

**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, 2016**

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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, 2016, 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, 2016, 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**

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 14, 2017, 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

Madison, Florida  
January 14, 2017

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

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## **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, 2016. 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 17-29.

## **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 is Madison County's first charter high school (and currently only charter school) and was created to provide a public education option for parents and students that did not exist. Opening in August 2013 with a 9<sup>th</sup> grade class of 40 students, JMPHS will add a grade each year until the school serves 9<sup>th</sup> – 12<sup>th</sup> graders with a maximum capacity of 200 students (50 students in each grade). Operations grew significantly in the third year with 141 students in 9<sup>th</sup> – 11<sup>th</sup> grades with seven full-time instructors; two part-time instructors; two school administrators, who also served as part-time instructors; administrative assistant; and guidance counselor.

## **Financial Highlights**

- For the fiscal year ended June 30, 2016, the School's expenses exceeded revenues as shown in the School's statement of activities by \$61,084.
- As shown on the statement of net position, the School's total net position was \$17,234.

## **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 the following funds: a General Fund, which accounts for general operations and internal account activities and a Special Revenue Fund, which accounts for Federal grant programs. 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 to the school in its third year of operations.

*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, 2016 and 2015.

	<b>Net Position, End of Year Governmental Activities <u>June 30, 2015</u></b>	<b>Net Position, End of Year Governmental Activities <u>June 30, 2016</u></b>
<b>Assets</b>		
Current & Other Assets	\$ 7,627	\$ 5,812
Capital Assets, Net	96,086	95,974
Total Assets	103,713	101,786
<b>Deferred Outflows</b>		
Deferred Outflows related to Pensions	66,870	177,461
<b>Liabilities</b>		
Current Liabilities	28,422	28,366
Long-term Liabilities	45,730	214,226
Total Liabilities	74,152	242,592
<b>Deferred Inflows</b>		
Deferred Inflows related to Pensions	18,113	19,421
<b>Net Position</b>		
Net Investment in Capital Assets	96,086	95,974
Unrestricted	(17,768)	(78,740)
Total Net Position	\$ 78,318	\$ 17,234

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

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 \$17,234 as of June 30, 2016, which included an unrestricted net position of (\$78,740). This net position is a decrease of \$60,972 over prior year operations. The primary reason for this decrease is the reduction of grant funds from prior year coupled with a 62% increase in enrollment. The increase in students required additional increases in non-capitalized furniture, computers, and complementary equipment and in curriculum materials. Because grant funds were no longer available for these purchases, the school incurred additional debt to cover the costs thus increasing long-term liabilities.

The key elements of changes in the School's net position as of June 30, 2016 and 2015 are as follows:

	<b>Operating Results for the Year</b> <u>Governmental Activities</u> <u>June 30, 2015</u>	<b>Operating Results for the Year</b> <u>Governmental Activities</u> <u>June 30, 2016</u>
<b>Revenues:</b>		
Federal through State & Local	\$ 172,064	\$ -
State Sources	503,222	824,210
Local & Other	52,365	45,189
<b>Total Revenues</b>	<u>727,651</u>	<u>869,399</u>
<b>Expenses:</b>		
Instruction	328,715	502,611
Support Services	17,039	59,705
General Support	333,543	368,167
<b>Total Expenses</b>	<u>679,297</u>	<u>930,483</u>
<b>Increase (Decrease) in Net Position</b>	<u>\$ 48,354</u>	<u>\$ (61,084)</u>

The School's largest source of revenue was the State of Florida (95%), primarily received through Florida Education Finance Program (FEFP). The significant increase in state revenue was due to the 62% increase in the number of students attending the School in 2015-16.

Concentration of expenses was primarily split between General Support (40%) and Instruction (54%). General Support consisted of administration and operations expenses, including rent expense as the School did not receive State Capital Outlay funding. 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 due to the 62% increase in the number of students attending the School in 2015-16. Increases in instruction expenses were primarily due to increases in instructional salaries and benefits resulting from increases in instructional staff. Increases in support services expenses and in general support expenses were also primarily due to increases in administrative staff salaries.

