STATE OF FLORIDA AUDITOR GENERAL

Financial, Operational, and Federal Single Audit

Report No. 2016-132
March 2016

# MADISON COUNTY DISTRICT SCHOOL BOARD

For the Fiscal Year Ended
June 30, 2015

Sherrill F. Norman, CPA
Auditor General

## Board Members and Superintendent

During the 2014-15 fiscal year, K. Douglas Brown served as Superintendent and the following individuals served as Board members:

| | District No. |
|---|---|
| Fain Poppell to 11-17-14, Chair | 1 |
| Susie Williamson from 11-18-14 | 1 |
| Kenneth Hall, Vice Chair to 11-17-14, Chair from 11-18-14 | 2 |
| VeEtta L. Hagan, Vice Chair from 11-18-14 | 3 |
| Dr. Karen Pickles | 4 |
| Bart Alford | 5 |

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

The team leader was Tiffany R. Wilson and the audit was supervised by Cathy L. Bandy, CPA.

Please address inquiries regarding this report to Douglas R. Conner, CPA, Audit Supervisor, by e-mail at dougconner@aud.state.fl.us or by telephone at (850) 412-2730.

This report and other reports prepared by the Auditor General are available at:

www.myflorida.com/audgen

Printed copies of our reports may be requested by contacting us at:

**State of Florida Auditor General**

**Claude Pepper Building, Suite G74 • 111 West Madison Street • Tallahassee, FL 32399-1450 • (850) 412-2722**

**MADISON COUNTY DISTRICT SCHOOL BOARD**

**TABLE OF CONTENTS**


| | Page No. |
|---|---|
| SUMMARY | i |
| INDEPENDENT AUDITOR'S REPORT | |
| Report on the Financial Statements | 1 |
| Other Reporting Required by *Government Auditing Standards* | 3 |
| MANAGEMENT'S DISCUSSION AND ANALYSIS | 5 |
| BASIC FINANCIAL STATEMENTS | |
| Statement of Net Position | 13 |
| Statement of Activities | 14 |
| Balance Sheet – Governmental Funds | 16 |
| Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position | 18 |
| Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds | 20 |
| Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities | 22 |
| Statement of Fiduciary Assets and Liabilities – Fiduciary Funds | 23 |
| Notes to Financial Statements | 24 |
| OTHER REQUIRED SUPPLEMENTARY INFORMATION | |
| Budgetary Comparison Schedule – General and Major Special Revenue Funds | 52 |
| Schedule of Funding Progress – Other Postemployment Benefits Plan | 54 |
| Schedule of the District's Proportionate Share of the Net Pension Liability – Florida Retirement System Pension Plan | 54 |
| Schedule of District Contributions – Florida Retirement System Pension Plan | 54 |
| Schedule of the District's Proportionate Share of the Net Pension Liability – Health Insurance Subsidy Pension Plan | 55 |
| Schedule of District Contributions – Health Insurance Subsidy Pension Plan | 55 |
| Notes to Required Supplementary Information | 56 |
| SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS | 57 |
| INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* | 58 |

## MADISON COUNTY DISTRICT SCHOOL BOARD

### TABLE OF CONTENTS (CONTINUED)


| | Page No. |
|---|---|
| INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133 | 60 |
| SCHEDULE OF FINDINGS AND QUESTIONED COSTS | 62 |
| SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS | 74 |
| MANAGEMENT'S RESPONSE | 75 |

# SUMMARY

## SUMMARY OF REPORT ON FINANCIAL STATEMENTS

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

## SUMMARY OF REPORT ON INTERNAL CONTROL AND COMPLIANCE

Our audit did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. We noted a certain matter involving the District's internal control over financial reporting and its operation that we consider to be a significant deficiency, as summarized below. However, the significant deficiency is not considered to be a material weakness.

### Significant Deficiency

**Finding 1:** District financial reporting procedures need improvement to ensure that account balances and transactions are properly reported.

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

### Additional Matters

### Construction Administration

**Finding 2:** District personnel did not compare construction management entity (CME) amounts requested for payment to the costs in the CME guaranteed maximum price (GMP) contracts or to applicable subcontractor invoices, bids, and contracts.

**Finding 3:** District construction administration monitoring procedures did not ensure that construction services subcontracted by the CME were subject to competitive bid as required by the GMP contract provisions.

**Finding 4:** The District did not verify the licenses of subcontractors who worked on the two CME projects we reviewed.

**Finding 5:** The District had not established written policies or procedures addressing the methodology to be applied and factors to be considered during the negotiation process for CME general conditions costs.

**Finding 6:** Contrary to Florida Department of Education (FDOE) requirements, the District expended Capital Outlay and Debt Service funds on projects that were not listed on the District's project priority list, resulting in questioned costs totaling $117,280.

### Other Additional Matters

**Finding 7:** The Board has not established a documented process for identifying the instructional personnel entitled to differentiated pay using the factors prescribed in State law and has not adopted

salary schedules that specify the differentiated pay based on those factors. Similar findings were noted in our report Nos. 2014-112 and 2015-162.

**Finding 8:** As similarly noted in our report No. 2015-162, the District did not always timely perform required background screenings for applicable instructional and noninstructional employees and contractor workers.

**Finding 9:** Controls over virtual instruction program (VIP) operations and related activities could be enhanced by developing and maintaining comprehensive, written VIP policies and procedures.

**Finding 10:** The District's two VIP provider contracts did not include certain required and necessary provisions and District records did not evidence the basis upon which District personnel determined the reasonableness of the student-teacher ratios established in one FDOE-approved VIP provider contract.

**Finding 11:** District records did not evidence that VIP provider employees were subject to required background screenings.

**Finding 12:** District records did not evidence that timely, written notifications were provided to parents about student opportunities to participate in the District's VIP and open enrollment period dates.

**Finding 13:** Contrary to State law, the District did not offer part-time virtual instruction for kindergarten through grade 5 students.

**Finding 14:** District procedures could be enhanced to ensure the eligibility of all students participating in a VIP.

**Finding 15:** District security controls related to data loss prevention continue to need improvement.

## SUMMARY OF REPORT ON FEDERAL AWARDS

We audited the District's compliance with applicable Federal awards requirements. The Child Nutrition Cluster, Title I, Special Education Cluster, Charter Schools, and School Improvement Grant programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that could have a direct and material effect on each of its major Federal programs.

## AUDIT OBJECTIVES AND SCOPE

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

- Presented the District's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements or on a major Federal program;
- Established internal controls that promote and encourage: (1) compliance with applicable laws, rules, regulations, contracts, and grant agreements; (2) the economic and efficient operation of the District; (3) the reliability of records and reports; and (4) the safeguarding of District assets;

- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements, and those applicable to the District's major Federal programs; and
- Taken corrective actions for findings included in our report No. 2015-162.

The scope of this audit included an examination of the District's basic financial statements and the accompanying Schedule of Expenditures of Federal Awards as of and for the fiscal year ended June 30, 2015. We obtained an understanding of the District's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements and Federal awards. We also examined various transactions to determine whether they were executed, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

## AUDIT METHODOLOGY

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

Sherrill F. Norman, CPA
Auditor General

# AUDITOR GENERAL
## STATE OF FLORIDA

Claude Denson Pepper Building, Suite G74
111 West Madison Street
Tallahassee, Florida 32399-1450

Phone: (850) 412-2722
Fax: (850) 488-6975

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

## INDEPENDENT AUDITOR'S REPORT

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Madison County District School Board, as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the school internal funds, which represent 14 percent of the assets and 31 percent of the liabilities of the aggregate remaining fund information. In addition, we did not audit the financial statements of the discretely presented component unit, which represents 100 percent of the transactions and account balances of the discretely presented component unit's columns. Those statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the school internal funds and the discretely presented component unit, are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the

Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Madison County District School Board, as of June 30, 2015, and the respective changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note II. to the financial statements, the District, and the discretely presented component unit, implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*, which is a change in accounting principle that requires an employer participating in a cost-sharing multiple-employer defined benefit pension plan to report the employer's proportionate share of the net pension liability of the defined benefit pension plan. This affects the comparability of amounts reported in the 2014-15 fiscal year with the amounts reported for the 2013-14 fiscal year. Our opinion, and the opinion of the other auditors, are not modified with respect to this matter.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS**, **Budgetary Comparison Schedule – General and Major Special Revenue Funds**, **Schedule of Funding Progress – Other Postemployment Benefits Plan, Schedule of the District's Proportionate Share of the Net Pension Liability – Florida Retirement System Pension Plan**, **Schedule of District Contributions – Florida Retirement System Pension Plan**,

**Schedule of the District's Proportionate Share of the Net Pension Liability – Health Insurance Subsidy Pension Plan**, **Schedule of District Contributions – Health Insurance Subsidy Pension Plan**, and **Notes to Required Supplementary Information**, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is presented for purposes of additional analysis as required by the United States Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements.

The accompanying **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***.

The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Respectfully submitted,

Sherrill F. Norman, CPA
Tallahassee, Florida
March 10, 2016

# MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Madison County District School Board has prepared the following discussion and analysis to provide an overview of the District's financial activities for the fiscal year ended June 30, 2015. The information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events, and conditions and should be considered in conjunction with the District's financial statements and notes to financial statements found immediately following the MD&A.

## FINANCIAL HIGHLIGHTS

Key financial highlights for the 2014-15 fiscal year are as follows:

- As of June 30, 2015, the assets and deferred outflows of resources exceed the liabilities and deferred inflows by $24,462,907.02. This amount represents net investment in capital assets of $32,226,894.66, restricted net position of $4,097,158.33, and a deficit unrestricted net position of $11,861,145.97.
- In total, net position decreased $4,715,743.83, which represents a 16.2 percent decrease over the 2013-14 fiscal year due, in part, to the recognition of pension liabilities and deferred inflows/outflows of resources due to the implementation of GASB Statement No. 68.
- During the current fiscal year, General Fund expenditures exceeded revenues by $1,463,459.74. This may be compared to the prior fiscal year's results in which General Fund expenditures exceeded revenues by $1,230,927.17.
- The General Fund unassigned fund balance totals $1,234,982.48, which is available for general appropriation by the Board, and is comparable to the unassigned fund balance of $1,848,647.38 at June 30, 2014.

## OVERVIEW OF FINANCIAL STATEMENTS

The basic financial statements consist of three components: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to financial statements. This report also includes supplementary information intended to furnish additional details to support the basic financial statements.

### Government-wide Financial Statements

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

All of the District's activities and services are reported in the government-wide financial statements as governmental activities. The District's governmental activities include instruction, student support services, instructional support services, administrative support services, facility maintenance, transportation, and food services. Property taxes and State revenues finance most of these activities. Additionally, all capital and debt financing activities are reported as governmental activities.

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

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

**Fund Financial Statements**

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

**Governmental Funds**: Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in assessing a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances provide detailed information about the District's most significant funds. The District's major

funds are the General Fund, Special Revenue – Other Fund, and Capital Projects – Public Education Capital Outlay (PECO) Fund. Data from the other governmental funds are combined into a single, aggregated presentation.

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

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

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

### Notes to Financial Statements

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

### Other Information

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position over time may serve as a useful indicator of a government's financial health. The following is a summary of the District's net position as of June 30, 2015, compared to net position as of June 30, 2014:

## Net Position, End of Year

| | Governmental Activities | |
|---|---|---|
| | **6-30-15** | **6-30-14** |
| Current and Other Assets | $ 7,774,003.60 | $ 3,995,067.36 |
| Capital Assets | 35,522,555.36 | 31,960,656.55 |
| **Total Assets** | 43,296,558.96 | 35,955,723.91 |
| Deferred Outflows of Resources | 1,939,106.00 | - |
| Long-Term Liabilities | 14,018,867.91 | 6,094,116.51 |
| Other Liabilities | 2,419,722.03 | 682,956.55 |
| **Total Liabilities** | 16,438,589.94 | 6,777,073.06 |
| Deferred Inflows of Resources | 4,334,168.00 | - |
| Net Position: | | |
| Net Investment in Capital Assets | 32,226,894.66 | 29,518,905.55 |
| Restricted | 4,097,158.33 | 1,384,815.13 |
| Unrestricted (Deficit) | (11,861,145.97) | (1,725,069.83) |
| **Total Net Position** | $ 24,462,907.02 | $ 29,178,650.85 |

The largest portion of the District's net position is investment in capital assets (e.g., land; buildings; furniture, fixtures, and equipment), less any related debt still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, the resources used to repay the debt must be provided from other sources, since the capital assets cannot be used to liquidate these liabilities. The increase in net investment in capital assets is due to the remodeling and renovations of the Madison County High School. Current and other assets also increased by $3,778,936.24 or 94.6 percent as a result of an increase in due from other agencies for the PECO Special Facilities allocation.

The restricted portion of the District's net position represents resources that are subject to external restrictions on how they may be used. The increase in the deficit unrestricted net position is primarily attributable to the adoption of GASB Statement No. 68, which is a change in accounting principle that requires employers participating in cost-sharing multiple-employer defined pension plans to report the employers' proportionate share of the net pension liability of the defined benefit pension plans.

The key elements of the changes in the District's net position for the fiscal years ended June 30, 2015, and June 30, 2014, are as follows:

## Operating Results for the Fiscal Year Ended

| | Governmental Activities | |
|---|---|---|
| | 6-30-15 | 6-30-14 |
| Program Revenues: | | |
| Charges for Services | $ 176,130.04 | $ 185,651.35 |
| Operating Grants and Contributions | 1,424,658.21 | 1,407,064.38 |
| Capital Grants and Contributions | 6,166,978.28 | 106,217.88 |
| General Revenues: | | |
| Property Taxes, Levied for Operational Purposes | 3,880,399.38 | 3,900,799.09 |
| Property Taxes, Levied for Capital Projects | 1,001,620.67 | 987,098.23 |
| Grants and Contributions Not Restricted to Specific Programs | 19,129,157.85 | 19,144,046.93 |
| Unrestricted Investment Earnings | 4,903.12 | 60,964.74 |
| Miscellaneous | 638,955.94 | 510,351.41 |
| **Total Revenues** | 32,422,803.49 | 26,302,194.01 |
| Functions/Program Expenses: | | |
| Instruction | 13,217,060.38 | 12,413,095.22 |
| Student Personnel Services | 765,159.80 | 691,001.02 |
| Instructional Media Services | 246,612.17 | 233,078.01 |
| Instruction and Curriculum Development Services | 1,185,102.58 | 1,760,761.08 |
| Instructional Staff Training Services | 774,178.24 | 655,474.60 |
| Instructional-Related Technology | 366,165.75 | 350,862.95 |
| Board | 313,522.55 | 275,276.68 |
| General Administration | 508,928.68 | 682,839.40 |
| School Administration | 1,396,459.85 | 1,383,679.24 |
| Facilities Acquisition and Construction | 425,156.70 | 619,974.58 |
| Fiscal Services | 357,166.72 | 347,692.71 |
| Food Services | 1,616,716.92 | 1,683,098.94 |
| Central Services | 201,956.55 | 201,057.75 |
| Student Transportation Services | 1,571,059.22 | 2,066,338.71 |
| Operation of Plant | 2,124,651.01 | 2,484,035.88 |
| Maintenance of Plant | 298,715.20 | 258,809.34 |
| Administrative Technology Services | 235,079.78 | 303,288.19 |
| Community Services | 75,883.68 | 509,645.81 |
| Unallocated Interest on Long-Term Debt | 106,897.21 | 130,055.84 |
| Unallocated Depreciation | 1,504,734.33 | 1,479,880.19 |
| **Total Functions/Program Expenses** | 27,291,207.32 | 28,529,946.14 |
| **Change in Net Position** | 5,131,596.17 | (2,227,752.13) |
| Net Position, Beginning of Year | 29,178,650.85 | 31,406,402.98 |
| Adjustment to Beginning Net Position (1) | (9,847,340.00) | - |
| Net Position - Beginning, as Restated | 19,331,310.85 | 31,406,402.98 |
| **Net Position - Ending** | $ 24,462,907.02 | $ 29,178,650.85 |

Note: (1) Adjustment to beginning net position is due to the implementation of GASB Statement No. 68.

