11,644)	5,386	9,335	3,949
Fund Balances, July 1, 2017	(54,981)	(54,981)	(54,981)	-
Fund Balances, June 30, 2018	\$ (66,625)	\$ (49,595)	\$ (45,646)	\$ 3,949

The James Madison Preparatory High School, Inc.
Required Supplementary Information

Schedule of Proportionate Share of Net Pension Liability
Florida Retirement System (FRS)

	<u>As of 6/30/17</u>	<u>As of 6/30/16</u>	<u>As of 6/30/15</u>	<u>As of 6/30/14</u>
Proportion of the net pension liability / (asset)	.001308220%	.000973673%	.000572798%	.000171596%
Proportionate share of the net pension liability / (asset)	\$ 386,963	245,853	\$ 73,985	\$ 10,470
Covered-employee payroll	\$ 694,127	517,998	\$ 224,070	\$ 134,317
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	55.75%	47.46%	33.02%	7.79%
Plan fiduciary net position as a percentage of the total pension liability	83.89%	84.88%	92.00%	6.09%

The James Madison Preparatory High School, Inc.
Required Supplementary Information

Schedule of Contributions
Florida Retirement System (FRS)

	<u>As of 6/30/18</u>	<u>As of 6/30/17</u>	<u>As of 6/30/16</u>	<u>As of 6/30/15</u>
Contractually required contribution	\$ 35,206	\$ 34,056	\$ 23,745	\$ 13,965
Contributions in relation to the contractually required contribution	\$ <u>(35,206)</u>	\$ <u>(34,056)</u>	\$ <u>(23,745)</u>	\$ <u>(13,965)</u>
Contribution deficiency / (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Covered-employee payroll	695,112	694,127	517,998	224,070
Contributions as a percentage of covered-employee payroll	5.06%	4.91%	4.58%	6.23%
	<u>As of 6/30/14</u> <u>(Note 1)</u>			
Contractually required contribution	\$ 3,759			
Contributions in relation to the contractually required contribution	\$ <u>(3,759)</u>			
Contribution deficiency / (excess)	<u>-</u>			
Covered-employee payroll	134,317			
Contributions as a percentage of covered-employee payroll	2.80%			

The James Madison Preparatory High School, Inc.
Required Supplementary Information

Schedule of Proportionate Share of Net Pension Liability
Health Insurance Subsidy Program (HIS)

	<u>As of 6/30/17</u>	<u>As of 6/30/16</u>	<u>As of 6/30/15</u>	<u>As of 6/30/14</u>
Proportion of the net pension liability / (asset)	.002342772%	.001479019%	.000758359%	.000297960%
Proportionate share of the net pension liability / (asset)	\$ 250,500	\$ 172,374	\$ 77,341	\$ 27,860
Covered-employee payroll	\$ 694,127	\$ 517,998	\$ 224,070	\$ 134,317
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	36.09%	33.28%	34.52%	20.74%
Plan fiduciary net position as a percentage of the total pension liability	1.64%	0.97%	0.50%	0.99%

The James Madison Preparatory High School, Inc.
Required Supplementary Information

Schedule of Contributions
Health Insurance Subsidy Program (HIS)

	<u>As of 6/30/18</u>	<u>As of 6/30/17</u>	<u>As of 6/30/16</u>	<u>As of 6/30/15</u>
Contractually required contribution	\$ 11,541	\$ 12,399	\$ 7,581	\$ 2,899
Contributions in relation to the contractually required contribution	\$ <u>(11,541)</u>	\$ <u>(12,399)</u>	\$ <u>(7,581)</u>	\$ <u>(2,899)</u>
Contribution deficiency / (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Covered-employee payroll	695,112	694,127	517,998	224,070
Contributions as a percentage of covered-employee payroll	1.66%	1.79%	1.46%	1.29%
	<u>As of 6/30/14</u> <u>(Note 1)</u>			
Contractually required contribution	\$ 1,021			
Contributions in relation to the contractually required contribution	\$ <u>(1,021)</u>			
Contribution deficiency / (excess)	<u>-</u>			
Covered-employee payroll	134,317			
Contributions as a percentage of covered-employee payroll	0.76%			

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

Board of Directors
The James Madison Preparatory High School, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, the aggregate remaining fund information of The James Madison Preparatory High School, Inc. (School), a component unit of the District School Board of Madison County, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated January 11, 2019.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency. We consider item 2015-01 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2018-01.