**Financial Analysis of School's Funds**

The governmental funds reported a combined fund balance of (\$22,554) as of June 30, 2016, a decrease of \$1,759 from the prior year.

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

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## **Financial Analysis of School's Fiduciary Funds**

The fiduciary funds reported a net position of \$2,201 as of June 30, 2016, an increase of \$4,230 from the prior year.

## **Budgetary Highlights**

The budget for the General Fund developed for 2015-16 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 May 2016 and not amended the remainder of the year.

Overall, the School was over-budget for revenues and under-budget for expenses. State revenue was higher than projected due to changes in full-time enrollment (FTE) calculations in June 2016. The School also received unanticipated revenue from local sources. 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, 2016, were \$95,974 (net of accumulated depreciation). Thus, capital assets remained relatively constant from prior year. This lack of significant change 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 Finance Coordinator, James Madison Preparatory High School, 176 NW Crane Ave., Madison, Florida 32340.

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

Government-Wide Financial Statements  
June 30, 2016

<b>Assets</b>	
Current assets	
Cash and cash equivalents	\$ 1,160
Accounts receivable	532
Other current assets	1,118
Due from internal service funds	3,002
Total current assets	5,812
Capital assets, net	
Building and equipment	4,833
Furniture, fixtures, and equipment	79,120
Audio visual materials	11,553
Software	468
Total capital assets, net	95,974
Total assets	101,786
<b>Deferred outflows of resources</b>	
Deferred outflows related to pensions	177,461
Total deferred outflows of resources	177,461
<b>Liabilities</b>	
Current liabilities	
Accounts payable	14,064
Accrued expenses	8,302
Due to the Foundation	6,000
Total current liabilities	28,366
Long-term liabilities	
Net Pension Liability	151,326
Due to the Foundation	62,900
Total long-term liabilities	214,226
Total liabilities	242,592
<b>Deferred inflows of resources</b>	
Deferred inflow related to pensions	19,421
Total deferred inflows of resources	19,421
<b>Net position</b>	
Invested in capital assets, net of related debt	95,974
Unrestricted	(78,740)
Total net position	\$ 17,234

See accompanying notes to financial statements

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

Government-Wide Financial Statements  
Year ended June 30, 2016

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	\$ (502,611)	\$ -	\$ -	\$ -	\$ (502,611)
Support services	(59,705)	-	-	-	(59,705)
General support	(368,167)	26,299	-	-	(341,868)
<b>Total Governmental Activities</b>	<b>\$ (930,483)</b>	<b>\$ 26,299</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (904,184)</b>

**General Revenues:**

State Revenue:

Florida Education Finance Program	\$ 807,863
School Recognition Funds	8,091
Best & Brightest Scholarship	8,256
Unrestricted Grants and Contributions	15,926
Unrestricted Invested Earnings	22
Unrestricted Other Operating	2,942
<b>Total General Revenues</b>	<b>843,100</b>
<b>Change in Net Position</b>	<b>(61,084)</b>
<b>Net Position – Beginning</b>	<b>78,318</b>
<b>Net Position – End</b>	<b>\$ 17,234</b>

See accompanying notes to financial statements

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

Fund Financial Statements  
June 30, 2016

	General Fund	Special Revenue Fund		Total Governmental Funds
<b>Assets</b>				
Current Assets				
Cash and cash equivalents	\$ 509	\$ 651	\$	1,160
Accounts receivable	532	-		532
Undeposited funds	1,118	-		1,118
Due from agency	3,002	-		3,002
<b>Total Assets</b>	<b>\$ 5,161</b>	<b>\$ 651</b>	<b>\$</b>	<b>5,812</b>
<b>Liabilities and fund balances</b>				
Current liabilities				
Accounts payable	\$ 14,064	\$ -	\$	14,064
Salaries and payroll tax payable	8,302	-		8,302
Due to Foundation	6,000	-		6,000
<b>Total liabilities</b>	<b>28,366</b>	<b>-</b>		<b>28,366</b>
Fund balance				
Committed	-	651		651
Spendable, unassigned	(23,205)	-		(23,205)
<b>Total fund balances</b>	<b>(23,205)</b>	<b>651</b>		<b>(22,554)</b>
<b>Total liabilities and fund balances</b>	<b>\$ 5,161</b>	<b>\$ 651</b>	<b>\$</b>	<b>5,812</b>