The largest revenue source is the State of Florida (65 percent). Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data, and is designed to maintain equity in funding across all Florida school districts, taking into consideration the District's funding ability based on the local property tax base.

Capital grants and contributions revenue increased by $6,060,760.40, or 5,706 percent. These revenues are received from the State and are for the acquisition, construction, and maintenance of educational facilities. The increase in revenue is mainly due to Special Facility Construction Account funding for the remodeling and renovations at the Madison County High School during the 2014-15 fiscal year.

Instruction expenses represent 48.4 percent of total governmental expenses in the 2014-15 fiscal year. Instruction expenses increased by $803,965.16, or 6.5 percent, from the previous fiscal year due to a one-time 2 percent increase in salaries and related benefits, payroll and benefit costs associated with the extension of the school day by 1 hour at select district schools, and an increase in payments to the District's charter school related to an increase in FEFP funding. Instruction and curriculum development and student transportation services declined by $575,658.50, or 32.7 percent, and $495,279.49, or 24 percent, respectively, due to a reduction of Federal program funding, primarily in the Safe and Drug-Free Schools and Twenty-First Century Community programs.

## FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

### Governmental Funds

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

The total fund balances of governmental funds increased by $2,042,170.76 during the fiscal year to $5,354,281.57 at June 30, 2015. Approximately 23 percent of this amount is unassigned fund balance ($1,234,982.48), which is available for spending at the District's discretion. The remainder of the fund balance is nonspendable, restricted, or assigned to indicate that it is: (1) not in spendable form ($78,942.35); (2) restricted for particular purposes ($4,031,364.03); or (3) assigned for particular purposes ($8,992.71).

### Major Governmental Funds

The General Fund is the District's chief operating fund. At the end of the current fiscal year, assigned and unassigned fund balance is $1,243,975.19, while the total fund balance is $1,844,810.28. As a measure of the General Fund's liquidity, it may be useful to compare the total assigned and unassigned fund balances to General Fund total revenues. The total assigned and unassigned fund balance is 6.4 percent of the total General Fund revenues, while total fund balance represents 9.6 percent of total General Fund revenues.

Total fund balance decreased by $663,432.84 during the fiscal year. This decrease was primarily due to an increase in salaries and benefits cost associated with Board approved one-time salary payment of 2 percent and salaries and benefit costs related to the extension of the school day at select District schools.

The Special Revenue – Other Fund has total revenues and expenditures of $3,729,439.43 each and the funding was mainly used for instruction related costs. Because grant revenues attributed to the grants accounted for in this fund are not recognized until expenditures are incurred, this fund generally does not accumulate a fund balance. Activity in this fund decreased substantially due to a reduction of Federal program funding, primarily in the Safe and Drug-Free Schools and Twenty-First Century Community programs.

The Capital Projects – PECO Fund has a total fund balance of $3,018,463.22. These funds are restricted for the acquisition, construction, and maintenance of capital assets. The fund balance increased in the current fiscal year due to a $7.6 million allocation received from the Special Facility Construction Account for the remodeling of the Madison County High School. It should be noted that $4,191,853 of fund balance and future allocations have been encumbered for specific projects.

## GENERAL FUND BUDGETARY HIGHLIGHTS

During the 2014-15 fiscal year, the District amended its General Fund budget several times, which resulted in an increase in total budgeted revenues of $1,889,677.04, or 10.4 percent. At the same time, final appropriations are more than the original budgeted amounts by $1,239,211.54. Budget revisions occurred primarily from changes in estimated State funding levels and corresponding adjustments to planned expenditures to ensure maintenance of an adequate fund balance.

Actual revenues are $673,360.14, or 3.4 percent, less than the final budgeted amounts while actual expenditures are $615,667.76, or 2.9 percent, less than final budgeted amounts. The actual ending fund balance exceeded the estimated fund balance contained in the final amended budget by $255,228.44.

## CAPITAL ASSETS AND LONG-TERM DEBT

### Capital Assets

The District's investment in capital assets for its governmental activities as of June 30, 2015, is $35,522,555.36 (net of accumulated depreciation). This investment in capital assets includes land; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; construction in progress; and audio visual materials and computer software. The total increase in capital assets for the current fiscal year was 11.1 percent due mainly to additions to construction in progress of $4,630,042.11 for ongoing remodeling and renovations at the Madison County High School.

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

## Long-Term Debt

At June 30, 2015, the District has total long-term debt outstanding of $3,295,660.70, composed of $2,236,710 of bonds payable and $1,058,950.70 Special PECO Advance Payable. During the current fiscal year, retirement of debt was $943,060.

The District's bonds payable consists of state school bonds and district revenue bonds. State school bonds, which have an outstanding balance of $209,000, are secured by a pledge of the District's portion of the State-assessed motor vehicle license tax. On December 2, 2014, the Florida Department of Education (FDOE) issued Capital Outlay Refunding Bonds, Series 2014B to refund callable portions of the District's State School Bonds, Series 2005A and Series 2005B. The State Series 2014B bonds were issued to reduce the total debt service payments over the remaining 5 years by $16,077.09. District revenue bonds have an outstanding balance of $2,027,710 and are secured from the District's pari-mutuel tax proceeds distributed annually by the State.

Special PECO Advance Payable represents the amount of the PECO Special Facilities allocation expected to be replaced by other District capital outlay sources for funding the remodeling and renovations at the Madison County High School.

Additional information on the District's long-term debt can be found in Notes III.H.1. through III.H.4. to the financial statements.

## OTHER MATTERS OF SIGNIFICANCE

Pursuant to Section 1013.64, Florida Statutes, the District received a special allocation through the PECO and Debt Service Trust Fund to be used for the remodeling and renovation of the Madison County High School. The first of the allocations, totaling $7,600,000 was received in the 2014-15 fiscal year. The second allocation is approved for $9,288,000 for the 2015-16 fiscal year.

The approval of a charter application for the Madison Arts Academy for the 2016-2017 school year may increase the District's FTE count by approximately 120 students.

## REQUESTS FOR INFORMATION

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

**Madison County District School Board**
**Statement of Net Position**
**June 30, 2015**

| | Primary Government | |
|---|---|---|
| | Governmental Activities | Component Unit |
| **ASSETS** | | |
| Cash and Cash Equivalents | $ 3,403,488.75 | $ 5,245.00 |
| Investments | 6,001.89 | - |
| Accounts Receivable | 16,510.98 | 2,382.00 |
| Due from Other Agencies | 4,269,059.63 | - |
| Inventories | 78,942.35 | - |
| Capital Assets: | | |
| Nondepreciable Capital Assets | 5,339,871.14 | - |
| Depreciable Capital Assets, Net | 30,182,684.22 | 96,086.00 |
| **TOTAL ASSETS** | 43,296,558.96 | 103,713.00 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | |
| Pensions | 1,939,106.00 | 66,870.00 |
| **LIABILITIES** | | |
| Accrued Salaries and Benefits | 185,766.10 | - |
| Payroll Deductions and Withholdings | 28,424.42 | 4,956.00 |
| Accounts Payable | 488,014.85 | 17,466.00 |
| Construction Contracts Payable | 712,509.50 | - |
| Construction Contracts Payable - Retained Percentage | 243,247.72 | - |
| Due to Other Agencies | 529,140.33 | - |
| Deposits Payable | 51,613.44 | - |
| Matured Bonds Payable | 124,041.00 | - |
| Matured Interest Payable | 56,964.67 | - |
| Long-Term Liabilities: | | |
| Portion Due Within One Year | 1,039,948.63 | 6,000.00 |
| Portion Due After One Year | 12,978,919.28 | 45,730.00 |
| **TOTAL LIABILITIES** | 16,438,589.94 | 74,152.00 |
| **DEFERRED INFLOWS OF RESOURCES** | | |
| Pensions | 4,334,168.00 | 18,113.00 |
| **NET POSITION** | | |
| Net Investment in Capital Assets | 32,226,894.66 | 96,086.00 |
| Restricted for: | | |
| State Required Carryover Programs | 501,183.99 | - |
| Debt Service | 119,402.65 | - |
| Capital Projects | 3,249,125.98 | - |
| Food Service | 140,942.66 | - |
| Fuel Tax Rebate | 86,503.05 | - |
| Unrestricted | (11,861,145.97) | (17,768.00) |
| **TOTAL NET POSITION** | $ 24,462,907.02 | $ 78,318.00 |

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

## Madison County District School Board
## Statement of Activities
## For the Fiscal Year Ended June 30, 2015

| Functions/Programs | Expenses | Program Revenues: Charges for Services | Program Revenues: Operating Grants and Contributions |
|---|---|---|---|
| **Primary Government** | | | |
| **Governmental Activities:** | | | |
| Instruction | $ 13,217,060.38 | $ 2,745.00 | $ - |
| Student Personnel Services | 765,159.80 | - | - |
| Instructional Media Services | 246,612.17 | - | - |
| Instruction and Curriculum Development Services | 1,185,102.58 | - | - |
| Instructional Staff Training Services | 774,178.24 | - | - |
| Instructional-Related Technology | 366,165.75 | - | - |
| Board | 313,522.55 | - | - |
| General Administration | 508,928.68 | - | - |
| School Administration | 1,396,459.85 | - | - |
| Facilities Acquisition and Construction | 425,156.70 | - | - |
| Fiscal Services | 357,166.72 | - | - |
| Food Services | 1,616,716.92 | 160,480.06 | 1,424,658.21 |
| Central Services | 201,956.55 | - | - |
| Student Transportation Services | 1,571,059.22 | 12,904.98 | - |
| Operation of Plant | 2,124,651.01 | - | - |
| Maintenance of Plant | 298,715.20 | - | - |
| Administrative Technology Services | 235,079.78 | - | - |
| Community Services | 75,883.68 | - | - |
| Unallocated Interest on Long-Term Debt | 106,897.21 | - | - |
| Unallocated Depreciation* | 1,504,734.33 | - | - |
| **Total Primary Government** | $ 27,291,207.32 | $ 176,130.04 | $ 1,424,658.21 |
| **Component Unit** | | | |
| Charter School | $ 679,297.00 | $ 28,571.00 | $ 0.00 |

General Revenues:
- Taxes:
  - Property Taxes, Levied for Operational Purposes
  - Property Taxes, Levied for Capital Projects
- Grants and Contributions Not Restricted to Specific Programs
- Unrestricted Investment Earnings
- Miscellaneous

**Total General Revenues**

**Change in Net Position**

Net Position - Beginning
Adjustment to Beginning Net Position
Net Position - Beginning, as Restated

**Net Position - Ending**

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

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

| Capital Grants and Contributions | Net (Expense) Revenue and Changes in Net Position: Primary Government Governmental Activities | Component Unit |
|---|---|---|
| $ - | $ (13,214,315.38) | $ - |
| - | (765,159.80) | - |
| - | (246,612.17) | - |
| - | (1,185,102.58) | - |
| - | (774,178.24) | - |
| - | (366,165.75) | - |
| - | (313,522.55) | - |
| - | (508,928.68) | - |
| - | (1,396,459.85) | - |
| 6,041,824.58 | 5,616,667.88 | - |
| - | (357,166.72) | - |
| - | (31,578.65) | - |
| - | (201,956.55) | - |
| - | (1,558,154.24) | - |
| - | (2,124,651.01) | - |
| 48,140.00 | (250,575.20) | - |
| - | (235,079.78) | - |
| - | (75,883.68) | - |
| 77,013.70 | (29,883.51) | - |
| - | (1,504,734.33) | - |
| $ 6,166,978.28 | (19,523,440.79) | - |
| $ 172,064.00 | - | (478,662.00) |
| | 3,880,399.38 | - |
| | 1,001,620.67 | - |
| | 19,129,157.85 | 522,920.00 |
| | 4,903.12 | 16.00 |
| | 638,955.94 | 4,080.00 |
| | 24,655,036.96 | 527,016.00 |
| | 5,131,596.17 | 48,354.00 |
| | 29,178,650.85 | 25,184.00 |
| | (9,847,340.00) | 4,780.00 |
| | 19,331,310.85 | 29,964.00 |
| | $ 24,462,907.02 | $ 78,318.00 |

**Madison County District School Board**
**Balance Sheet – Governmental Funds**
**June 30, 2015**

| | General Fund | Special Revenue - Other Fund | Capital Projects - Public Education Capital Outlay Fund |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and Cash Equivalents | $ 1,949,647.20 | $ - | $ 872,508.18 |
| Investments | - | - | - |
| Accounts Receivable | 14,632.15 | 641.08 | - |
| Due from Other Funds | 221,195.38 | - | 28,208.66 |
| Due from Other Agencies | 81,278.09 | 207,285.34 | 3,879,362.35 |
| Inventories | 13,148.05 | - | - |
| **TOTAL ASSETS** | $ 2,279,900.87 | $ 207,926.42 | $ 4,780,079.19 |
| **LIABILITIES AND FUND BALANCES** | | | |
| Liabilities: | | | |
| Accrued Salaries and Benefits | $ 185,406.47 | $ - | $ - |
| Payroll Deductions and Withholdings | 28,132.13 | 266.43 | - |
| Accounts Payable | 169,938.55 | 28,461.66 | 276,839.75 |
| Construction Contracts Payable | - | - | 712,509.50 |
| Construction Contracts Payable - Retained Percentage | - | - | 243,247.72 |
| Due to Other Funds | - | 179,077.00 | - |
| Due to Other Agencies | - | 121.33 | 529,019.00 |
| Deposits Payable | 51,613.44 | - | - |
| Matured Bonds Payable | - | - | - |
| Matured Interest Payable | - | - | - |
| **Total Liabilities** | 435,090.59 | 207,926.42 | 1,761,615.97 |
| Fund Balances: | | | |
| Nonspendable: | | | |
| Inventories | 13,148.05 | - | - |
| Restricted for: | | | |
| State Required Carryover Programs | 501,183.99 | - | - |
| Debt Service | - | - | - |
| Capital Projects | - | - | 3,018,463.22 |
| Food Service | - | - | - |
| Fuel Tax Rebate | 86,503.05 | - | - |
| Total Restricted Fund Balance | 587,687.04 | - | 3,018,463.22 |
| Assigned for Purchase Obligations | 8,992.71 | - | - |
| Unassigned Fund Balance | 1,234,982.48 | - | - |
| **Total Fund Balances** | 1,844,810.28 | - | 3,018,463.22 |
| **TOTAL LIABILIITIES AND FUND BALANCES** | $ 2,279,900.87 | $ 207,926.42 | $ 4,780,079.19 |

