

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

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

**Financial Statements
June 30, 2014**

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of The James Madison Preparatory High School, Inc. ("School"), a charter school and component unit of the District School Board of Madison County, Florida, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of The James Madison Preparatory High School, Inc., as of June 30, 2014, and the respective changes in financial position thereof for the year ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Budgetary Comparison Schedule, as shown in the table of contents, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historic context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2014, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance. .

Buescher & Company, LLC

Buescher & Company, LLC

Madison, Florida
November 6, 2014

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

Introduction

The Management's Discussion and Analysis (MD&A) of the annual financial report of The James Madison Preparatory High School, Inc. ("School") provides an overview of the School's activities for the fiscal year ended June 30, 2014. Because the information contained in this section is intended to highlight transactions, events, and conditions, it should be considered in conjunction with the School's financial statements and notes to the financial statements found on pages 16 through 21.

Overview of School

The School is a college preparatory high school that promotes student ownership of learning through a content-rich liberal arts curriculum emphasizing science, technology, engineering, and math (STEM). It is Madison County's first charter high school (and currently only charter school) and was created to provide a public education option for parents and students that did not exist. Opening in August 2013, with a 9th grade class of 40 students, the School will add a grade each year until the school serves 9th-12th graders with a maximum capacity of 200 students (50 students in each grade). Thus, first-year operations were relatively small with two full-time instructors and a school administrator, who also served as a part-time instructor.

Financial Highlights

- For the fiscal year ended June 30, 2014, the School's revenues exceeded expenses as shown in the School's statement of activities of \$24,856.
- As shown on the statement of net position, the School's total net position was \$25,184.

Overview of Financial Statements

The basic financial statements consist of the following four components:

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

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

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

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

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

The School operates the following funds: a General Fund, which accounts for general operations and internal account activities and a Special Revenue Fund, which accounts for Federal grant programs and food service operations. The School adopts an annual budget for its governmental funds. A budgetary comparison schedule, as required, has been provided for the General Fund to demonstrate compliance with the budget.

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

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

Government-Wide Financial Analysis

Net position may serve over time as a useful indicator of a government's financial position. The following is a summary of the School's net position as of June 30, 2014.

	Net Position, End of Year
	<u>Governmental Activities</u>
	<u>June 30, 2014</u>
Assets	
Current & Other Assets	\$ 10,515
Capital Assets, Net	<u>42,930</u>
Total Assets	<u>53,445</u>
Liabilities	
Current Liabilities	15,861
Long-Term Liabilities	<u>12,400</u>
Total Liabilities	<u>28,261</u>
Net Position	
Net Investment in Capital Assets	42,930
Unrestricted	<u>(17,746)</u>
Total Net Position	<u>\$ 25,184</u>

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

Because 2013-14 was the first full year of operations, no prior year amounts were available for comparison. The current assets of the school primarily consist of cash and cash equivalents and amounts due from other government agencies. Liabilities primarily consisted of accounts payable and short-term loans and long-term notes to the JMPHS Foundation to cover operational expenses. The School's net position was \$25,184 as of June 30, 2014, which included an unrestricted net position of (\$17,746).

The key elements of changes in the School's net position as of June 30, 2014 are as follows:

		Operating Results for the Year
		<u>Governmental Activities</u>
		<u>June 30, 2014</u>
Revenues:		
Federal through State & Local		\$ 171,652
State Sources		214,768
Local & Other		<u>26,956</u>
Total Revenues		<u>413,376</u>
Expenses:		
Instruction		181,952
Support Services		9,001
General Support		<u>97,567</u>
Total Expenses		<u>388,520</u>
Increase/ (Decrease) in Net Position		\$ <u>24,856</u>

Because 2013-14 was the first full year of operations, no prior year amounts were available for comparison. The School's largest source of revenue was the State of Florida (52%), primarily received through Florida Education Finance Program (FEFP). The second largest source of revenue was Federal through State (41.5%), received through Charter School Program Grant.