Reconciliation to the Statement of Net Position

Total Fund Balances – Governmental Funds	\$ (22,554)
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	95,974
Deferred Outflows and Inflows of resources are not available in the current period and not reported in the governmental funds	158,040
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	(62,900)
Net Pension Liability	(151,326)
<b>Total Net Position – Governmental Activities</b>	<b>\$ 17,234</b>

See accompanying notes to financial statements

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

Fund Financial Statements  
Year ended June 30, 2016

	General Fund	Special Revenue Fund	Total Governmental Funds
<b>Revenue</b>			
State sources	\$ 824,210	\$ -	\$ 824,210
Gifts, grants, bequests	15,702	-	15,702
Student lunches	26,299	-	26,299
Other school fees	2,942	-	2,942
Investment Income	22	-	22
Foundation revenue	225	-	225
<b>Total revenue</b>	<b>869,400</b>	<b>-</b>	<b>869,400</b>
<b>Instruction Expenses</b>			
Salaries	340,816	-	340,816
Additions to Teacher Salaries	8,335	-	8,335
Teacher FRS	24,475	-	24,475
Teacher FICA	26,621	-	26,621
Teacher worker's compensation	1,249	-	1,249
Teacher unemployment taxes	2,321	-	2,321
Instructional stipends	1,325	-	1,325
Instructional professional services	6,803	-	6,803
Subscriptions	19,471	-	19,471
Supplies	6,118	-	6,118
Textbooks	25,573	-	25,573
Travel	1,750	-	1,750
Other equipment & supplies	5,310	-	5,310
Noncapital furniture, fixtures & equipment	5,220	-	5,220
Noncapital computer hardware	3,899	-	3,899
Noncapital computer software	3,823	-	3,823
Other teacher services	16,026	-	16,026
Instruction miscellaneous	1,006	-	1,006
Instruction capital outlay	21,561	-	21,561
<b>Total instruction expenses</b>	<b>521,702</b>	<b>-</b>	<b>521,702</b>

See accompanying notes to financial statements

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

**Support Services Expense**

Guidance services	35,667	-	35,667
Guidance payroll taxes	2,916	-	2,916
Guidance FRS	2,589	-	2,589
Guidance worker's compensation	107	-	107
Media other supplies	36	-	36
Teacher training	2,201	-	2,201
Technology professional services	15,232	-	15,232
Travel & conferences	696	-	696
Total support services expense	59,444	-	59,444

**Administrative Expenses**

Administration salaries	109,892	-	109,892
Administration FRS	8,059	-	8,059
Administration FICA	8,554	-	8,554
Administration worker's compensation	727	-	727
Administration unemployment taxes	906	-	906
Administration professional services	10,623	-	10,623
Administration travel	380	-	380
Administration rentals	1,399	-	1,399
Administration purchased services	4,192	-	4,192
Administration office supplies	4,481	-	4,481
Other administration	1,917	-	1,917
Administration noncapital expense	608	-	608
Administration miscellaneous expense	1,348	-	1,348
Dues and fees	2,990	-	2,990
Board professional services	6,750	-	6,750
Board purchased services	735	-	735
Judgments and settlements	2,500	-	2,500
Fiscal services salaries	12,000	-	12,000
Fiscal services FRS	871	-	871
Fiscal services FICA	918	-	918
Fiscal services unemployment taxes	171	-	171
Professional services	7,259	-	7,259