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

| Other Governmental Funds | Total Governmental Funds |
|---|---|
| $ 581,333.37 | $ 3,403,488.75 |
| 6,001.89 | 6,001.89 |
| 1,237.75 | 16,510.98 |
| - | 249,404.04 |
| 101,133.85 | 4,269,059.63 |
| 65,794.30 | 78,942.35 |
| $ 755,501.16 | $ 8,023,407.64 |

| | |
|---|---|
| $ 359.63 | $ 185,766.10 |
| 25.86 | 28,424.42 |
| 12,774.89 | 488,014.85 |
| - | 712,509.50 |
| - | 243,247.72 |
| 70,327.04 | 249,404.04 |
| - | 529,140.33 |
| - | 51,613.44 |
| 124,041.00 | 124,041.00 |
| 56,964.67 | 56,964.67 |
| 264,493.09 | 2,669,126.07 |

| | |
|---|---|
| 65,794.30 | 78,942.35 |
| - | 501,183.99 |
| 119,402.65 | 119,402.65 |
| 230,662.76 | 3,249,125.98 |
| 75,148.36 | 75,148.36 |
| - | 86,503.05 |
| 425,213.77 | 4,031,364.03 |
| - | 8,992.71 |
| - | 1,234,982.48 |
| 491,008.07 | 5,354,281.57 |
| $ 755,501.16 | $ 8,023,407.64 |

**Madison County District School Board**
**Reconciliation of the Governmental Funds Balance Sheet**
**to the Statement of Net Position**
**June 30, 2015**

| | | |
|---|---|---|
| **Total Fund Balances - Governmental Funds** | | $ 5,354,281.57 |
| Amounts reported for governmental activities in the statement of net position are different because: | | |
| Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. | | 35,522,555.36 |
| Long-term liabilities are not due and payable in the fiscal year and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consist of: | | |
| Bonds Payable | $ (2,236,710.00) | |
| Special PECO Advance Payable | (1,058,950.70) | |
| Compensated Absences Payable | (3,095,579.21) | |
| Net Pension Liability | (6,950,267.00) | |
| Other Postemployment Benefits Payable | (677,361.00) | (14,018,867.91) |
| The deferred outflows of resources and deferred inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds. | | |
| Deferred outflows related to pensions | $ 1,939,106.00 | |
| Deferred inflows related to pensions | (4,334,168.00) | (2,395,062.00) |
| **Net Position - Governmental Activities** | | $ 24,462,907.02 |

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

THIS PAGE INTENTIONALLY LEFT BLANK

## Madison County District School Board
## Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
## For the Fiscal Year Ended June 30, 2015

| | General Fund | Special Revenue - Other Fund | Capital Projects - Public Education Capital Outlay Fund |
|---|---|---|---|
| **Revenues** | | | |
| Intergovernmental: | | | |
| Federal Direct | $ - | $ 7,997.45 | $ - |
| Federal Through State and Local | 99,078.86 | 3,721,441.98 | - |
| State | 14,675,693.45 | - | 6,060,170.30 |
| Local: | | | |
| Property Taxes | 3,880,399.38 | - | - |
| Charges for Services - Food Service | - | - | - |
| Miscellaneous | 645,442.15 | - | 362.57 |
| Total Local Revenues | 4,525,841.53 | - | 362.57 |
| **Total Revenues** | 19,300,613.84 | 3,729,439.43 | 6,060,532.87 |
| **Expenditures** | | | |
| Current - Education: | | | |
| Instruction | 11,471,667.41 | 1,977,825.03 | - |
| Student Personnel Services | 524,371.14 | 240,788.66 | - |
| Instructional Media Services | 214,621.88 | 31,990.29 | - |
| Instruction and Curriculum Development Services | 609,795.82 | 573,565.33 | - |
| Instructional Staff Training Services | 264,979.17 | 501,638.13 | - |
| Instructional - Related Technology | 278,122.64 | 1,943.44 | - |
| Board | 302,772.55 | 10,750.00 | - |
| General Administration | 385,244.19 | 117,506.52 | - |
| School Administration | 1,375,573.09 | 16,268.80 | - |
| Facilities Acquisition and Construction | - | - | - |
| Fiscal Services | 356,844.73 | 321.99 | - |
| Food Services | 41,580.47 | 3,423.67 | - |
| Central Services | 197,799.91 | 4,156.64 | - |
| Student Transportation Services | 1,493,186.18 | 53,940.04 | - |
| Operation of Plant | 2,118,592.11 | 6,058.90 | - |
| Maintenance of Plant | 298,715.20 | - | - |
| Administrative Technology Services | 224,533.73 | - | - |
| Community Services | 39,023.64 | 36,860.04 | - |
| Fixed Capital Outlay: | | | |
| Facilities Acquisition and Construction | 506,535.24 | - | 4,123,506.87 |
| Other Capital Outlay | 60,114.48 | 152,401.95 | - |
| Debt Service: | | | |
| Principal | - | - | 500,810.34 |
| Interest and Fiscal Charges | - | - | - |
| **Total Expenditures** | 20,764,073.58 | 3,729,439.43 | 4,624,317.21 |
| **Excess (Deficiency) of Revenues Over Expenditures** | (1,463,459.74) | - | 1,436,215.66 |
| **Other Financing Sources (Uses)** | | | |
| Transfers In | 801,276.90 | - | 500,810.34 |
| Issuance of Bonds | - | - | - |
| Premium on Sale of Bonds | - | - | - |
| Special Facilities Education Capital Outlay Advance | - | - | 1,587,969.70 |
| Payments to Refunding Escrow Agent | - | - | - |
| Loss Recoveries | - | - | - |
| Transfers Out | (1,250.00) | - | (506,535.24) |
| **Total Other Financing Sources (Uses)** | 800,026.90 | - | 1,582,244.80 |
| **Net Change in Fund Balances** | (663,432.84) | - | 3,018,460.46 |
| Fund Balances, Beginning | 2,508,243.12 | - | 2.76 |
| **Fund Balances, Ending** | $ 1,844,810.28 | $ 0.00 | $ 3,018,463.22 |

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

| Other Governmental Funds | Total Governmental Funds |
|---|---|
| $ 53,101.38 | $ 61,098.83 |
| 1,759,714.56 | 5,580,235.40 |
| 343,596.36 | 21,079,460.11 |
| 1,001,620.67 | 4,882,020.05 |
| 160,480.06 | 160,480.06 |
| 745.34 | 646,550.06 |
| 1,162,846.07 | 5,689,050.17 |
| 3,319,258.37 | 32,409,844.51 |
| 149,004.24 | 13,598,496.68 |
| - | 765,159.80 |
| - | 246,612.17 |
| 1,741.43 | 1,185,102.58 |
| 7,560.94 | 774,178.24 |
| 86,099.67 | 366,165.75 |
| - | 313,522.55 |
| 6,177.97 | 508,928.68 |
| 4,617.96 | 1,396,459.85 |
| 425,156.70 | 425,156.70 |
| - | 357,166.72 |
| 1,571,712.78 | 1,616,716.92 |
| - | 201,956.55 |
| - | 1,547,126.22 |
| - | 2,124,651.01 |
| - | 298,715.20 |
| 10,546.05 | 235,079.78 |
| - | 75,883.68 |
| - | 4,630,042.11 |
| 248,007.60 | 460,524.03 |
| 217,249.66 | 718,060.00 |
| 106,897.21 | 106,897.21 |
| 2,834,772.21 | 31,952,602.43 |
| 484,486.16 | 457,242.08 |
| 1,250.00 | 1,303,337.24 |
| 209,000.00 | 209,000.00 |
| 19,876.49 | 19,876.49 |
| - | 1,587,969.70 |
| (233,205.35) | (233,205.35) |
| 1,287.84 | 1,287.84 |
| (795,552.00) | (1,303,337.24) |
| (797,343.02) | 1,584,928.68 |
| (312,856.86) | 2,042,170.76 |
| 803,864.93 | 3,312,110.81 |
| $ 491,008.07 | $ 5,354,281.57 |

**Madison County District School Board**
**Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities**
**For the Fiscal Year Ended June 30, 2015**

| | | |
|---|---|---|
| **Net Change in Fund Balances - Governmental Funds** | | $ 2,042,170.76 |
| Amounts reported for governmental activities in the statement of activities are different because: | | |
| Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital outlays in excess of depreciation expense in the current fiscal year. | | 3,561,898.81 |
| Long-term debt proceeds provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount by which repayments exceeded proceeds in the current fiscal year. | | |
| Debt Issued | $ (209,000.00) | |
| Debt Refunded | 225,000.00 | |
| Debt Repayments | 189,041.00 | 205,041.00 |
| Special PECO advances provide current financial resources to the governmental funds, but increase long-term liabilities in the statement of net position. This is the amount by which the advances exceeded repayments. | | (1,058,950.70) |
| In the statement of activities, the cost of compensated absences is measured by the amounts earned during the year, while in the governmental funds, expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences earned in excess of the amount paid in the current fiscal year. | | (54,075.70) |
| Other postemployment benefits costs are recorded in the statement of activities under the full accrual basis of accounting, but are not recorded in the governmental funds until paid. This is the net increase in the other postemployment benefits liability for the current fiscal year. | | (66,499.00) |
| Governmental funds report district pension contributions as expenditures. However, in the statement of activities, the cost of pension benefits earned net of employee contributions is reported as a pension expense. | | |
| FRS Pension Contribution | $ 923,393.00 | |
| HIS Pension Contribution | 170,778.00 | |
| FRS Pension Expense | (283,927.00) | |
| HIS Pension Expense | (308,233.00) | 502,011.00 |
| **Change in Net Position - Governmental Activities** | | $ 5,131,596.17 |

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

**Madison County District School Board**
**Statement of Fiduciary Assets and Liabilities – Fiduciary Funds**
**June 30, 2015**

| | Agency Funds |
|---|---|
| **ASSETS** | |
| Cash and Cash Equivalents | $ 120,093.31 |
| **LIABILITIES** | |
| Internal Accounts Payable | $ 120,093.31 |

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

## I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A. Description of Government-wide Financial Statements

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

The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Madison County School District's (District) governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are thereby clearly identifiable to a particular function. Depreciation expense associated with the District's transportation department is allocated to the student transportation services function, while remaining depreciation expense is not readily associated with a particular function and is reported as unallocated.

### B. Reporting Entity

The Madison County District School Board (Board) has direct responsibility for operation, control, and supervision of District schools and is considered a primary government for financial reporting. The District is considered part of the Florida system of public education, operates under the general direction of the Florida Department of Education (FDOE), and is governed by State law and State Board of Education (SBE) rules. The governing body of the District is the Board, which is composed of five elected members. The elected Superintendent of Schools is the executive officer of the Board. Geographic boundaries of the District correspond with those of Madison County.

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

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

The James Madison Preparatory High School, Inc. 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 charter school operates under a charter approved by its sponsor, the Madison

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

The financial data reported on the accompanying statements was derived from the charter school's audited financial statements for the fiscal year ended June 30, 2015. The audit report is filed in the District's administrative offices at 210 NE Duval Avenue, Madison, Florida, 32340.

## C. Basis of Presentation: Government-wide Financial Statements

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

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

## D. Basis of Presentation: Fund Financial Statements

The fund financial statements provide information about the District's funds, including the fiduciary funds. Separate statements for each fund category – governmental and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The District reports the following major governmental funds:

- General Fund – to account for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.
- Special Revenue – Other Fund – to account for certain Federal grant program resources.
- Capital Projects – Public Education Capital Outlay (PECO) Fund – to account for the proceeds of Special Facility Construction Account appropriations to be used for the renovation of the Madison County High School, and for the financial resources generated by the PECO and Debt Service Trust Fund to be used for facilities maintenance.

Additionally, the District reports the following fiduciary fund type:

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

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

transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in and out. While reported in fund financial statements, transfers between the funds included in governmental activities are eliminated in the preparation of the government-wide financial statements.

## E. Basis of Accounting

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

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

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

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

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

## F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

### 1. Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term, highly liquid investments with original maturities of 3 months or less. Investments classified as cash equivalents include amounts placed with the State Board of Administration (SBA) in Florida PRIME, formerly known as the Local Government Surplus Funds Trust Fund Investment Pool.

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

### 2. Investments

Investments consist of amounts placed in the SBA debt service accounts for investment of debt service moneys and amounts placed with the SBA for participation in the Florida PRIME investment pool created by Section 218.405, Florida Statutes. The investment pool operates under investment guidelines established by Section 215.47, Florida Statutes.

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

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

### 3. Inventories

Inventories consist of expendable supplies held for consumption in the course of District operations. Purchased food inventories are stated at cost on the last invoice, which approximates the first-in, first-out basis, except that United States Department of Agriculture donated foods are stated at their fair value as determined at the time of donation to the District's food service program by the Florida Department of Agriculture and Consumer Services, Bureau of Food Distribution. Transportation inventories are valued at cost determined on a specific identification basis. The costs of inventories are recorded as expenditures when purchased during the year, and are adjusted at year end to reflect year-end physical inventories.

### 4. Capital Assets

Expenditures for capital assets acquired or constructed for general District purposes are reported in the governmental fund that financed the acquisition or construction. The capital assets so acquired are reported at cost in the government-wide statement of net position but are not reported in the governmental fund financial statements. Capital assets are defined by the District as those costing more than $750. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at fair value at the date

of donation. Land and buildings acquired or constructed prior to July 1, 1989, are stated at estimated historical cost using price levels at the time of acquisition and, as a result, $182,565 of stated land values and $6,213,707 of stated undepreciated building values are based on these estimates.

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

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

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

## 5. Pensions

In the government-wide statement of net position, liabilities are recognized for the District's proportionate share of each pension plan's net pension liability. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Florida Retirement System (FRS) defined benefit plan and the Health Insurance Subsidy (HIS) defined benefit plan and additions to/deductions from the FRS and the HIS fiduciary net position have been determined on the same basis as they are reported by the FRS and the HIS plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

The District's retirement plans and related amounts are described in a subsequent note.

## 6. Long-Term Liabilities

Long-term obligations that will be financed from resources to be received in the future by governmental funds are reported as liabilities in the government-wide statement of net position. In the governmental fund financial statements, bonds and other long-term obligations are not recognized as liabilities until due. Governmental fund types recognize debt premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources, while discounts on debt issuances are reported as other financing uses.

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

## 7. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports 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 future periods and so will not be

recognized as an outflow of resources (expense) until then. The District only has one item that qualifies for reporting in this category. The deferred outflows of resources related to pensions are discussed in a subsequent note.

In addition to liabilities, the statement of net position reports 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 future periods and so will not be recognized as an inflow of resources (revenue) until that time. The District has only one type of item that qualifies for reporting in this category. The deferred inflows of resources related to pensions are discussed in a subsequent note.