The School's Response to Findings

The School's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The School's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Buescher & Company, LLC

Buescher & Company, LLC

Madison, Florida
January 11, 2018

Prior Year - Unresolved

2015-01 – Cash receipts do not tie to general ledger

Condition: In our testing, we noted several instances of cash receipts not matching the deposits in the bank statement and general ledger entry. Findings occurred in lunch cash receipts. In each instance, the amount deposited in the bank and entered in the general ledger was greater than the amount accounted for in pre-numbered receipts.

Criteria: The School's management is responsible for designing and maintaining internal controls that provide assurance transactions are processed according to established procedures. The James Madison Preparatory High School Accounting and Business Policy Manual Chapter III, Section A.3 states, "Only board-authorized individuals will collect cash and pre-numbered receipts will be used when the funds are collected."

Cause: Lack of implementation of adequate internal controls over cash receipts.

Effect: Reporting on the School's financial position and results of operations could be misstated. School is not following policy that requires cash deposits to be substantiated with pre-numbered receipts.

Recommendation: In order to ensure proper inclusion of cash receipts, School's management should ensure the proper procedure for issuing receipts is followed. Personnel performing bank reconciliations should review receipts pertaining to the deposits in the bank statement.

Management Response: Only the office manager is allowed to receive lunch payments and issue receipts. Receipts will be reviewed by the person performing bank reconciliations at least monthly.

Current Year

2018-01 – Capital assets lack identification tags

Condition: In our testing, we noted two instances where assets did not have the appropriate identification tags.

Criteria: JMPHS Accounting and Business Policy Manual Chapter VII Section A.7 states, "All assets will be marked or tagged with ownership identification labels that include the following: Property of Madison County School District, James Madison Preparatory High School, Serial/Inventory ID Number."

Cause: Both of the assets lacking identification tags were purchased during the 2018 school year, and not appropriately tagged.

Effect: School is not in compliance with policy. Risk of loss through misappropriation is increased.

Recommendation: School should tag the assets identified during the audit and continue to apply identification tags to assets when purchased.

Management Response: The items identified have been tagged. All fixed assets requiring identification tags are required will be tagged when items are received.

**MANAGEMENT LETTER AS REQUIRED BY THE RULES OF THE FLORIDA AUDITOR GENERAL,
CHAPTER 10.850, FLORIDA STATUTES, CHARTER SCHOOL AUDITS**

Board of Directors
The James Madison Preparatory High School, Inc.

Report on the Financial Statements

We have audited the basic financial statements of The James Madison Preparatory High School, Inc. (School), a charter school and component unit of the District School Board of Madison County, Florida, as of and for the fiscal year ended June 30, 2018, and have issued our report thereon dated January 11, 2019.

Other Reports and Schedules

We have issued our independent auditor's report on compliance and on internal control over financial reporting based on an audit of the financial statements performed in accordance with *Government Auditing Standards* dated January 11, 2019. Disclosures in that report, if any, should be considered in conjunction with this management letter.

Auditors' Responsibility

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. In addition, our audit was conducted in accordance with provisions of Chapter 10.850, Rules of the Auditor General, which govern the conduct of charter school audits performed in the State of Florida and require certain items be addressed in this letter.

Prior Audit Findings

The Rules of the Auditor General (Section 10.854(1)(e)1.), require that we comment as to whether corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report. Corrective action has been taken to address prior year significant findings; however one audit finding identified in the prior year audit recurred in the current year (see finding 2015-01 in the Schedule of Audit Findings and Responses).

Financial Condition

The Rules of the Auditor General (Section 10.854(1)(e)2.), require that we make a statement as to whether or not the School has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific conditions met. In connection with our audit, we determined that the School did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Pursuant to Sections 10.854(1)(e)6.a. and 10.855(12), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the School's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by management.

Transparency

Sections 10.854(1)(e)7 and 10.855(13), Rules of the Auditor General, require that we apply appropriate procedures to determine whether The James Madison Preparatory High School, Inc. maintains on its website the information specified in Section 1002.33(9)(p), Florida Statutes. In connection with our audit, we determined that The James Madison Preparatory High School, Inc. maintained on its website the information specified in Section 1002.33(9)(p), Florida Statutes.

Other Matters

The Rules of the Auditor General (Section 10.854(1)(e)3.) requires we address in the management letter any recommendations to improve financial management. In connection with the audit, we did not have any such recommendations.

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

Official Title

The Rules of the Auditor General (Section 10.854(1)(e)5.), require we disclose the name or official title of the school or center. The School's official name is The James Madison Preparatory High School, Inc.

Purpose of this Letter

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

Buescher & Company, LLC

Buescher & Company, LLC

Madison, Florida
January 11, 2019