See accompanying notes to financial statements

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

**Administration Expenses (Cont.)**

Food service expenses	36,062	-	36,062
Food service other	737	-	737
Food service supplies	251	-	251
IS purchased services	(229)	564	335
IS supplies	623	-	623
IS miscellaneous	70	-	70
Transportation other	17,048	-	17,048
Operations salaries	10,875	-	10,875
Operations FRS	790	-	790
Operations FICA	832	-	832
Operations unemployment taxes	201	-	201
Operations supplies	4,705	-	4,705
Operations noncapital equipment	402	-	402
Property and liability insurance	5,485	-	5,485
Property repairs and maintenance	5,727	-	5,727
Property rentals	49,392	-	49,392
Property telephone	4,175	-	4,175
Property water	1,337	-	1,337
Property purchased services	4,785	-	4,785
Property electricity	12,069	-	12,069
Noncapital renovation & remodel	850	-	850
Administrative capital outlay	1,480	-	1,480
Debt service principal payments	12,000	-	12,000
Total administration expense	356,947	564	357,511
Excess(Deficiency) of Revenues			
Over/(Under) Expenditures	(68,693)	(564)	(69,257)

See accompanying notes to financial statements

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

Other Financing Sources (Uses):			
Loans from Foundation	67,500	-	67,500
Transfers In	1,130	933	2,063
Transfers Out	(1,130)	(933)	(2,063)
<b>Total Other Financing Sources (Uses):</b>	<b>67,500</b>	<b>-</b>	<b>67,500</b>
<b>Increase (Decrease) in Fund Balance</b>	<b>(1,193)</b>	<b>(564)</b>	<b>(1,757)</b>
<b>Fund Balance – beginning of the year</b>	<b>(25,183)</b>	<b>4,388</b>	<b>(20,795)</b>
<b>Fund Balance – end of the year</b>	<b>\$ (26,376)</b>	<b>\$ 3,824</b>	<b>\$ (22,552)</b>

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, 2016*

<b>Net Change in Fund Balances – Governmental Funds</b>	<b>\$ (1,757)</b>
Amounts reported for governmental activities in the statement of activities are different because:	
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. Depreciation expense (\$23,153) is in excess of capital outlays (\$23,041) in the current period.	(112)
Loans from the Foundation reported as other financing sources in Governmental Funds and as long-term liabilities in the Statement of Net Position	(67,500)
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.	12,000
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:	
Pension Expense (calculated for net pension liability)	(35,041)
Pension contributions made subsequent to the pension liability measurement date of 6/30/15	<u>31,326</u>
<b>Change in Net Position – Governmental Activities</b>	<b>\$ <u>(61,084)</u></b>

See accompanying notes to financial statements

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

Fiduciary Activities  
June 30, 2016

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**Assets**

Current assets

Cash and cash equivalents	\$	5,204
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Total current assets		5,204
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Total assets	\$	5,204
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**Liabilities and net position**

Current liabilities

Due to general fund	\$	3,003
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Total current liabilities		3,003
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Total liabilities		3,003
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Net position

Unrestricted		2,201
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Total net position		2,201
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Total liabilities and net position	\$	5,204
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See accompanying notes to financial statements

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

Fiduciary Activities  
Year ended June 30, 2016

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**Receipts**

11 <sup>th</sup> Grade	\$	11,053
Beta		3,719
Biology Department		270
Breakfast Club		452
Chemistry Department		174
Chorus		2,018
Community Outreach		37
FFA		2,175
History Department		4,136
Music		31
PTO		3,094
Tech Student Association		210
Yearbook		3,544
<hr/>		
Total fiduciary receipts		<hr/> 30,913 <hr/>

**Disbursements**

11 <sup>th</sup> Grade		9,663
Beta		2,078
Biology Department		270
Breakfast Club		452
Chemistry Department		174
Chorus		1,827
FFA		2,152
History Department		3,939
PTO		3,156
SSTRIDE		410
Tech Student Association		110
Yearbook		2,451
<hr/>		
Total fiduciary disbursements		<hr/> 26,682 <hr/>

<b>Increase in net position</b>		4,231
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<b>Net position - beginning of year</b>		(2,030)
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<b>Net position - end of year</b>	\$	2,201
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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, 2018. 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)**

- Special Revenue Fund – to account for all financial resources for the items purchased by the School with the Public Charter School Program Grant.

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 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.