## 8. Net Position Flow Assumption

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

## 9. Fund Balance Flow Assumptions

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

## 10. Fund Balance Policies

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

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. The Board is the highest level of decision-making authority for the District that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation. The District reported no committed fund balances at June 30, 2015.

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

In addition, the District has adopted Board Policy 7.01 which provides at least 5 percent of the current year's annual estimated General Fund revenues to be reserved for contingency purposes. In the event these reserves are needed, a vote of four or more members of the Board is required before using these funds, upon recommendation of the Superintendent at a public hearing called for the purpose of encumbering the reserved funds.

## G. Revenues and Expenditures/Expenses

### 1. Program Revenues

Amounts reported as program revenues include charges paid by the recipient of the goods or services offered by the program, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than program revenues. Revenues that are not classified as program revenues are presented as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

### 2. State Revenue Sources

Significant revenues from State sources for current operations include the Florida Education Finance Program administered by the FDOE under the provisions of Section 1011.62, Florida Statutes. In accordance with this law, the District determines and reports the number of full-time equivalent (FTE) students and related data to the FDOE. The FDOE performs certain edit checks on the reported number of FTE and related data, and calculates the allocation of funds to the District. The District is permitted to amend its original reporting for a period of 5 months following the date of the original reporting. Such amendments may impact funding allocations for subsequent fiscal years. The FDOE may also adjust subsequent fiscal period allocations based upon an audit of the District's compliance in determining and reporting FTE and related data. Normally, such adjustments are treated as reductions or additions of revenue in the fiscal year when the adjustments are made.

The State provides financial assistance to administer certain educational programs. SBE rules require that revenue earmarked for certain programs be expended only for the program for which the money is provided, and require that the money not expended as of the close of the fiscal year be carried forward into the following fiscal year to be expended for the same educational

programs. The FDOE generally requires that these educational program revenues be accounted for in the General Fund. A portion of the fund balance of the General Fund is restricted in the governmental fund financial statements for the balance of categorical and earmarked educational program resources.

The State allocates gross receipts taxes, generally known as PECO money, to the District on an annual basis. The District is authorized to expend these funds only upon applying for and receiving an encumbrance authorization from the FDOE.

Pursuant to Section 1013.64, Florida Statutes, the District received a special allocation in the 2014-15 fiscal year for specific construction needs through the Public Education Capital Outlay and Debt Service Trust Fund - Special Facility Construction Account. As a condition for receiving these funds, other construction funding must be pledged for the project, including .075 mills of the capital outlay millage levied pursuant to Section 1011.71(2), Florida Statutes, for the following 3 fiscal years. During the 3-year period, reductions to the special allocations are made to the extent of collections from the required pledged sources.

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

## 3. District Property Taxes

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

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

The Board adopted the 2014 tax levy on September 9, 2014. Tax bills are mailed in October and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to 4 percent for early payment.

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

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

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

### 4. Federal Revenue Sources

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

### 5. Compensated Absences

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

## II. ACCOUNTING CHANGE

**Governmental Accounting Standards Board Statement No. 68**. The District and its component unit, participate in the FRS defined benefit pension plan and the HIS defined benefit pension plan administered by Florida Division of Retirement. As participating employers, the District and the component unit implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which 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. The beginning net position of the District was decreased by $9,847,340 and the beginning net position of the component unit was increased by $4,780 due to the adoption of this Statement.

## III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

### A. Cash Deposits with Financial Institutions

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

## B. Investments

As of June 30, 2015, the District had the following investments:

| Investments | Maturities | Fair Value |
|---|---|---|
| SBA: | | |
| Florida PRIME (1) | 34 Day Average | $ 2,216,163.62 |
| Debt Service Accounts | 6 Months | 6,001.89 |
| Total Investments | | $ 2,222,165.51 |

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

### Interest Rate Risk

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

Florida PRIME uses a weighted average days to maturity (WAM). A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the portfolio to interest rate changes.

### Credit Risk

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

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

The District's investment in Florida PRIME is rated AAAm by Standard & Poor's.

## C. Changes in Capital Assets

Changes in capital assets are presented in the table below:

| | Beginning Balance | Additions | Deletions | Ending Balance |
|---|---|---|---|---|
| GOVERNMENTAL ACTIVITIES | | | | |
| Capital Assets Not Being Depreciated: | | | | |
| Land | $ 709,829.03 | $ - | $ - | $ 709,829.03 |
| Construction in Progress | - | 4,630,042.11 | - | 4,630,042.11 |
| Total Capital Assets Not Being Depreciated | 709,829.03 | 4,630,042.11 | - | 5,339,871.14 |
| Capital Assets Being Depreciated: | | | | |
| Improvements Other Than Buildings | 3,383,676.68 | - | - | 3,383,676.68 |
| Buildings and Fixed Equipment | 43,594,112.49 | - | - | 43,594,112.49 |
| Furniture, Fixtures, and Equipment | 4,281,574.60 | 436,591.03 | 206,673.03 | 4,511,492.60 |
| Motor Vehicles | 4,096,040.10 | 23,933.00 | 130,361.40 | 3,989,611.70 |
| Audio Visual Materials and Computer Software | 832,301.33 | - | 120,050.00 | 712,251.33 |
| Total Capital Assets Being Depreciated | 56,187,705.20 | 460,524.03 | 457,084.43 | 56,191,144.80 |
| Less Accumulated Depreciation for: | | | | |
| Improvements Other Than Buildings | 1,500,625.07 | 145,159.73 | - | 1,645,784.80 |
| Buildings and Fixed Equipment | 14,350,989.27 | 871,882.25 | - | 15,222,871.52 |
| Furniture, Fixtures, and Equipment | 4,156,921.91 | 487,692.35 | 206,673.03 | 4,437,941.23 |
| Motor Vehicles | 4,096,040.10 | 23,933.00 | 130,361.40 | 3,989,611.70 |
| Audio Visual Materials and Computer Software | 832,301.33 | - | 120,050.00 | 712,251.33 |
| Total Accumulated Depreciation | 24,936,877.68 | 1,528,667.33 | 457,084.43 | 26,008,460.58 |
| Total Capital Assets Being Depreciated, Net | 31,250,827.52 | (1,068,143.30) | - | 30,182,684.22 |
| Governmental Activities Capital Assets, Net | $ 31,960,656.55 | $ 3,561,898.81 | $ 0.00 | $ 35,522,555.36 |

Depreciation expense was charged to functions as follows:

| Function | Amount |
|---|---|
| GOVERNMENTAL ACTIVITIES | |
| Student Transportation Services | $ 23,933.00 |
| Unallocated | 1,504,734.33 |
| Total Depreciation Expense - Governmental Activities | $ 1,528,667.33 |

## D. Retirement Plans

### 1. Florida Retirement System (FRS) – Defined Benefit Pension Plans

**General Information about the FRS**

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 (DROP) 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 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 District 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 District's FRS and HIS pension expense totaled $592,160 for the fiscal year ended June 30, 2015.

**FRS Pension Plan**

*Plan Description*. The FRS Pension Plan (Plan) is a cost-sharing multiple-employer defined benefit pension plan, with a 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.
- *Elected County Officers Class* – Members who hold specified elective offices in local government.

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:

| Class, Initial Enrollment, and Retirement Age/Years of Service | Percent Value |
|---|---|
| **Regular Class members initially enrolled before July 1, 2011** | |
| 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 |
| **Regular Class members initially enrolled on or after July 1, 2011** | |
| 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 |
| **Elected County Officers** | 3.00 |

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 2014-15 fiscal year were as follows:

| Class | Percent of Gross Salary | |
|---|---|---|
| | Employee | Employer (1) |
| FRS, Regular | 3.00 | 7.37 |
| FRS, Elected County Officers | 3.00 | 43.24 |
| DROP - Applicable to Members from All of the Above Classes | 0.00 | 12.28 |
| FRS, Reemployed Retiree | (2) | (2) |

Notes: (1) Employer rates include 1.26 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.
(2) Contribution rates are dependent upon retirement class in which reemployed.

The District's contributions to the Plan totaled $923,393 for the fiscal year ended June 30, 2015.

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*. At June 30, 2015, the District reported a liability of $2,503,159 for its proportionate share of the Plan's net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014. The District's proportionate share of the net pension liability was based on the District's 2013-14 fiscal year contributions relative to the 2013-14 fiscal year contributions of all participating members. At June 30, 2014, the District's proportionate share was 0.041025508 percent, which was an increase of 0.001733517 from its proportionate share measured as of June 30, 2013.

For the fiscal year ended June 30, 2015, the District recognized Plan pension expense of $283,927. In addition, the District 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 | $ - | $ 154,903 |
| Change of assumptions | 433,506 | - |
| Net difference between projected and actual earnings on FRS pension plan investments | - | 4,175,686 |
| Changes in proportion and differences between District FRS contributions and proportionate share of contributions | 251,048 | - |
| District FRS contributions subsequent to the measurement date | 923,393 | - |
| **Total** | $ 1,607,947 | $ 4,330,589 |

The deferred outflows of resources related to pensions, totaling $923,393 resulting from District 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, 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 |
|---|---|
| 2016 | $ (943,987) |
| 2017 | (943,987) |
| 2018 | (943,987) |
| 2019 | (943,987) |
| 2020 | 99,934 |
| Thereafter | 29,979 |
| **Total** | $ (3,646,035) |

*Actuarial Assumptions*. The total pension liability in the July 1, 2014, 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 | 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, 2014, 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 (1) | Annual Arithmetic Return | Compound Annual (Geometric) Return | Standard Deviation |
|---|---|---|---|---|
| Cash | 1.00% | 3.11% | 3.10% | 1.65% |
| Intermediate-Term Bonds | 18.00% | 4.18% | 4.05% | 5.15% |
| High Yield Bonds | 3.00% | 6.79% | 6.25% | 10.95% |
| Broad US Equities | 26.50% | 8.51% | 6.95% | 18.90% |
| Developed Foreign Equities | 21.20% | 8.66% | 6.85% | 20.40% |
| Emerging Market Equities | 5.30% | 11.58% | 7.60% | 31.15% |
| Private Equity | 6.00% | 11.80% | 8.11% | 30.00% |
| Hedge Funds / Absolute Return | 7.00% | 5.81% | 5.35% | 10.00% |
| Real Estate (Property) | 12.00% | 7.11% | 6.35% | 13.00% |
| **Total** | 100.00% | | | |
| Assumed inflation - Mean | | 2.60% | | 2.00% |

Note: (1) As outlined in the Plan's investment policy.

*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 District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*. The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.65 percent, as well as what the District'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%) |
|---|---|---|---|
| District's proportionate share of the net pension liability | $ 10,706,345 | $ 2,503,159 | $ (4,320,326) |

*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.

*Payables to the Pension Plan*. At June 30, 2015, the District reported a payable of $129,517 for the outstanding amount of contributions to the Plan required for the fiscal year ended June 30, 2015.

**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, 2015, 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, 2015, the contribution rate was 1.26 percent of payroll pursuant to Section 112.363, Florida Statutes. The District contributed 100 percent of its statutorily required contributions for the current and preceding 3 years. 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 District's contributions to the HIS Plan totaled $170,778 for the fiscal year ended June 30, 2015.

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*. At June 30, 2015, the District reported a net pension liability of $4,447,108 for its proportionate share of the HIS Plan's net pension liability. The current portion of the net pension liability is the District's proportionate share of benefit payments expected to be paid within 1 year, net of the District's proportionate share of the pension plan's fiduciary net position available to pay that amount. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014. The District's proportionate share of the net pension liability was based on the District's 2013-14 fiscal year contributions relative to the total 2013-14 fiscal year contributions of all participating members. At June 30, 2014, the District's proportionate share was 0.047561405 percent, which was a decrease of 0.000047742 from its proportionate share measured as of June 30, 2013.

For the fiscal year ended June 30, 2015, the District recognized HIS Plan pension expense of $308,233. In addition, the District 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 |
|---|---|---|
| Change of assumptions | $ 158,246 | $ - |
| Net difference between projected and actual earnings on HIS pension plan investments | 2,135 | - |
| Changes in proportion and differences between District HIS contributions and proportionate share of HIS contributions | - | 3,579 |
| District contributions subsequent to the measurement date | 170,778 | - |
| **Total** | $ 331,159 | $ 3,579 |

The deferred outflows of resources, totaling $170,778 related to pensions resulting from District 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 |
|---|---|
| 2016 | $ 25,480 |
| 2017 | 25,480 |
| 2018 | 25,480 |
| 2019 | 25,480 |
| 2020 | 24,946 |
| Thereafter | 29,936 |
| **Total** | $ 156,802 |

*Actuarial Assumptions*. The total pension liability in the July 1, 2014, 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 | 4.29 percent |

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

While an experience study had not been completed for the plan, the FRS Actuarial Assumptions Conference reviewed the actuarial assumptions for the plan.

*Discount Rate*. The discount rate used to measure the total pension liability was 4.29 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 District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*. The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 4.29 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (3.29 percent) or 1 percentage point higher (5.29 percent) than the current rate:

| | 1% Decrease (3.29%) | Current Discount Rate (4.29%) | 1% Increase (5.29%) |
|---|---|---|---|
| District's proportionate share of the net pension liability | $ 5,058,225 | $ 4,447,108 | $ 3,936,999 |

*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.

*Payables to the Pension Plan*. At June 30, 2015, the District reported a payable of $23,938 for the outstanding amount of contributions to the HIS Plan required for the fiscal year ended June 30, 2015.

## 2. FRS – Defined Contribution Pension Plan

The SBA administers the defined contribution plan officially titled the FRS Investment Plan (Investment Plan). The Investment Plan is reported in the SBA's annual financial statements and in the State of Florida Comprehensive Annual Financial Report.

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined benefit plan. District employees participating in DROP are not eligible to participate in the Investment Plan. Employer and employee contributions, including amounts contributed to individual member's accounts, are defined by law, but the ultimate benefit depends in part on the performance of investment funds. Benefit terms, including contribution requirements, for the Investment Plan are established and may be amended by the Florida Legislature. The Investment Plan is funded with the same employer and employee contribution rates that are based on salary and membership class (Regular Class, Elected County Officers, etc.), as the FRS defined benefit plan. Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Costs of administering the plan, including the FRS Financial Guidance Program, are funded through an employer contribution of 0.04 percent of payroll and by forfeited benefits of plan members. Allocations to the investment member's accounts during the 2014-15 fiscal year were as follows:

| Class | Percent of Gross Compensation |
|---|---|
| FRS, Regular | 6.30 |
| FRS, Elected County Officers | 11.34 |

For all membership classes, employees are immediately vested in their own contributions and are vested after 1 year of service for employer contributions and investment earnings. If an accumulated benefit obligation for service credit originally earned under the FRS Pension Plan is transferred to the Investment Plan, the member must have the years of service required for FRS Pension Plan vesting (including the service credit represented by the transferred funds) to be vested for these funds and the earnings on the funds. Nonvested employer contributions are placed in a suspense account for up to 5 years. If the employee returns to FRS-covered employment within the 5-year period, the employee will regain control over their account. If the employee does not return within the 5-year period, the employee will forfeit the accumulated account balance. For the fiscal year ended June 30, 2015, the information for the amount of forfeitures was unavailable from the SBA; however, management believes that these amounts, if any, would be immaterial to the District.