Concentration of expenses was split between General Support (51%) and Instruction (47%). General Support consisted of administration and operations expenses, including rent expense as the School did not receive State Capital Outlay funding.

Financial Analysis of School's Funds

The governmental funds reported a combined fund balance of (\$17,746) as of June 30, 2014.

Financial Analysis of School's Fiduciary Funds

The fiduciary funds reported a net position of (\$114).

Budgetary Highlights

The budgets for each fund (General Fund and Special Revenue Fund) were developed for 2013-14 were based on anticipated revenues and expenditures and expected student enrollment for the school year. The final General Fund budget was approved in September 2013 and not amended the remainder of the year. The Special Revenue Fund was amended as required by CSP Grant requirements.

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

Overall, the School was significantly under-budget for General Fund revenues and expenses. State revenue was lower than projected due to adjustments based on changes in district enrollment. The School also received unanticipated revenue from local sources. Instruction and General Support expenses were under-budget primarily due to amendments in the Special Revenue budget that allowed the CSP Grant to cover additional expenses. Refer to the Budgetary Comparison Schedule for additional information regarding the General Fund budget.

Capital Assets

The School's capital assets as of June 30, 2014 were \$42,930 (net of accumulated depreciation). Investment in capital assets includes furniture, fixtures, and equipment. Refer to Notes to Financial Statements for more information on capital assets.

Requests for Information

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

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

Government-Wide Financial Statements
June 30, 2014

Assets		
Current assets		
Cash and cash equivalents	\$	6,444
Accounts receivable		4,002
Due from internal service funds		69
Total current assets		10,515
Capital assets		
Building and equipment, net		3,559
Furniture, fixtures, and equipment, net		28,789
Audio visual materials, net		10,582
Total capital assets		42,930
Total assets	\$	53,445
Liabilities and net position		
Current liabilities		
Accounts payable	\$	2,258
Due to the Foundation		6,000
Due to Margaret Bunch		7,603
Total current liabilities		15,861
Long-term liabilities		
Due to the Foundation		12,400
Total long-term liabilities		12,400
Total liabilities		28,261
Net position		
Invested in capital assets, net of related debt		42,930
Unrestricted		(17,746)
Total net position		25,184
Total liabilities and net position	\$	53,445

See accompanying notes to financial statements

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

Government-Wide Financial Statements
Year ended June 30, 2014

Functions/Programs	Program Revenues				Net (Expense) Revenue and Change in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Instruction	\$ (181,952)	\$ -	\$ -	\$ 95,911	\$ (86,041)
Support services	(9,001)	-	-	8,647	(354)
General support	(197,567)	12,851	-	67,094	(117,622)
Total Governmental Activities	\$ (388,520)	\$ 12,851	\$ -	\$ 171,652	\$ (204,017)
General Revenues:					
State Revenue:					
Florida Education Finance Program				\$ 214,768	
Other State Revenue				794	
Unrestricted Grants and Contributions				11,556	
Unrestricted Invested Earnings				8	
Unrestricted Other Operating				1,747	
Total General Revenues				228,873	
Change in Net Position				24,856	
Net Position – Beginning				328	
Net Position – End				\$ 25,184	

See accompanying notes to financial statements

The James Madison Preparatory High School, Inc.
Balance Sheet

Fund Financial Statements June 30, 2014	General Fund		Special Revenue Fund		Total Governmental Funds
Assets					
Current Assets					
Cash and cash equivalents	\$	6,232	\$	212	\$ 6,444
Accounts receivable		492		3,510	4,002
Due from agency		69		-	69
<hr/>					
Total Assets	\$	6,793	\$	3,722	\$ 10,515
<hr/>					
Liabilities and fund balances					
Current liabilities					
Accounts payable	\$	2,258	\$	-	\$ 2,258
Due to Margaret Bunch		7,603		-	7,603
Due to Foundation		6,000		-	6,000
Long term liabilities					
Due to Foundation		7,573		4,827	12,400
Total liabilities		23,434		4,827	28,261
<hr/>					
Fund balance					
Committed		-		(1,105)	(1,105)
Spendable, unassigned		(16,641)		-	(16,641)
Total fund balances		(16,641)		(1,105)	(17,746)
<hr/>					
Total liabilities and fund balances	\$	6,793	\$	3,722	\$ 10,515