***Recently Issued Accounting Principles***

Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions was effective for fiscal years beginning after June 15, 2014. The School participates in the Florida Retirement System (FRS) defined benefit pension plan and the Health Insurance Subsidy (HIS) defined benefit plan administered by Florida Division of Retirement. As a participating employer, the School implemented GASB Statement No. 68, beginning with its 2014-15 fiscal year. GASB Statement No. 68 requires employers participating in cost-sharing multiple-employer defined benefit pension plans to report the employers' proportionate share of the net pension liabilities and related pension amounts of the defined benefit pension plans.

Accounting changes related to the implementation of GASB Statement No. 68 are discussed in a subsequent note.

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

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***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.

***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 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
Building and Equipment	39 years

***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 1800.142, *Fund Balance Reporting and Governmental Fund Type Definitions*, 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.

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

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

- 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.

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 Florida School Recognition Program pursuant to Section 1008.36, Florida Statutes, and through the Best and Brightest Teacher Scholarship Program pursuant to Section 1012.731, 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.

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

**NOTE 2 – CAPITAL ASSETS**

The following schedule provides a summary of changes in capital assets, acquired substantially with public funds, for the period ended June 30, 2016:

	Beginning	Additions	Retirements	Ending
Capital assets not being depreciated				
Donated property	\$ 12,839	\$ -	\$ -	\$ 12,839
Capital assets being depreciated				
Buildings and fixed equipment	5,174	-	-	5,174
Furniture, fixtures and equipment	80,482	23,041	-	103,523
Software & licenses	1,295	-	-	1,295
Audio visual equipment	21,191	-	-	21,191
<b>Total capital assets</b>	<b>120,981</b>	<b>23,041</b>	<b>-</b>	<b>144,022</b>
Less accumulated depreciation for:				
Buildings and fixed equipment	(212)	(129)	-	(341)
Furniture, fixtures and equipment	(18,888)	(18,354)	-	(37,242)
Software & licenses	(396)	(432)	-	(828)
Audio visual equipment	(5,399)	(4,238)	-	(9,637)
<b>Total accumulated depreciation</b>	<b>(24,895)</b>	<b>(23,153)</b>	<b>-</b>	<b>(48,048)</b>
<b>Total capital assets - net</b>	<b>\$ 96,086</b>	<b>\$ (112)</b>	<b>\$ -</b>	<b>\$ 95,974</b>

Unallocated depreciation expense for the year ended June 30, 2016 was \$23,153.

**NOTE 3 – OPERATING LEASES**

The School rents the educational facility from the Foundation, a related party, for \$2,500 per month. The lease is for 5 years, commencing on August 31, 2013, and ending July 31, 2018. 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 8 – Related Party Transactions for rent payments in the current fiscal year.

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

Fiscal year ending June 30,	Amount
2017	\$ 30,000
2018	30,000
2019	2,500
Total Minimum Lease Payments	<u>\$ 62,500</u>

**NOTE 4 – 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 made a payment of \$2,500 in connection to a claim on this coverage in fiscal year 2016. The School recognizes no liabilities in relation to these claims existing at the end of fiscal year 2016.

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

**NOTE 5 – 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, 2016 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 6 – 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 7 – 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](http://www.dms.myflorida.com)).

The School's pension expense totaled \$35,041 for the fiscal year ended June 30, 2016.

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

**NOTE 7 – FLORIDA RETIREMENT SYSTEM (FRS) – Defined Benefit Pension Plan (Continued)**

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>
<b><i>Regular Class members initially enrolled before July 1, 2011</i></b>	
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
<b><i>Regular Class members initially enrolled on or after July 1, 2011</i></b>	
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

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 2015-16 fiscal year were as follows:

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

**NOTE 7 – FLORIDA RETIREMENT SYSTEM (FRS) – Defined Benefit Pension Plan (Continued)**

Class	Percent of Gross Salary	
	Employee	Employer (A)
FRS, Regular	3.00	7.26
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 0.04 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 \$42,467 for the fiscal year ended June 30, 2016.