After termination and applying to receive benefits, the member may rollover vested funds to another qualified plan, structure a periodic payment under the Investment Plan, receive a lump-sum distribution, leave the funds invested for future distribution, or any combination of these options. Disability coverage is provided; the member may either transfer the account balance to the FRS Pension Plan when approved for disability retirement to receive guaranteed lifetime monthly benefits under the FRS Pension Plan, or remain in the Investment Plan and rely upon that account balance for retirement income.

The District's Investment Plan pension expense totaled $62,495.86 for the fiscal year ended June 30, 2015.

## E. Other Postemployment Benefit Obligations

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

**Funding Policy**. Plan contribution requirements of the District and OPEB Plan members are established and may be amended through recommendations of the Insurance Committee and action from the Board. The District has not advance-funded or established a funding methodology for the annual OPEB costs or the net OPEB obligation, and the OPEB Plan is financed on a pay-as-you-go basis. For the 2014-15 fiscal year, 48 retirees received other postemployment benefits. The District provided required contributions of $173,999 toward the annual OPEB cost, net of retiree contributions totaling $328,949, which represents 4 percent of covered payroll.

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

| Description | Amount |
|---|---|
| Normal Cost (service cost for 1 year) | $ 74,734 |
| Amortization of Unfunded Actuarial Accrued Liability | 213,480 |
| Annual Required Contribution | 288,214 |
| Interest on Net OPEB Obligation | 20,158 |
| Adjustment to Annual Required Contribution | (67,874) |
| Annual OPEB Cost (Expense) | 240,498 |
| Contribution Toward the OPEB Cost | (173,999) |
| Increase in Net OPEB Obligation | 66,499 |
| Net OPEB Obligation, Beginning of Year | 610,862 |
| Net OPEB Obligation, End of Year | $ 677,361 |

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the OPEB Plan, and the net OPEB obligation as of June 30, 2015, and the 2 preceding fiscal years, were as follows:

| Fiscal Year | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|---|---|---|---|
| 2012-13 | $ 224,317 | 64.9% | $ 537,546 |
| 2013-14 | 229,979 | 68.1% | 610,862 |
| 2014-15 | 240,498 | 72.3% | 677,361 |

**Funded Status and Funding Progress**. As of October 1, 2014, the most recent valuation date, the actuarial accrued liability for benefits was $1,890,384, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability of $1,890,384 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was $8,149,746, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 23.2 percent.

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

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

The District's OPEB actuarial valuation as of October 1, 2014, used the entry age normal cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2015, and to estimate the District's 2014-15 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 3.3 percent rate of return on invested assets, which is the District's long-term expectation of investment returns. The actuarial assumptions also included a payroll growth rate of 3.3 percent per year, projected salary increases of 3.7 percent to 7.8 percent, and an annual healthcare cost trend rate of 7.5 percent initially beginning October 1, 2014, reduced by 0.5 percent per year until 5 percent per year, and then by various decrements to an ultimate rate of 4.49 percent in 2040. The investment rate of return and payroll growth rate include a general price inflation of 2.5 percent. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis over a 15-year period. The remaining amortization period at June 30, 2015, was 9 years.

## F. Construction and Other Significant Commitments

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

The following is a schedule of encumbrances at June 30, 2015:

| Major Funds | | | | |
|---|---|---|---|---|
| General | Special Revenue - Other | Capital Projects - PECO | Nonmajor Governmental Funds | Total Governmental Funds |
| $ 34,646 | $ 27,012 | $ 4,191,853 | $ 311,932 | $ 4,565,443 |

At June 30, 2015, the encumbrances for the Capital Projects – PECO Fund exceeded the total fund balance by $1,173,389.78. The encumbrances are expected to be honored using the resources received in the subsequent fiscal year. If restricted capital outlay funds are insufficient, unrestricted General Fund resources will be used to honor these encumbrances.

**Construction Contracts**. Encumbrances include the following major construction contract commitments at fiscal year-end:

| Project | Contract Amount | Completed to Date | Balance Committed |
|---|---|---|---|
| Madison County High School Renovation | $ 6,370,909.91 | $ 3,059,092.31 | $ 3,311,817.60 |

## G. Risk Management Programs

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Madison County District School Board is a member of the Panhandle Area Educational Consortium - Risk Management Consortium (Consortium) under which several district school boards have established a combined limited self-insurance program for property protection, general liability, automobile liability, workers' compensation, employee fidelity and faithful performance, boiler and machinery, and other coverage deemed necessary by the members of the Consortium. Section 1001.42(12)(k), Florida Statutes, provides the authority for the District to enter into such a risk management program. The Consortium is self-sustaining through member assessments (premiums), and purchases coverage through commercial companies for claims in excess of specified amounts. The Board of Directors for the Consortium is composed of superintendents of all participating districts. The Washington County District School Board serves as fiscal agent for the Consortium.

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

Settled claims resulting from these risks have not exceeded commercial coverage in any of the past 3 fiscal years.

## H. Long-Term Liabilities

### 1. Special Public Education Capital Outlay (PECO) Advance Payable

The liability at June 30, 2015, of $1,058,950.70 represents the amount of the PECO Special Facilities allocation expected to be replaced by other District capital outlay sources that are

committed under Section 1013.64, Florida Statutes, for funding specific construction needs. The liability is expected to be retired by the close of the 2016-17 fiscal year.

## 2. Bonds Payable

Bonds payable at June 30, 2015, are as follows:

| Bond Type | Amount Outstanding | Interest Rates (Percent) | Annual Maturity To |
|---|---|---|---|
| State School Bonds: | | | |
| Series 2014B, Refunding | $ 209,000 | 2.0 - 5.0 | 2020 |
| District Revenue Bonds: | | | |
| Series 2010A, Refunding | 837,710 | 3.39 | 2021 |
| Series 2010B | 1,190,000 | 5.39 | 2027 |
| Total Bonds Payable | $ 2,236,710 | | |

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

**State School Bonds**

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

**District Revenue Bonds**

On September 22, 2010, the School Board issued District Revenue Bonds, Series 2010A, Refunding, and Series 2010B Qualified School Construction Bonds (QSCBs). A portion of the interest paid on the Series 2010 bonds will be rebated to the Board by the United States Treasury pursuant to the American Reinvestment and Recovery Act of 2009 (ARRA). The ARRA, signed into law on February 17, 2009, created a new category of direct subsidy debt for school districts, QSCBs. The QSCB does not represent incremental Federal funding; it must be repaid by the District.

The Series 2010B-QSCBs are designated as "qualified school construction bonds" as defined in Section 54F of the Internal Revenue Code (Code) and, pursuant to Section 6431 of the Code, the Board has elected to receive Federal subsidy payments on each interest payment date for the Series 2010B-QSCBs in an amount equal to the lessor of the amount of interest payable with respect to the Series 2010B-QSCBs on such date or the amount of interest which would have been payable with respect to the Series 2010B-QSCBs if the interest were determined at the applicable tax credit rate for Series 2010B-QSCBs pursuant to Section 54A(b)(3) of the Code. The interest rate is 5.39 percent with an allowed Federal subsidy of 5 percent, yielding a net amount of 0.39 percent. These bonds are authorized by Chapter 65-1869, Laws of Florida, which

provides that the bonds be secured from the pari-mutuel tax proceeds distributed annually to Madison County from the State's Pari-mutuel Tax Collection Trust Fund pursuant to Chapter 550, Florida Statutes (effective July 1, 2000, tax proceeds are distributed pursuant to Section 212.20(6)(d)7.a., Florida Statutes (2001), now Section 212.20(6)(d)6.a., Florida Statutes). The annual distribution is remitted by the Florida Department of Financial Services to the District. As required by the bond resolution, the District has established the sinking fund and reserve account and has accumulated and maintained adequate resources in the sinking fund and reserve account.

The District has pledged a total of $2,739,203.50 of pari-mutuel revenues in connection with the District Revenue Bonds, described above. During the 2014-15 fiscal year, the District recognized pari-mutuel revenues totaling $217,000 and expended $221,610 (102 percent) of these revenues for debt service directly collateralized by these revenues.

Annual requirements to amortize all bonded debt outstanding as of June 30, 2015, are as follows:

| Fiscal Year Ending June 30 | Total | Principal | Interest |
|---|---|---|---|
| State School Bonds: | | | |
| 2016 | $ 71,032.91 | $ 60,000.00 | $ 11,032.91 |
| 2017 | 72,210.00 | 65,000.00 | 7,210.00 |
| 2018 | 71,960.00 | 68,000.00 | 3,960.00 |
| 2019 | 8,560.00 | 8,000.00 | 560.00 |
| 2020 | 8,160.00 | 8,000.00 | 160.00 |
| Total State School Bonds | 231,922.91 | 209,000.00 | 22,922.91 |
| District Revenue Bonds: | | | |
| 2016 | 220,785.00 | 128,246.00 | 92,539.00 |
| 2017 | 220,785.00 | 132,593.00 | 88,192.00 |
| 2018 | 220,785.00 | 137,088.00 | 83,697.00 |
| 2019 | 220,785.00 | 141,735.00 | 79,050.00 |
| 2020 | 220,785.00 | 146,540.00 | 74,245.00 |
| 2021-2025 | 1,206,541.32 | 944,841.32 | 261,700.00 |
| 2026-2027 | 428,737.18 | 396,666.68 | 32,070.50 |
| Total District Revenue Bonds | 2,739,203.50 | 2,027,710.00 | 711,493.50 |
| **Total** | $ 2,971,126.41 | $ 2,236,710.00 | $ 734,416.41 |

## 3. Defeased Debt

On December 2, 2014, the FDOE issued SBE Capital Outlay Bonds, Series 2014B. The refunding bonds were issued, in part, to refund callable portions of the SBE Capital Outlay Bonds, Series 2005B, including $225,000 of the District's bonds. The SBE Capital Outlay Bonds, Series 2005B, bonds were called on January 1, 2015. The District's portion of the refunding SBE Capital Outlay Bonds, Series 2014B, was $209,000. The refunding of the Series 2005B Bonds reduced the District's total debt service payments by $16,077.09 over a 5-year period.

## 4. Changes in Long-Term Liabilities

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

| Description | Beginning Balance | Additions | Deductions | Ending Balance | Due In One Year |
|---|---|---|---|---|---|
| **GOVERNMENTAL ACTIVITIES** | | | | | |
| Bonds Payable | $ 2,441,751.00 | $ 209,000.00 | $ 414,041.00 | $ 2,236,710.00 | $ 188,246.00 |
| Special PECO Advance Payable | - | 1,587,969.70 | 529,019.00 | 1,058,950.70 | 529,475.35 |
| Compensated Absences Payable | 3,041,503.51 | 469,724.93 | 415,649.23 | 3,095,579.21 | 172,936.59 |
| Net Pension Liability (1) | 9,847,340.00 | 1,935,526.00 | 4,832,599.00 | 6,950,267.00 | 149,290.69 |
| Other Postemployment Benefits Payable | 610,862.00 | 240,498.00 | 173,999.00 | 677,361.00 | - |
| **Total Governmental Activities** | $ 15,941,456.51 | $ 4,442,718.63 | $ 6,365,307.23 | $ 14,018,867.91 | $ 1,039,948.63 |

Note: (1) The beginning balance resulted from the implementation of GASB Statement No. 68.

For the governmental activities, compensated absences, pension liabilities, and other postemployment benefits are generally liquidated with resources of the General Fund. Due to the nature of the liability there is no amount due in 1 year for other postemployment benefits.

## I. Fund Balance Reporting

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

- **Nonspendable Fund Balance**. Nonspendable fund balance is the net current financial resources that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. Generally, not in spendable form means that an item is not expected to be converted to cash.
- **Restricted Fund Balance**. Restricted fund balance is the portion of fund balance on which constraints have been placed by creditors, grantors, contributors, laws or regulations of other governments, constitutional provisions, or enabling legislation. Restricted fund balance places the most binding level of constraint on the use of fund balance.
- **Unassigned Fund Balance**. The unassigned fund balance is the portion of fund balance that is the residual classification for the General Fund. This balance represents amounts that have not been assigned to other funds and that have not been restricted, committed, or assigned for specific purposes.

## J. Interfund Receivables and Payables

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

| Funds | Interfund Receivables | Interfund Payables |
|---|---|---|
| Major: | | |
| General | $ 221,195.38 | $ - |
| Special Revenue: | | |
| Other | - | 179,077.00 |
| Capital Projects: | | |
| Public Education Capital Outlay | 28,208.66 | - |
| Nonmajor Governmental | - | 70,327.04 |
| **Total** | $ 249,404.04 | $ 249,404.04 |

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

## K. Revenues

### 1. Schedule of State Revenue Sources

The following is a schedule of the District's State revenue sources for the 2014-15 fiscal year:

| Source | Amount |
|---|---|
| Florida Education Finance Program | $ 11,712,188.00 |
| Gross Receipts Tax (Public Education Capital Outlay) | 6,060,170.30 |
| Categorical Educational Program - Class Size Reduction | 2,530,336.00 |
| Voluntary Prekindergarten Program | 123,593.07 |
| School Recognition | 116,086.00 |
| Motor Vehicle License Tax (Capital Outlay and Debt Service) | 106,807.98 |
| Workforce Development Program | 71,065.00 |
| Food Service Supplement | 21,374.00 |
| Mobile Home License Tax | 20,692.69 |
| Discretionary Lottery Funds | 8,472.00 |
| Miscellaneous | 308,675.07 |
| **Total** | $ 21,079,460.11 |

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

## 2. Property Taxes

The following is a summary of millages and taxes levied on the 2014 tax roll for the 2014-15 fiscal year:

| | Millages | Taxes Levied |
|---|---|---|
| **General Fund** | | |
| Nonvoted School Tax: | | |
| Required Local Effort | 5.058 | $ 3,482,912.72 |
| Basic Discretionary Local Effort | 0.748 | 515,069.20 |
| **Capital Projects - Local Capital Improvement Fund** | | |
| Nonvoted Tax: | | |
| Local Capital Improvements | 1.500 | 1,032,892.51 |
| **Total** | 7.306 | $ 5,030,874.43 |

## L. Interfund Transfers

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

| | Interfund | |
|---|---|---|
| **Funds** | **Transfers In** | **Transfers Out** |
| Major: | | |
| General | $ 801,276.90 | $ 1,250.00 |
| Capital Projects: | | |
| Public Education Capital Outlay | 500,810.34 | 506,535.24 |
| Nonmajor Governmental | 1,250.00 | 795,552.00 |
| **Total** | $ 1,303,337.24 | $ 1,303,337.24 |

Interfund transfers were to provide for the repayment of the Special PECO Advance, to transfer restricted capital outlay revenues to offset eligible expenditures for maintenance salaries and property and casualty insurance, and the reimbursement of expenditures related to the renovations of the Madison County High School.