Reconciliation to the Statement of Net Position

Total Fund Balances – Governmental Funds \$ (17,746)

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

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources, therefore, are not reported as assets in governmental funds 42,930

Total Net Position – Governmental Activities \$ 25,184

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

Fund Financial Statements Year ended June 30, 2014		General Fund	Special Revenue Fund	Total Governmental Funds
Revenue				
Federal direct		794	-	794
Federal through State		44,096	127,556	171,652
State sources		214,768	-	214,768
Gifts, grants, bequests		4,056	-	4,056
Student lunches		12,671	-	12,671
Other school fees		1,927	8	1,935
Foundation revenue		7,500	-	7,500
Total revenue		285,812	127,564	413,376
Instruction Expenses				
Teachers basic K-12		163	-	163
Salaries		72,733	-	72,733
Teacher FRS		3,697	-	3,697
Teacher FICA		5,507	-	5,507
Teacher group insurance		1,318	-	1,318
Teacher worker's compensation		733	-	733
Teacher unemployment taxes		1,032	-	1,032
Subscriptions		160	2,937	3,097
Supplies		1,045	-	1,045
Textbooks		2,893	27,405	30,298
Other equipment & supplies		418	2,816	3,234
Noncapital furniture, fixtures & equipment		-	12,041	12,041
Capital computer hardware		-	55,191	55,191
Noncapital software		69	3,385	3,454
Other teacher services		858	-	858
Total instruction expenses		90,626	103,775	194,401

See accompanying notes to financial statements

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

Support Services Expense		
Media services	-	1,461
Library books	321	341
Media center	-	1,805
Media capital expenditures	120	2,217
Teacher training	-	1,200
Travel & conferences	354	1,977
Total support services expense	795	8,206
		9,001

Administrative Expenses		
Principal salary	68,000	68,000
Administration FRS	2,861	2,861
Administration FICA	4,793	4,793
Administration group insurance	610	610
Administration worker's compensation	367	367
Administration unemployment taxes	337	337
Administration professional services	4,824	4,824
Administration insurance	3,602	3,602
Administration rentals	25,000	25,000
Administration purchased services	881	881
Administration office supplies	1,036	1,036
Other administration	124	564
Administration noncapital expense	1,996	2,476
Administration capital software	1,666	1,666
Administration noncapital software	-	277
Dues and fees	299	2,024
Administration miscellaneous expense	2,275	8,698
Professional services	18,008	18,008
	-	-

See accompanying notes to financial statements

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

Food service supplies	166	-	166
Food service expenses	11,197	-	11,197
Food service furniture and equipment	855	-	855
Food service other	112	-	112
IT professional services	-	4,660	4,660
IT capital equipment	-	37,400	37,400
IT noncapital equipment	-	628	628
Transportation other	3,048	-	3,048
Property and liability insurance	292	-	292
Property repairs and maintenance	157	-	157
Property rentals	1,286	-	1,286
Property telephone	3,807	-	3,807
Property water	836	-	836
Property purchased services	7,184	-	7,184
Property electricity	8,093	-	8,093
Operations supplies	2,175	-	2,175
Operations capital equipment	127	-	127
Total administration expense	176,014	52,034	228,048
Excess(Deficiency) of Revenues Over/(Under) Expenditures	18,377	(36,451)	(18,074)
Other Financing Sources (Uses):			
Transfers In	-	35,346	35,346
Transfers Out	(35,346)	-	(35,346)
Total Other Financing Sources (Uses):	(35,346)	35,346	-
Increase (Decrease) in Fund Balance	(16,969)	(1,105)	(18,074)
Fund Balance -- beginning of the year	328	-	328
Fund Balance -- end of the year	\$ (16,641)	\$ (1,105)	\$ (17,746)

See accompanying notes to financial statements

The James Madison Preparatory High School, Inc.

**Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and
Changes in Fund Balances to the Statement of Activities**
For the Fiscal Year Ended June 30, 2014

Net Change in Fund Balances – Governmental Funds	\$ (18,074)
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Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. Capital outlays (\$49,849) is in excess of depreciation expense (\$6,919) in the current period.

<u>42,930</u>

Change in Net Position – Governmental Activities	\$ <u>24,856</u>
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The James Madison Preparatory High School, Inc.
Statement of Net Position

Fiduciary Activities
June 30, 2014

Assets

Current assets

Cash and cash equivalents	\$	1,064
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Accounts receivable		180
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Total current assets		1,244
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Total assets	\$	1,244
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Liabilities and net position

Current liabilities

Accounts payable	\$	1,289
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Due to general fund		69
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Total current liabilities		1,358
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Total liabilities		1,358
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Net position

Unrestricted		(114)
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Total net position		(114)
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Total liabilities and net position	\$	1,244
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See accompanying notes to financial statements

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

Fiduciary Activities

Year ended June 30, 2014

Receipts

FCA	\$ 290
BETA	270
Yearbook	1,230
PTO	3,016
Extracurricular	2,222
Total fiduciary receipts	7,028

Disbursements

FCA	235
BETA	270
PTO	2,007
Extracurricular	3,340
Yearbook	1,290
Total fiduciary disbursements	7,142

Decrease in net position (114)

Net position - beginning of year -

Net position - end of year \$ (114)

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

The general operating authority of the School is contained in Section 1002.33, Florida Statutes. The current charter is effective until June 30, 2018. The District may choose not to renew or terminate the charter for good cause or in following the procedures in Section 1002.33(8), Florida Statutes. In the event of termination of the charter, the District shall assume operation of the School. The School is considered a component unit of the District; therefore, for financial reporting purposes, the School is required to follow generally accepted accounting principles applicable to state and local governmental units.

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

Basis of Presentation

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

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

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

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

The School's major governmental funds are as follows:

- General Fund – to account for all financial resources not required to be accounted for in another fund.
- Special Revenue Fund – to account for all financial resources for the items purchased by the School with the Public Charter School Program Grant.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Basis of Accounting

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

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

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

Budgets and Budgetary Accounting

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

Cash and Cash Equivalents

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

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

Capital Assets

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

<u>Description</u>	<u>Estimated Lives</u>
Furniture, Fixtures and Equipment	3 – 7 years
Audio Visual Equipment	5 years
Building and Equipment	39 years

Net Position and Fund Balance Classifications

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

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

Fund financial statements – GASB Codification Section 1800.142, *Fund Balance Reporting and Governmental Fund Type Definitions*, defines the different types of fund balances that a governmental entity must use for financial reporting purposes. GASB requires the fund balance amounts to be reported within one of the following fund balance categories:

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

Order of Fund Balance Spending Policy

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Sources

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

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

In addition, the School receives State funds through the District under charter school capital outlay funding pursuant to Section 1013.62, Florida Statutes. Funds are based on a capital outlay plan submitted to the District and are to be used for lease or purchase of school equipment. The School also receives donations through fundraising efforts and school lunch sales.

Income Taxes

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

Use of Estimates

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

NOTE 2 – CAPITAL ASSETS

The following schedule provides a summary of changes in capital assets, acquired substantially with public funds, for the period ended June 30, 2014:

	Beginning	Additions	Retirements	Ending
Capital assets not being depreciated				
Donated property	\$ -	\$ 4,056	\$ -	\$ 4,056
Capital assets being depreciated				
Buildings and fixed equipment	-	3,644	-	3,644
Furniture, fixtures and equipment	-	29,700	-	29,700
Audio visual equipment	-	12,449	-	12,449
Total capital assets	-	49,849	-	49,849
Less accumulated depreciation for:				
Buildings and fixed equipment	-	(86)	-	(86)
Furniture, fixtures and equipment	-	(4,966)	-	(4,966)
Audio visual equipment	-	(1,867)	-	(1,867)
Total accumulated depreciation	-	(6,919)	-	(6,919)
Total capital assets - net	\$ -	\$ 42,930	\$ -	\$ 42,930

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

NOTE 2 – CAPITAL ASSETS (CONTINUED)

Depreciation expense for the year ended June 30, 2014 was \$6,919.