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.* At June 30, 2016, the School reported a liability of \$73,985 for its proportionate share of the Plan's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015. The School's proportionate share of the net pension liability was based on the School's 2015-16 fiscal year contributions relative to the 2014-15 fiscal year contributions of all participating members. At June 30, 2015, the School's proportionate share was .000572798 percent, which was an increase of .000401202 percent from its proportionate share measured as of June 30, 2014. For the fiscal year ended June 30, 2016, the School recognized pension expense of \$19,913. 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	\$ 7,811	\$ 1,755
Change of assumptions	4,911	-
Net difference between projected and actual earnings on FRS pension plan investments	-	17,666
Changes in proportion and differences between School FRS contributions and proportionate share of contributions	72,818	-
School FRS contributions subsequent to the measurement date	23,745	-
<b>Total</b>	<b>\$ 109,285</b>	<b>\$ 19,421</b>

The deferred outflows of resources related to pensions, totaling \$23,745, 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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

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

**NOTE 7 – FLORIDA RETIREMENT SYSTEM (FRS) – Defined Benefit Pension Plan  
(Continued)**

Fiscal Year Ending June 30,	Amount
2017	\$ (5,853)
2018	(5,853)
2019	(5,853)
2020	8,722
2021	1,694
Thereafter	442

*Actuarial Assumptions.* The total pension liability in the July 1, 2015 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 7.65 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, 2015, 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%	1.7%
Fixed Income	18%	4.7%	4.6%	4.6%
Global Equity	53%	8.1%	6.8%	17.2%
Real Estate	10%	6.4%	5.8%	12.0%
Private Equity	6%	11.5%	7.8%	30.0%
Strategic Investments	12%	6.1%	5.6%	11.1%
Total	<u>100%</u>			

Assumed inflation - Mean 2.6% 1.90%

Note: (A) As outlined in the Plan's Investment policy and presented in the Plan's 2015-2016 CAFR

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

**NOTE 7 – FLORIDA RETIREMENT SYSTEM (FRS) – Defined Benefit Pension Plan (Continued)**

*Discount Rate.* The discount rate used to measure the total pension liability was 7.65 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.

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 7.65 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 (6.65 percent) or 1 percentage-point higher (8.65 percent) than the current rate:

	1% Decrease (6.65%)	Current Discount Rate (7.65%)	1% Increase (8.65%)
School's proportionate share of the net pension liability	\$ 191,711	\$ 73,985	\$ 23,983

*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.

*Amounts Payable to the Plan.* The School recognized outstanding payables to the Plan of \$8,302. This payable arose from legally required contributions due to service performed in fiscal year 2016.

**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, 2016, 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, 2016, 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 \$7,581 for the fiscal year ended June 30, 2016.

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

**NOTE 7 – 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, 2016, the School reported a net pension liability of \$77,341 for its proportionate share of the HIS Plan's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015.

The School's proportionate share of the net pension liability was based on the School's 2014-15 fiscal year contributions relative to the total 2014-15 fiscal year contributions of all participating members. At June 30, 2015, the School's proportionate share was .000758359 percent, which was an increase of .000460399 percent from its proportionate share measured as of June 30, 2014.

For the fiscal year ended June 30, 2016, the School recognized pension expense of \$15,128. 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	\$ -	\$ -
Change of assumptions	6,085	-
Net difference between projected and actual earnings on HIS pension plan investments	42	-
Changes in proportion and differences between School HIS contributions and proportionate share of contributions	54,468	-
School HIS contributions subsequent to the measurement date	7,581	-
Total	<u>\$ 68,176</u>	<u>\$ -</u>

The deferred outflows of resources totaling \$7,581, was related to pensions 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, 2016. 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
2017	\$ 1,060
2018	1,060
2019	1,060
2020	1,051
2021	1,047
Thereafter	849

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

**NOTE 7 – FLORIDA RETIREMENT SYSTEM (FRS) – Defined Benefit Pension Plan (Continued)**

*Actuarial Assumptions.* The total pension liability in the July 1, 2015, 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	3.80 percent

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

The actuarial assumptions used in the July 1, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2008, through June 30, 2013.