## Budgetary Comparison Schedule
## General and Major Special Revenue Funds
## For the Fiscal Year Ended June 30, 2015

| | General Fund | | | |
|---|---|---|---|---|
| | Original Budget | Final Budget | Actual | Variance with Final Budget - Positive (Negative) |
| **Revenues** | | | | |
| Intergovernmental: | | | | |
| Federal Direct | $ - | $ - | $ - | $ - |
| Federal Through State and Local | 90,000.00 | 90,000.00 | 99,078.86 | 9,078.86 |
| State | 13,724,030.27 | 13,682,388.00 | 14,675,693.45 | 993,305.45 |
| Local: | | | | |
| Property Taxes | 3,859,219.00 | 3,859,219.00 | 3,880,399.38 | 21,180.38 |
| Miscellaneous | 411,047.67 | 2,342,366.98 | 645,442.15 | (1,696,924.83) |
| Total Local Revenues | 4,270,266.67 | 6,201,585.98 | 4,525,841.53 | (1,675,744.45) |
| **Total Revenues** | 18,084,296.94 | 19,973,973.98 | 19,300,613.84 | (673,360.14) |
| **Expenditures** | | | | |
| Current - Education: | | | | |
| Instruction | 10,813,404.82 | 11,590,957.05 | 11,471,667.41 | 119,289.64 |
| Student Personnel Services | 432,522.85 | 531,635.36 | 524,371.14 | 7,264.22 |
| Instructional Media Services | 215,995.14 | 238,157.63 | 214,621.88 | 23,535.75 |
| Instruction and Curriculum Development Services | 668,667.32 | 625,162.43 | 609,795.82 | 15,366.61 |
| Instructional Staff Training Services | 263,314.68 | 268,819.92 | 264,979.17 | 3,840.75 |
| Instructional - Related Technology | 192,510.07 | 278,122.64 | 278,122.64 | - |
| Board | 252,631.17 | 307,882.62 | 302,772.55 | 5,110.07 |
| General Administration | 890,545.60 | 648,717.02 | 385,244.19 | 263,472.83 |
| School Administration | 1,371,970.25 | 1,410,607.75 | 1,375,573.09 | 35,034.66 |
| Facilities Acquisition and Construction | 8,545.85 | 18,953.40 | - | 18,953.40 |
| Fiscal Services | 368,003.66 | 369,415.63 | 356,844.73 | 12,570.90 |
| Food Services | 15,843.86 | 43,071.29 | 41,580.47 | 1,490.82 |
| Central Services | 450,188.50 | 284,223.77 | 197,799.91 | 86,423.86 |
| Student Transportation Services | 1,374,538.91 | 1,498,187.08 | 1,493,186.18 | 5,000.90 |
| Operation of Plant | 1,993,544.76 | 2,118,592.11 | 2,118,592.11 | - |
| Maintenance of Plant | 313,404.75 | 313,610.48 | 298,715.20 | 14,895.28 |
| Administrative Technology Services | 150,687.02 | 226,609.61 | 224,533.73 | 2,075.88 |
| Community Services | 2,592.10 | 40,365.83 | 39,023.64 | 1,342.19 |
| Fixed Capital Outlay: | | | | |
| Facilities Acquisition and Construction | - | 506,535.24 | 506,535.24 | - |
| Other Capital Outlay | 361,618.49 | 60,114.48 | 60,114.48 | - |
| **Total Expenditures** | 20,140,529.80 | 21,379,741.34 | 20,764,073.58 | 615,667.76 |
| **Deficiency of Revenues Over Expenditures** | (2,056,232.86) | (1,405,767.36) | (1,463,459.74) | (57,692.38) |
| **Other Financing Sources (Uses)** | | | | |
| Transfers In | 620,000.00 | 620,000.00 | 801,276.90 | 181,276.90 |
| Transfers Out | - | (1,250.00) | (1,250.00) | - |
| **Total Other Financing Sources** | 620,000.00 | 618,750.00 | 800,026.90 | 181,276.90 |
| **Net Change in Fund Balances** | (1,436,232.86) | (787,017.36) | (663,432.84) | 123,584.52 |
| Fund Balances, Beginning | 2,376,599.20 | 2,376,599.20 | 2,508,243.12 | 131,643.92 |
| **Fund Balances, Ending** | $ 940,366.34 | $ 1,589,581.84 | $ 1,844,810.28 | $ 255,228.44 |

| Special Revenue - Other Fund | | | |
|---|---|---|---|
| Original Budget | Final Budget | Actual | Variance with Final Budget - Positive (Negative) |
| $ 91,340.41 | $ 7,997.45 | $ 7,997.45 | $ - |
| 2,709,859.54 | 3,721,441.98 | 3,721,441.98 | - |
| 23,263.65 | - | - | - |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| 2,824,463.60 | 3,729,439.43 | 3,729,439.43 | - |
| 1,479,609.63 | 1,977,825.03 | 1,977,825.03 | - |
| 180,004.50 | 240,788.66 | 240,788.66 | - |
| 43,116.67 | 31,990.29 | 31,990.29 | - |
| 404,288.47 | 573,565.33 | 573,565.33 | - |
| 267,799.19 | 501,638.13 | 501,638.13 | - |
| 16,031.61 | 1,943.44 | 1,943.44 | - |
| 3,201.00 | 10,750.00 | 10,750.00 | - |
| 115,000.96 | 117,506.52 | 117,506.52 | - |
| 12,486.93 | 16,268.80 | 16,268.80 | - |
| - | - | - | - |
| - | 321.99 | 321.99 | - |
| 3,008.33 | 3,423.67 | 3,423.67 | - |
| 2,126.18 | 4,156.64 | 4,156.64 | - |
| 5,999.84 | 53,940.04 | 53,940.04 | - |
| 9,613.68 | 6,058.90 | 6,058.90 | - |
| - | - | - | - |
| - | - | - | - |
| 34,945.03 | 36,860.04 | 36,860.04 | - |
| - | - | - | - |
| 247,231.58 | 152,401.95 | 152,401.95 | - |
| 2,824,463.60 | 3,729,439.43 | 3,729,439.43 | - |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| $ 0.00 | $ 0.00 | $ 0.00 | $ 0.00 |

## Schedule of Funding Progress – Other Postemployment Benefits Plan

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (1) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll [(b-a)/c] |
|---|---|---|---|---|---|---|
| 10/01/10 | $ - | $ 2,290,358 | $ 2,290,358 | 0% | $ 8,346,253 | 27.4% |
| 10/01/12 | - | 1,830,410 | 1,830,410 | 0% | 9,190,666 | 19.9% |
| 10/01/14 | - | 1,890,384 | 1,890,384 | 0% | 8,149,746 | 23.2% |

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

## Schedule of the District's Proportionate Share of the Net Pension Liability – Florida Retirement System Pension Plan (1)

| | 2014 | 2013 |
|---|---|---|
| District's proportion of the FRS net pension liability | 0.041025508% | 0.039291991% |
| District's proportionate share of the FRS net pension liability | $ 2,503,159 | $ 6,763,900 |
| District's covered-employee payroll | $ 13,273,165 | $ 13,083,228 |
| District's proportionate share of the FRS net pension liability as a percentage of its covered-employee payroll | 18.86% | 51.70% |
| FRS Plan fiduciary net position as a percentage of the total pension liability | 96.09% | 88.54% |

Note: (1) The amounts presented for each fiscal year were determined as of June 30.

## Schedule of District Contributions – Florida Retirement System Pension Plan (1)

| | 2015 | 2014 |
|---|---|---|
| Contractually required FRS contribution | $ 923,393 | $ 898,633 |
| FRS contributions in relation to the contractually required contribution | 923,393 | 898,633 |
| FRS contribution deficiency (excess) | $ - | $ - |
| District's covered-employee payroll | $ 12,815,192 | 13,273,165 |
| FRS contributions as a percentage of covered-employee payroll | 7.21% | 6.77% |

Note: (1) The amounts presented for each fiscal year were determined as of June 30.

## Schedule of the District's Proportionate Share of the Net Pension Liability – Health Insurance Subsidy Pension Plan (1)

| | 2014 | 2013 |
|---|---|---|
| District's proportion of the HIS net pension liability | 0.047561405% | 0.47609147% |
| District's proportionate share of the HIS net pension liability | $ 4,447,108 | $ 4,145,002 |
| District's covered-employee payroll | $ 14,126,574 | $ 13,865,381 |
| District's proportionate share of the HIS net pension liability as a percentage of its covered-employee payroll | 31.48% | 29.89% |
| HIS Plan fiduciary net position as a percentage of the total pension liability | 0.99% | 1.78% |

Note: (1) The amounts presented for each fiscal year were determined as of June 30.

## Schedule of District Contributions – Health Insurance Subsidy Pension Plan (1)

| | 2015 | 2014 |
|---|---|---|
| Contractually required HIS contribution | $ 170,778 | $ 162,929 |
| HIS contributions in relation to the contractually required contribution | 170,778 | 162,929 |
| HIS contribution deficiency (excess) | $ - | $ - |
| District's covered-employee payroll | $ 13,663,167 | $ 14,126,574 |
| HIS contributions as a percentage of covered-employee payroll | 1.25% | 1.15% |

Note: (1) The amounts presented for each fiscal year were determined as of June 30.

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

### 1. Budgetary Basis of Accounting

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

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

### 2. Schedule of Net Pension Liability and Schedule of Contributions – Florida Retirement System Pension Plan

*Changes of Assumptions.* As of June 30, 2014, the inflation rate assumption was decreased from 3 percent to 2.6 percent, the real payroll growth assumption was decreased from 1 percent to 0.65 percent, and the overall payroll growth rate assumption was decreased from 4 percent to 3.25 percent. The long-term expected rate of return decreased from 7.75 percent to 7.65 percent.

### 3. Schedule of Net Pension Liability and Schedule of Contributions – Health Insurance Subsidy Pension Plan

*Changes of Assumptions.* The municipal rate used to determine total pension liability decreased from 4.63 percent to 4.29 percent.

## Madison County District School Board
## Schedule of Expenditures of Federal Awards
## For the Fiscal Year Ended June 30, 2015

| Federal Grantor/Pass-Through Grantor/Program Title | Catalog of Federal Domestic Assistance Number | Pass -Through Grantor Number | Amount of Expenditures (1) | Amount Provided to Subrecipients |
|---|---|---|---|---|
| **United States Department of Agriculture:** | | | | |
| Indirect: | | | | |
| Child Nutrition Cluster: | | | | |
| Florida Department of Agriculture and Consumer Services: | | | | |
| School Breakfast Program | 10.553 | 14002 | $ 310,169.61 | $ - |
| National School Lunch Program | 10.555 (2) | 14001, 14003 | 1,026,594.20 | - |
| Summer Food Service Program for Children | 10.559 | 14006, 14007 | 40,729.43 | - |
| **Total Child Nutrition Cluster** | | | 1,377,493.24 | - |
| Fresh Fruits and Vegetable Program | 10.582 | 14004 | 10,705.07 | - |
| **Total United States Department of Agriculture** | | | 1,388,198.31 | - |
| **United States Department of Education:** | | | | |
| Direct: | | | | |
| Safe and Drug-Free Schools and Communities - National Programs | 84.184 | N/A | 7,997.45 | - |
| Indirect: | | | | |
| Special Education Cluster: | | | | |
| Florida Department of Education: | | | | |
| Special Education - Grants to States | 84.027 | 263 | 742,740.09 | - |
| Special Education - Preschool Grants | 84.173 | 267 | 58,281.55 | - |
| **Total Special Education Cluster** | | | 801,021.64 | - |
| Florida Department of Education: | | | | |
| Adult Education - Basic Grants to States | 84.002 | 191 | 55,932.57 | - |
| Title I Grants to Local Educational Agencies | 84.010 | 212, 223, 226 | 1,285,782.84 | - |
| Migrant Education - State Grant Program | 84.011 | 217 | 110,864.14 | - |
| Career and Technical Education - Basic Grants to States | 84.048 | 161 | 97,671.79 | - |
| Charter Schools | 84.282 | 298 | 171,170.92 | 168,553.46 |
| Twenty-First Century Community Learning Centers | 84.287 | 244 | 36,860.04 | - |
| Rural Education | 84.358 | 110 | 28,364.13 | - |
| Improving Teacher Quality State Grants | 84.367 | 224 | 142,270.28 | - |
| School Improvement Grant | 84.377 | 126 | 941,530.13 | - |
| ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act | 84.395 (3) | RA111, RL111, RA211, RG311, RG411 | 356,430.35 | - |
| Florida Gulf Coast University: | | | | |
| Special Education - State Personnel Development | 84.323 | None | 10,038.62 | - |
| Washington County District School Board: | | | | |
| ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act | 84.395 (3) | None | 12,463.08 | - |
| **Total Indirect** | | | 4,050,400.53 | 168,553.46 |
| **Total United States Department of Education** | | | 4,058,397.98 | 168,553.46 |
| **United States Department of Homeland Security:** | | | | |
| Indirect: | | | | |
| Florida Department of Education: | | | | |
| Homeland Security Grant Program | 97.067 | 532 | 39,359.90 | - |
| **Total Expenditures of Federal Awards** | | | $ 5,485,956.19 | $ 168,553.46 |

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

(2) Noncash Assistance - National School Lunch Program. Includes $109,311.48 of donated food used during the fiscal year. Donated foods are valued at fair value as determined at the time of donation.

(3) ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act. Total CFDA 84.395 expenditures: $368,893.43.

# AUDITOR GENERAL
## STATE OF FLORIDA

Claude Denson Pepper Building, Suite G74
111 West Madison Street
Tallahassee, Florida 32399-1450

Sherrill F. Norman, CPA
Auditor General

Phone: (850) 412-2722
Fax: (850) 488-6975


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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Madison County District School Board, as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 10, 2016, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the school internal funds and the discretely presented component unit, as described in our report on the District's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

**Internal Control Over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. 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 certain deficiency in internal control, described in the accompanying **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Financial Statement Finding 1, that we consider to be a significant deficiency.

**Compliance and Other Matters**

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

We noted certain additional matters that are discussed in the accompanying **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**.

**District's Response to Findings**

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

Respectfully submitted,

Sherrill F. Norman, CPA
Tallahassee, Florida
March 10, 2016

# AUDITOR GENERAL
## STATE OF FLORIDA

Sherrill F. Norman, CPA
Auditor General

Claude Denson Pepper Building, Suite G74
111 West Madison Street
Tallahassee, Florida 32399-1450

Phone: (850) 412-2722
Fax: (850) 488-6975


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

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

**Report on Compliance for Each Major Federal Program**

We have audited the Madison County District School Board's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major Federal programs for the fiscal year ended June 30, 2015. The District's major Federal programs are identified in the **SUMMARY OF AUDITOR'S RESULTS** section of the accompanying **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**.

***Management's Responsibility***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the District's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of the District's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the fiscal year ended June 30, 2015.