*Discount Rate.* The discount rate used to measure the total pension liability was 3.80 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 3.80 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 (2.80 percent) or 1 percentage point higher (4.80 percent) than the current rate:

	1% Decrease (2.80%)	Current Discount Rate (3.80%)	1% Increase (4.80%)
School's proportionate share of the net pension liability	\$ 88,130	\$ 77,341	\$ 68,347

*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 8 – 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 for fiscal year 2016.

Loan balance from the Foundation, no interest or maturity, for payroll and operating expenses	68,900
Expenses paid to the Foundation	
Property rent	48,000

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

**NOTE 9 – 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	\$ 13,400	\$ 67,500	\$ (12,000)	\$ 68,900	\$ 6,000
Net Pension Liability	<u>38,330</u>	<u>112,996</u>		<u>151,326</u>	
Total Governmental Activities	<u>\$ 51,730</u>	<u>\$ 180,496</u>	<u>\$ (12,000)</u>	<u>\$ 220,226</u>	<u>\$ 6,000</u>

**NOTE 10 – FUTURE PAYMENTS OF LONG-TERM LIABILITIES**

The following is a summary of future minimum payments as required by the terms of the loan 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, 2016, the balance of the liability was \$68,900. Future minimum payments are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2017	\$ 6,000
2018	6,000
2019	6,000
2020	6,000
2021	6,000
Thereafter	<u>38,900</u>
Total	<u>\$ 68,900</u>

**NOTE 11 – SUBSEQUENT EVENTS**

The School performed an evaluation of subsequent events through January 14, 2017, which is the date the financial statements were issued, noting no additional events which affect the financial statements as of June 30, 2016.

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

**Budgetary Comparison Schedule – General Fund (Unaudited)**  
For the Fiscal Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance with Final
<b>Revenues</b>				
<b>State Revenue:</b>				
Florida Education Finance Program	\$ 805,384	\$ 800,882	\$ 807,863	\$ 6,981
Other State Revenue	-	16,347	16,347	-
<b>Local Revenue:</b>				
Local Revenue	41,380	42,700	45,190	2,490
<b>Total Revenue</b>	<b>846,764</b>	<b>859,929</b>	<b>869,400</b>	<b>9,471</b>
<b>Expenditures and Changes in Fund Balances</b>				
<b>Current Expenditures:</b>				
Instructional	410,403	513,234	521,702	8,468
Instructional Support Services	40,227	55,356	59,444	4,088
General Support	439,437	374,924	356,947	(17,977)
<b>Total Expenditures</b>	<b>890,067</b>	<b>943,514</b>	<b>938,093</b>	<b>(5,421)</b>
<b>Excess (Deficiency) of Revenues Over/ (Under) Expenditures</b>	<b>(43,303)</b>	<b>(83,585)</b>	<b>(68,693)</b>	<b>14,892</b>
<b>Other Financing Sources (Uses):</b>				
Loans from Foundation	-	-	67,500	67,500
Transfers In/Out	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>-</b>	<b>67,500</b>	<b>67,500</b>
<b>Increase (Decrease) in Fund Balance</b>	<b>(43,303)</b>	<b>(83,585)</b>	<b>(1,193)</b>	<b>82,392</b>
<b>Fund Balances, July 1, 2015</b>	<b>(25,183)</b>	<b>(25,183)</b>	<b>(25,183)</b>	<b>-</b>
<b>Fund Balances, June 30, 2016</b>	<b>\$ (68,486)</b>	<b>\$ (108,768)</b>	<b>\$ (26,376)</b>	<b>\$ 82,392</b>

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

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

	As of 6/30/15 (Note 1)	As of 6/30/14 (Note 1)
Proportion of the net pension liability / (asset)	.000572798%	.000171596%
Proportionate share of the net pension liability / (asset)	\$ 73,985	\$ 10,470
Covered-employee payroll	\$ 224,070	\$ 134,317
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	33.02%	7.79%
Plan fiduciary net position as a percentage of the total pension liability (Note 2)	92.00%	96.09%

Note 1: GASB 68 requires information for 10 years. However, until a full 10-year trend is compiled, governments should present information for only those years for which information is available.