***Report on Internal Control Over Compliance***

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Respectfully submitted,

Sherrill F. Norman, CPA
Tallahassee, Florida
March 10, 2016

# SCHEDULE OF FINDINGS AND QUESTIONED COSTS

## SUMMARY OF AUDITOR'S RESULTS

**Financial Statements**

| | |
|---|---|
| Type of auditor's report issued: | Unmodified |
| Internal control over financial reporting: | |
| Material weakness(es) identified? | No |
| Significant deficiency(ies) identified? | Yes |
| Noncompliance material to financial statements noted? | No |

**Federal Awards**

| | |
|---|---|
| Internal control over major programs: | |
| Material weakness(es) identified? | No |
| Significant deficiency(ies) identified? | None reported |
| Type of auditor's report issued on compliance for major programs: | Unmodified |
| Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? | No |
| Identification of major programs: | |

| CFDA Numbers: | Name of Federal Program or Cluster: |
|---|---|
| 10.553, 10.555, and 10.559 | Child Nutrition Cluster |
| 84.010 | Title I Grants to Local Educational Agencies |
| 84.027 and 84.173 | Special Education Cluster |
| 84.282 | Charter Schools |
| 84.377 | School Improvement Grant |

| | |
|---|---|
| Dollar threshold used to distinguish between Type A and Type B programs: | $300,000 |
| Auditee qualified as low-risk auditee? | No |

# FINANCIAL STATEMENT FINDING

SIGNIFICANT DEFICIENCY

**Finding 1: Financial Reporting**

Employers participating in the Florida Retirement System defined benefit pension plan and similar plans are required, for the 2014-15 fiscal year financial statements, to implement Governmental Accounting Standards Board Statement No. 68 (GASB 68).[1] GASB 68 requires employers, such as the District, participating in these plans to report the employer's proportionate share of the net pension liability of the plans, and restate the beginning net position account to give the retroactive effect of implementing GASB 68.

Our review of the District's 2014-15 fiscal year annual financial report, as submitted to the Florida Department of Education (FDOE) and presented for audit, disclosed that District financial reporting procedures could be improved. For example, to give the retroactive effect of implementing GASB 68, the District needed to reduce the beginning net position account by $9.8 million; however, District personnel erroneously increased the account by $3.8 million, resulting in a $13.6 million net overstatement of beginning net position. This error occurred primarily because District personnel misunderstood the GASB 68 implementation requirements.

Reporting errors such as this may cause financial statement users to misunderstand the District's financial activities and incorrectly assess the District's financial position. We extended our audit procedures to determine the adjustments necessary to ensure that the District's financial statements amounts were properly classified, and District personnel accepted the adjustments we proposed. However, our extended audit procedures cannot substitute for management's responsibility to implement adequate controls over financial reporting.

**Recommendation: The District should improve financial reporting procedures to ensure that financial statement account balances and transactions are properly reported.**

# ADDITIONAL MATTERS

CONSTRUCTION ADMINISTRATION

Pursuant to State law,[2] the District may contract for the construction or renovation of facilities with a construction management entity (CME). Under the CME process, contractor profit and overhead are contractually agreed upon and the CME is responsible for all scheduling and coordination in both design and construction phases. The CME is also generally responsible for the successful, timely, and economical completion of the construction project. The CME may be required to offer a guaranteed maximum price (GMP), which allows for the difference between the actual cost of the project and the GMP amount, or the net cost savings, to be returned to the District. As such, a GMP contract requires

[1] GASB 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*.

[2] Section 1013.45(1)(c), Florida Statutes.

District personnel to closely monitor subcontractor bid awards and payments and other construction costs.

The District solicited competitive proposals, as required by State law,[3] for CME services relating to the Madison County High School (MCHS) Renovation Project. During the 2014-15 fiscal year, the District entered into three GMP contracts with the same CME for these services, including a contract for temporary classrooms ($663,824), a contract for north wing abatement and demolition ($245,994), and a contract for other MCHS renovations ($6,233,194). While the MCHS renovation project construction activities and transactions mostly occurred subsequent to June 30, 2015, the District began and completed the temporary classrooms and north wing abatement and demolition projects during the 2014-15 fiscal year.

As part of our 2014-15 fiscal year audit, we evaluated District construction administration procedures. Our audit procedures included discussions with District personnel about the temporary classrooms and the north wing abatement and demolition projects and review of District records, including the GMP contracts, payments, and other documentation associated with the projects. Additionally, we reviewed the propriety of Capital Outlay and Debt Service expenditures. As discussed in Findings 2 through 6, we found that District construction administration procedures could be improved.

## Finding 2: Monitoring Construction Payment Requests

To ensure potential savings in material and labor costs and prevent cost overruns or other impediments to the successful completion of GMP contracts, it is important for the District to review documentation submitted by the CMEs to support payment requests. During the 2014-15 fiscal year, the District made payments to the CME totaling $642,549 for the temporary classrooms project and $233,761 for the north wing abatement and demolition project.

District personnel indicated that, upon receipt of payment requests from the CME, District personnel verified the mathematical accuracy of the requests, including the retainage payable amounts, and verified that prior payments had been properly accumulated. However, according to District personnel, they did not compare the CME amounts requested for payment to the corresponding cost lines on the schedule of values in the CME GMP contracts, or to the subcontractors' invoices, bids, and contracts. Additionally, although we requested, the District did not provide copies of any of the subcontractor bids or contracts necessary to demonstrate that the CME amounts requested for payment agreed with applicable subcontractor records. District personnel indicated that the District did not compare the CME amounts requested for payment to the applicable GMP contract schedule of values cost lines or subcontractor records because of the limited number of District personnel. However, without documented comparisons, there is an increased risk that the District may overpay for services and not realize maximum cost savings under GMP contracts.

**Recommendation: The District should enhance procedures to require, before CME payments are made, a documented comparison of the amounts requested by the CME for payment to supporting documentation, such as corresponding cost lines on the schedule of values in the CME GMP contracts and subcontractor invoices, bids, and contracts.**

[3] Section 287.055, Florida Statutes.

## Finding 3: Subcontractor Selection

Pursuant to the GMP contracts, the CME is required to solicit bids for subcontractor services. Good business practice dictates that the District monitor the CME's competitive selection of subcontractors to ensure that subcontractor services are obtained at the lowest cost consistent with acceptable quality and that maximum cost savings under the GMP contracts are realized.

For the temporary classrooms and the north wing abatement and demolition projects, the CME entered into 23 subcontracts totaling $586,262. We requested documentation to support the competitive selection of subcontractors for these two projects; however, according to District personnel, the CME did not solicit bids for any of the 23 subcontracts relating to the two projects. Also, we noted that the District had not established construction administration monitoring procedures that required, for example, attendance at bid openings and records to demonstrate the subcontractor bidding process, and would ensure the CME complied with the required bidding process.

Without ensuring that the CME used a competitive bid process for selecting subcontractors and established District procedures to monitor the CME's process, there is an increased risk that subcontractor services may not be obtained at the lowest cost consistent with acceptable quality and maximum cost savings under the GMP contracts may not be realized.

**Recommendation: The District should establish procedures to ensure that CMEs select subcontractors using a competitive bid process. Such procedures should require District personnel to attend bid openings, verify the propriety of the selection process, and maintain records documenting the process.**

## Finding 4: Subcontractor Licenses

State law[4] provides that a CME must consist of, or contract with, licensed or registered professionals for the specific fields or areas of construction to be performed. State law[5] also establishes certain certification requirements for persons engaged in construction contracting, including licensing requirements for specialty contractors such as electrical, air conditioning, plumbing, and roofing contractors.

For the temporary classrooms and the north wing abatement and demolition projects, District personnel indicated that they did not verify that the subcontractors were licensed but, instead, relied on the CME to verify the subcontractors' licenses. In response to our inquiry, District personnel requested and the CME provided evidence that the subcontractors were appropriately licensed for these projects. Timely verification that subcontractors are appropriately licensed provides the District additional assurance that the subcontractors who will be working on District facilities meet the qualifications to perform the work for which they are engaged.

**Recommendation: The District should enhance procedures to ensure subcontractors are appropriately licensed before they commence work on District facilities.**

[4] Section 1013.45(1)(c), Florida Statutes.

[5] Chapter 489, Florida Statutes.

## Finding 5: General Conditions Costs

Effectively negotiating and documenting the reasonableness of general conditions costs is essential to ensure that potential cost savings are realized under GMP contracts. The CME GMP contracts for the temporary classrooms and the north wing abatement and demolition projects included general conditions costs provisions, totaling $152,152, which addressed such items as direct and indirect salary, permitting, bonds, and insurance costs.

As the temporary classrooms and the north wing abatement and demolition projects progressed, the CME billed the District for general conditions costs as a percentage of completion; however, according to District personnel, the District had not established written policies or procedures addressing the methodology to be applied and the factors to be considered during the negotiation process for general conditions costs. Such policies or procedures could include comparing costs to general conditions for similar projects, including similar projects in other school districts, and negotiating a reasonable amount for a total budgeted amount for all general conditions costs. Absent the establishment of such policies or procedures, District records did not evidence the District's determination that the general conditions costs were reasonable and appropriate.

Our review of general conditions costs further disclosed that CME payment requests were not accompanied by detailed documentation, such as CME payroll records or CME paid invoices, to support the amounts the CME requested from the District. Absent adequate monitoring of charges for general conditions costs, the District may be limited in its ability to determine the propriety of payment requests or to recover any cost savings associated with the project.

**Recommendation: The District should establish written policies and procedures addressing the negotiation and monitoring of general conditions costs. Such policies and procedures should require documentation of the methodology used and factors considered in negotiating general conditions costs, and the receipt and review of sufficiently detailed documentation supporting CME general conditions costs payment requests.**

## Finding 6: Capital Outlay and Debt Service Expenditures

The State Constitution[6] provides for the allocation of Capital Outlay and Debt Service (CO&DS) funds, derived from motor vehicle license revenue, to district school boards and other educational entities. Also, according to FDOE requirements,[7] the proceeds of CO&DS funds are to be expended only for the costs of projects designated in a project priority list (PPL) approved by the respective school board and subsequently approved by the State Board of Education (SBE). If a school board must add new projects, it may amend the PPL; however, the SBE must approve the amended PPL before a school board may use CO&DS funds on the new projects. The District's PPL for the 2014-15 fiscal year identified only the MCHS projects.

The District accounts for CO&DS proceeds in the Capital Projects - CO&DS Fund. For the 2014-15 fiscal year, District expenditures of CO&DS proceeds totaled $140,266. As part of our audit, we examined

[6] Article XII, Section 9(d) of the State Constitution.

[7] FDOE, Office of Educational Facilities, publication (2014) *State Requirements for Educational Facilities*, Section 2.1(5).

District records supporting selected CO&DS expenditures totaling $139,518. We noted expenditures totaling $117,280 for projects that were not on the PPL, including expenditures for a Lee Elementary School portable building, a fire alarm and intercom system for another portable building at Lee Elementary School, a cooler/freezer at Pinetta Elementary School, and maintenance services for Madison County Central School chillers. In response to our inquiry, District personnel indicated that they were unaware that these projects were not on the District's PPL. Our further examination found that these expenditures did not appear consistent with the allowable uses of CO&DS proceeds and, as such, represent questioned costs.

**Recommendation: The District should enhance procedures to ensure that CO&DS funds are expended in accordance with FDOE requirements. In addition, the District should provide documentation to the FDOE supporting the allowability of the questioned costs, totaling $117,280, or restore this amount to the Capital Projects - CO&DS Fund.**

## OTHER ADDITIONAL MATTERS

### Finding 7: Compensation and Salary Schedules

State law[8] requires the Board to designate positions to be filled, prescribe qualifications for those positions, and provide for the appointment, compensation, promotion, suspension, and dismissal of employees. State law[9] provides that, for instructional personnel, the Board must provide differentiated pay based on District-determined factors including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties (the four required differentiated pay categories).

While compensation of instructional personnel is typically subject to collective bargaining, the Board had not established a documented process to identify instructional personnel entitled to differentiated pay using the factors prescribed in State law. Such a documented process could specify the factors to be used as the basis for determining differentiated pay, the process for applying the factors, and the individuals responsible for making such determinations.

For instructional personnel, the District's 2014-15 fiscal year salary schedule and union contract provided for certain types of differentiated pay such as salary supplements for additional activities that instructional personnel performed beyond the standard workday including supplements for athletic coaches and band directors. However, contrary to State law, the schedule did not provide for differentiated pay for instructional personnel based on school demographics, critical shortage areas, and level of job performance difficulties. In response to our inquiry, District personnel indicated that salary schedule revisions to comply with differentiated pay requirements were delayed to coincide with implementing instructional personnel performance pay plans. However, without a Board-established documented process for determining which instructional personnel are to receive differentiated pay and Board-adopted salary schedules that identify differentiated pay based on the four required differentiated pay categories, the District may be limited in its ability to demonstrate that the various differentiated pay

[8] Section 1001.42(5)(a), Florida Statutes.

[9] Section 1012.22(1)(c)4.b., Florida Statutes.

factors are consistently considered and applied. Similar findings were noted in our report Nos. 2014-112 and 2015-162.

**Recommendation: The Board should establish a documented process for identifying instructional personnel entitled to differentiated pay using the factors prescribed in State law and adopt salary schedules that specify the differentiated pay based on the those factors.**

## Finding 8: Background Screenings

State law[10] requires that each person hired or contracted to serve in an instructional or noninstructional capacity that requires direct contact with students undergo background screenings. In addition, State law[11] provides that instructional and noninstructional employees and contractor workers who are permitted access on school grounds when students are present or who have direct contact with students must undergo a level 2 background screening[12] at least once every 5 years. To promote compliance with the statutory background screening requirements, District procedures require employees and contractor workers who have access to school grounds to undergo required background screenings.

During the 2014-15 fiscal year, the District employed 227 and 326 instructional and noninstructional personnel. The District also contracts for various services, such as counselors, tutors, therapists, and construction workers, who are permitted access on school grounds and are required to wear a District-issued name badge, which expires after 5 years, to gain access to school grounds. Once the badge expires, the contractor workers are prohibited from accessing school grounds unless they undergo the required background screening and obtain a new badge. According to District personnel, the Chief Financial Officer and Director of Facilities periodically conduct site visits on school grounds to confirm that contractor workers have the required name badges.

To determine whether required background screenings had been timely performed, we examined District records, as of June 2015, for 30 selected individuals,[13] and found that:

- Although the District identified the dates that the background screenings occurred for 3 employees and 1 contractor worker, and the dates were within the last 5 years, District personnel could not provide evidence of the required background screenings or other documentation to demonstrate that the District evaluated the screening results. District personnel indicated that the results supporting the required background screenings for these 4 individuals were initially in the Florida Department of Law Enforcement (FDLE) database but, after 6 months, the results expired and were no longer available. Nonetheless, documentation to evidence that required background screenings were obtained and evaluated is necessary for the District to demonstrate compliance with background screening requirements.
- For 3 other employees, including 1 new hire, the District had attempted to obtain background screenings within the last 5 years; however, the Federal Bureau of Investigation (FBI) rejected

[10] Section 1012.32(2) Florida Statutes.

[11] Sections 1012.56(10), 1012.465, and 1012.467, Florida Statutes.

[12] A level 2 background screening includes fingerprinting for Statewide criminal history records checks through the FDLE and national criminal history records checks through the FBI.

[13] The 30 selected individuals included 13 instructional personnel, 8 noninstructional personnel, and 9 contractor workers. The contractor workers were selected from a District-prepared list of construction workers and other District records of workers who provided services directly to students.

the screenings due to the poor quality of the fingerprints and, due to oversights, the District made no additional efforts to have the employees properly screened.