Note 2: The Plan's fiduciary net position as a percentage of the total pension liability is published in Note 4 of the Comprehensive Annual Financial Report.

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

**Schedule of Contributions**  
Florida Retirement System (FRS)

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

Note 1: GASB 68 requires information for 10 years. However, until a full 10-year trend is compiled, governments should present information for only those years for which information is available.

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

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

	As of 6/30/15 (Note 1)	As of 6/30/14 (Note 1)
Proportion of the net pension liability / (asset)	.000758359%	.000297960%
Proportionate share of the net pension liability / (asset)	\$ 77,341	\$ 27,860
Covered-employee payroll	\$ 224,070	\$ 134,317
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	34.52%	20.74%
Plan fiduciary net position as a percentage of the total pension liability (Note 2)	0.50%	0.99%

Note 1: GASB 68 requires information for 10 years. However, until a full 10-year trend is compiled, governments should present information for only those years for which information is available.

Note 2: The Plan's fiduciary net position as a percentage of the total pension liability is published in Note 4 of the Comprehensive Annual Financial Report.

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

**Schedule of Contributions**  
Health Insurance Subsidy Program (HIS)

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

Note 1: GASB 68 requires information for 10 years. However, until a full 10-year trend is compiled, governments should present information for only those years for which information is available.

**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, 2016, 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 14, 2017.

**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.

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 accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. No material weaknesses were discovered in our testing.

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. We consider the deficiency described in the accompanying schedule of findings and responses as 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 of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instance of noncompliance that is required to be reported under *Government Auditing Standards*.

### **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 14, 2017

**Prior Year - Unresolved**

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

**Condition:** In our testing, we noted several instances of cash receipts from lunch order sales not matching the lunch order spreadsheet and general ledger. We also noted an instance of agency fund cash receipts not matching the general ledger.

**Criteria:** The School's management is responsible for designing and maintaining internal controls that provide assurance transactions are processed according to established procedures. Relative to the internal (agency) funds, Florida Department of Education Red Book Chapter 8, Section III, Subsection 1.4 states, "All money collected by the school must be substantiated by pre-numbered receipts, consecutively numbered class receipt records, reports of monies collected, pre-numbered tickets, reports of tickets issued and sold, or other auditable records." Additionally, the James Madison Preparatory High School Board Policies 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.

**Recommendation:** In order to ensure proper inclusion of cash receipts, School's management should implement more stringent separation of duties and reconciliation policies. The cash receipts from lunch order sales should be reconciled with the bank deposits and subsequent general ledger posting at least on a weekly basis. The person collecting the cash, should not be the same person making the bank deposits. We recommend storing cash receipts in the locked safe and either the principal or business manager reviewing a weekly cash reconciliation with supporting paperwork and receipt copies, approving and making the bank deposit. Bank deposits must be made within five days of receipt to comply with Florida Redbook Statutes.

**Management Response:** All cash receipts are currently kept in a locked cabinet until deposited. Deposits are typically made within 5 days of all cash receipts, but additional steps will be taken to ensure these deposits are made in a timely manner to comply with Florida Redbook Statutes. Currently, the Administrative Assistant handles all cash receipts and write receipts. The Finance Coordinator records deposits and contacts Administrative Assistant when discrepancies between the amounts reported and the amounts deposited are discovered.

The School's Management will review this process and implement a system of reconciling cash receipts to the general ledger based on the recommendations presented in this report. Management will ensure that different persons collect cash receipts and make deposits and weekly cash reconciliations are conducted.

**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, 2016, and have issued our report thereon dated January 14, 2017.

**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 14, 2017. 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. did not maintain 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**

This letter is intended for the information and use of the School and its management, the District School Board of Madison County, Florida, the Florida Department of Education, the Florida Auditor General, and other granting agencies and is not intended to be and should not be used by anyone other than these specific parties.

*Buescher & Company, LLC*

Buescher & Company, LLC

Madison, Florida  
January 14, 2017