- For another employee, the required background screening had not been performed at least once in the past 5 years. The date of the most recent background screening for this employee was May 2010.

Absent effective controls to ensure that required background screenings are timely performed, there is an increased risk that employees or contractors with unsuitable backgrounds may have direct contact with students. A similar finding was noted in our report No. 2015-162.

**Recommendation: The District should take immediate action to identify employees and contractors who have not obtained the required background screenings, ensure the screenings are promptly obtained and evaluated, and make decisions as necessary, based on evaluations of the screenings. In the future, the District should ensure that required background screenings are timely performed for District employees and maintain documentation of the background screening results and evaluations.**

## Finding 9: Virtual Instruction Program – Policies and Procedures

State law[14] provides that school districts are to prescribe and adopt standards and polices to provide each student the opportunity to receive a complete education. Education methods to implement such standards and policies may include the delivery of learning courses through traditional school settings, blended courses consisting of both traditional classroom and online instructional techniques, participation in a virtual instruction program (VIP), or other methods. State law[15] establishes VIP requirements and requires school districts to include mandatory provisions in VIP provider contracts; make available optional types of virtual instruction; provide timely, written parental notification of VIP options; ensure the eligibility of students participating in the VIPs; and provide computer equipment, Internet access, and instructional materials to eligible students.

During the 2014-15 fiscal year, the District enrolled 60 part-time and 26 full-time VIP students. However, the District did not have comprehensive, written VIP policies and procedures to identify the processes necessary to ensure compliance with statutory requirements, document personnel responsibilities, provide consistent guidance to staff during personnel changes, ensure sufficient and appropriate training of personnel, or establish a reliable standard to measure the effectiveness and efficiency of operations.

In response to our inquiry, District personnel indicated that District procedures, along with various Board policies that address student attendance, promotion, and other processes, were sufficient without comprehensive, written VIP policies and procedures. Notwithstanding this response, the absence of comprehensive, written VIP policies and procedures may have contributed to the instances of noncompliance and control deficiencies discussed in Findings 10 through 14.

**Recommendation: To enhance the effectiveness of VIP operations and related activities, the District should develop and maintain comprehensive, written VIP policies and procedures.**

[14] Section 1001.41(3), Florida Statutes.

[15] Section 1002.45, Florida Statutes.

## Finding 10: Virtual Instruction Program – Provider Contracts

State law[16] requires that each contract with an FDOE-approved VIP provider contain certain provisions. For example, contracts with FDOE-approved VIP providers must contain a provision for the provider to publish student-teacher ratios[17] and other instructional information in all contracts negotiated pursuant to the applicable section of State law. District records should evidence the basis upon which District personnel determined the reasonableness of student-teacher ratios established in the VIP provider contracts. State law[18] also requires such contracts to include a provision requiring providers to be responsible for all debts of the VIP if the contract is not renewed or is terminated. Additionally, to ensure appropriate controls over data quality, security measures, and provider contract compliance, VIP provider contracts need to contain other provisions necessary to establish the District's expectations for the VIP providers.

During the 2014-15 fiscal year, the District contracted with two FDOE-approved VIP providers. Our review of these contracts and other District records disclosed that:

- Contrary to State law, the contract with one FDOE-approved provider did not establish student-teacher ratios and, although the contract with the other FDOE-approved provider established the ratios, the ratio for kindergarten through grade 5 students and teachers was 65:1 and appeared disproportionate. Further, District records did not evidence the basis upon which District personnel determined the reasonableness of the established ratios. Without records documenting the reasonableness of established ratios, there is an increased risk that the number of students in the VIP classes may be excessive and reduce the quality of the provider's virtual instruction.
- The contract with one FDOE-approved provider lacked a provision that required the provider to be responsible for all debts of the VIP if the contract is not renewed or is terminated. The inclusion of such a provision would strengthen the District's position in the event of a challenge by the provider.
- Neither contract included data quality requirements. Providers are to maintain significant amounts of education data to support the VIP administration and to meet District reporting needs for compliance with State funding, information, and accountability requirements in State law.[19] Accordingly, it is essential that accurate and complete data maintained by the provider on behalf of the District be readily available. Inclusion of data quality requirements in the provider contract would help ensure that District expectations for the timeliness, accuracy, and completeness of education data are clearly communicated to providers.
- Neither contract specified the minimum required security controls the District considered necessary to protect the confidentiality, availability, and integrity of critical and sensitive education data. While the contracts contained requirements for the providers to implement, maintain, and use appropriate administrative, technical or physical security measures required by Federal law,[20] without specified minimum required security controls, there is an increased risk that provider information security and other information technology controls may not be sufficient to protect the education data.

[16] Section 1002.45(4), Florida Statutes.

[17] Section 1002.45(2)(a)8.e., Florida Statutes.

[18] Section 1002.45(4)(e), Florida Statutes.

[19] Section 1008.31, Florida Statutes.

[20] The Family Educational Rights and Privacy Act (Title 20, Section 1232g, United States Code).

- Neither contract provided for the District's monitoring of provider compliance with contract terms or quality of instruction. Without such a provision, District personnel may be limited in their ability to perform such monitoring. Such monitoring could include confirmation or verification that the VIP provider protected the confidentiality of student records and supplied students with necessary instructional materials.

**Recommendation: The District should ensure that VIP provider contracts include statutorily required contract provisions, including established student-teacher ratios and a requirement that the provider be responsible for all debts of the VIP if the contract is not renewed or is terminated. The District should also ensure that VIP provider contracts include a provision for monitoring provider compliance as well as provisions necessary to promote quality instruction and education data integrity. In addition, District records should document the reasonableness of the student-teacher ratios established in FDOE-approved VIP provider contracts.**

## Finding 11: Virtual Instruction Program – Background Screenings

State law[21] requires VIP providers to conduct background screenings for all employees as a condition of approval by the FDOE as a VIP provider in the State. The FDOE process for approving VIP providers requires applicants to submit assurances that applicant employees have obtained the required background screenings and the required assurances indicate that lists of the background-screened employees are to be provided to each applicable school district.

During the 2014-15 fiscal year, the District contracted with two FDOE-approved VIP providers. According to District personnel, the District did not obtain or request documentation to evidence that the VIP provider employees had background screenings performed prior to delivery of services by the approved provider but instead relied solely on assurances provided in the contract that background screenings would be conducted for all provider employees. As similarly noted in Finding 8, absent effective controls to ensure that background screenings are timely performed, there is an increased risk that individuals with unsuitable backgrounds may be interacting with students. In addition, individuals with unsuitable backgrounds may also be granted access to confidential or sensitive District data and information technology resources.

**Recommendation: The District should routinely verify that the required background screenings have been performed for all VIP provider employees.**

## Finding 12: Virtual Instruction Program – Written Parental Notifications

State law[22] requires each school district to provide information to parents and students about a student's right and choice to participate in a VIP. In addition, State law[23] requires the District to provide parents with timely, written notifications of open enrollment periods for its VIP.

For the 2014-15 school year, the District used various communication methods to provide information about the District's VIP to parents and students. According to District personnel, such communication methods included written notices distributed to home school students, newspaper advertisements, and a

[21] Section 1002.45(2)(a)3., Florida Statutes.

[22] Section 1002.45(10), Florida Statutes.

[23] Section 1002.45(1)(b), Florida Statutes.

parent information meeting. While these methods demonstrate District efforts to communicate with parents and students about the VIP, District records did not evidence that the District provided written notifications directly to parents of all students about the VIP or dates of open enrollment periods.

District personnel indicated that they were unaware that parents had to be directly provided with timely, written notification of VIP options and open enrollment periods. Without direct notifications, timely provided in writing to parents, some parents may not be informed of available VIP options and open enrollment periods, potentially limiting student access to virtual instruction. Such direct notifications could be made in writing by letter or e-mail.

**Recommendation: The District should ensure that parents are timely and directly notified in writing about student opportunities to participate in the District's VIP and open enrollment period dates.**

## Finding 13: Virtual Instruction Program – Options

State law[24] requires the District, because it is located in a sparsely populated county eligible for special funding pursuant to State law,[25] to provide students the option of participating in part-time or full-time virtual instruction within the District's VIP. District records evidenced that the District offered all students the opportunity to participate in full-time virtual instruction and students in grades 6 through 12 the opportunity to participate in part-time virtual instruction. However, the District did not offer kindergarten through grade 5 students the opportunity to participate in part-time virtual instruction for the 2014-15 fiscal year.

District personnel indicated that the part-time virtual instruction option was not offered to all students because of an oversight. By not providing all students the opportunity to participate in part-time virtual instruction, the District limited student access to this instruction.

**Recommendation: The District should improve procedures to ensure part-time virtual instruction is offered to all students.**

## Finding 14: Virtual Instruction Program – Student Eligibility

State law[26] authorizes students to participate in VIPs if they meet certain eligibility criteria. The eligibility criteria include, attending a Florida Public school in the prior year and being funded by the Florida Education Finance Program, being a dependent child of a member of the United States Armed Forces who was transferred within the last 12 months to Florida from another state or foreign country, being eligible to enter kindergarten or first grade, and other qualifying reasons.

During the 2014-15 fiscal year, the District enrolled 86 VIP students; however, District personnel indicated that they did not determine whether the students were eligible to participate in the VIP. As part of our audit, we examined District records supporting 28 of the VIP students and found that 1 student was not

[24] Ibid.

[25] Section 1011.62(7), Florida Statutes.

[26] Section 1002.455(1) and (2), Florida Statutes.

eligible to participate in the VIP since he was not enrolled in a Florida public school in the prior year and did not meet any other eligibility criteria.

Absent effective procedures to verify student eligibility, there is an increased risk that ineligible students may participate in a VIP. In addition, documentation of the verification of VIP student eligibility is necessary to demonstrate compliance with State law.

**Recommendation: The District should establish procedures to verify, and document, the eligibility of students enrolled in a VIP.**

### Finding 15: Information Technology – Security Controls – Data Loss Prevention

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

Without adequate security controls related to data loss prevention, the risk is increased that the confidentiality, integrity, and availability of District data and IT resources may be compromised. Similar findings were communicated to management in connection with our report Nos. 2014-112 and 2015-162.

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

## *PRIOR AUDIT FOLLOW-UP*

The District had taken corrective actions for findings included in our report Nos. 2014-112 and 2015-162, except as discussed in Findings 7, 8, and 15 and shown in Table 1.

**Table 1**
**Findings Also Noted in Previous Audit Reports**

| Finding | 2013-14 Fiscal Year Audit Report No. 2015-162, Finding | 2012-13 Fiscal Year Audit Report No. 2014-112, Finding |
|---|---|---|
| 7 | 4 | 1 |
| 8 | 5 | Not Applicable |
| 15 | 10 | 7 |

# SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

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

| Audit Report No. and Federal Awards Finding No. | Program/Area | Brief Description | Status | Comments |
|---|---|---|---|---|
| 2015-162 (2014-001) | Charter Schools (CFDA No. 84.282) - Subrecipient Monitoring | Subrecipient monitoring procedures did not always ensure that subrecipient expenditures charged to the Charter Schools Program were adequately documented or allowable, resulting in $7,875 of questioned costs. | Partially Corrected. | The deficiencies have been corrected; however resolution of the questioned costs is pending from the grantor. |
| 2015-162 (2014-002) | School Improvement Grant Cluster (CFDA Nos. 84.377 and 84.388) - Allowable Costs/Cost Principles | Required documentation to support personnel charges to the School Improvement Grant Cluster programs was not always maintained, contrary to Federal regulations. | Corrected. | |
| 2015-162 (2014-003) | School Improvement Grant Cluster (CFDA Nos. 84.377 and 84.388) - Equipment Management | Federal equipment use was not always limited to grant purposes, resulting in $25,749.44 of questioned costs. | Partially Corrected. | The deficiencies have been corrected; however resolution of the questioned costs is pending from the grantor. |

**District School Board of Madison County**

210 NE Duval Avenue · Madison Florida 32340

Date: March 10, 2016

To: Sherrill F. Norman, CPA
Auditor General
Claude Denson Pepper Building, Suite 674
111 West Madison Street
Tallahassee, Florida 32399-1450

Management Response to Preliminary and Tentative Audit Findings
for Fiscal Year 2014-2015

Dear Ms. Norman:

**Response No. 1:** The District concurs with this finding. The District will soon implement an upgrade in the financial accounting system, changing from TERMS to FOCUS. We believe that the upgrade will enhance our reporting capabilities.

**Response No. 2:** The District concurs with this finding. The District has been working on policy and procedures revisions that will enable the District to better address the items mentioned.

**Response No. 3:** The District concurs with the finding. New policies have been written and are in the review process by the Board to update construction administration procedures.

**Response No. 4:** The District concurs with this finding. District personnel are working with the CME to ensure that all subcontractors are verified correctly.

**Response No. 5:** The District concurs with this finding. The District is in the final stages of a complete review, update, and re-write of all District policies and procedures. All items related to the construction process are in review and will be updated to cover all statutory requirements.

**Response No. 6:** The District concurs with this finding. In the future, changes in the PPL will be verified in writing prior to disbursement of funds.

**Response No. 7:** The District concurs with this finding. The District has worked with the local union to write a differentiated pay plan. While the plan has been written, it has not been submitted to the union membership for ratification. The plan is included as a part of the current contract negotiations.

PHONE 850-973-5022 FAX 850-973-5027 ANNEX FAX 850-973-5017 WWW.MADISON.K12.FL.US

**Doug Brown** Superintendent ·**Susie Williamson** District 1·**Kenneth Hall** District 2·**VeEtta L. Hagan** District 3·**Karen Pickles** District 4·**Bart Alford** District 5

An Equal Opportunity Employer 32340

**District School Board of Madison County**
210 NE Duval Avenue · Madison Florida 32340

**Response No. 8:** The District concurs with this finding. New policies and procedures are being instituted to address this issue.

**Response to No. 9:** The District concurs with this finding. The District has been working with FLDOE to update policies and procedures for VIP.

**Response to No. 10:** The District concurs with this finding. The District has been working with FLDOE to update policies and procedures for VIP.

**Response to No. 11:** The District concurs with this finding. The District has been working with FLDOE to update policies and procedures for VIP.

**Response to No. 12:** The District concurs with this finding. The District has been working with FLDOE to update policies and procedures for VIP.

**Response to No. 13:** The District concurs with this finding. The District has been working with FLDOE to update policies and procedures for VIP.

**Response to No. 14:** The District concurs with this finding. The District has been working with FLDOE to update policies and procedures for VIP.

**Response No. 15:** The District concurs with this finding. The District completed a written Data Loss Plan that has now been presented to and approved by the District Board.

Sincerely,

Doug Brown, Superintendent
District School Board of Madison County

PHONE 850-973-5022 FAX 850-973-5027 ANNEX FAX 850-973-5017 WWW.MADISON.K12.FL.US

**Doug Brown** Superintendent ·**Susie Williamson** District 1·**Kenneth Hall** District 2·**VeEtta L. Hagan** District 3·**Karen Pickles** District 4·**Bart Alford** District 5

An Equal Opportunity Employer 32340