NOTE 3 – OPERATING LEASES

The School rents the educational facility from the Foundation, a related party, for \$2,500 per month. The lease is year-to-year and the amount of rent is determined by the Board. The Board approved a rent increase to \$3,000 per month for the subsequent period. See Note 8 – Related Party Transactions for rent payments in the current fiscal year.

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

Fiscal year ending June 30, 2015	<u>\$ 36,000</u>
Total Minimum Lease Payments	<u>\$ 36,000</u>

NOTE 4 – RISK MANAGEMENT PROGRAMS

Worker's compensation and general liability coverage are being provided through purchased commercial insurance with minimum deductibles for each line of coverage. There have been no claims from these risks as of the date of the statement of net position.

NOTE 5 – COMMITMENTS AND CONTINGENT LIABILITIES

The school participates in State grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the School has not complied with rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivables at June 30, 2014 may be impaired. In the opinion of the School, there are no significant liabilities relating to compliance with the rules and regulations governing the respective grants. No provision has been recorded in the accompanying financial statements for such contingencies.

NOTE 6 – LEGAL MATTERS

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

NOTE 7 – POSTRETIREMENT BENEFITS

Employees working in regularly established positions of the School are covered by the Florida Retirement System, a state-administered, cost-sharing, multi-employer, defined benefit retirement plan ("Plan"). Provisions are established by Chapter 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code, wherein Plan eligibility, contributions and benefits are defined and described in detail. Essentially, all regular employees of participating employers are eligible and must enroll as members of the Plan. Benefits vest at specified ages or number of years of service depending upon the employee's classification.

The Plan also includes an early retirement provision, but imposes a penalty for each year a member retires before the specified retirement age. The Plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments, as well as supplements for certain employees to cover social security benefits lost by virtue of retirement system membership.

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

NOTE 7 – POSTRETIREMENT BENEFITS (CONTINUED)

The Plan's financial statements and other supplemental information are included in the State of Florida's Comprehensive Annual Financial Report, which may be obtained by contacting the Florida Department of Financial Services. Also, an annual report on the Plan, which includes its financial statements, required supplemental information, actuarial report and other relevant information may be obtained from the Florida Division of Retirement.

The contribution rates for Plan members are established, and may be amended, by the State. Contribution rates for the year ended June 30, 2014 were 6.95% employer and 3.00% employee. The School's contributions to the Plan for the year ended June 30, 2014 totaled \$6,558.

NOTE 8 – RELATED PARTY TRANSACTIONS

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

	June 30, 2014
Revenue from the Foundation	
Gifts from Foundation not requiring repayment	7,500
Loans from the Foundation, no interest or maturity, for payroll and operating expenses	18,400
Expenses paid to the Foundation	
Property rent	25,000
Reimbursement for furniture, fixtures and equipment purchased by Foundation	3,188
Miscellaneous operating and food service expense reimbursements to Foundation	4,748
Total expenses paid to the Foundation	32,936

In addition, Margaret Ann Bunch, a Board member, had temporarily loaned the School funds for payment of energy bills and food service capital equipment. She loaned the School \$8,253 and was reimbursed \$650 during fiscal year 2014. The balance of the amount due to Margaret Ann Bunch, \$7,603, was reimbursed in July 2014 after fiscal year end.

NOTE 9 – SUBSEQUENT EVENTS

The School performed an evaluation of subsequent events through November 6, 2014, which is the date the financial statements were issued, noting no additional events which affect the financial statements as of June 30, 2014.

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

Budgetary Comparison Schedule – General Fund (Unaudited)
For the Fiscal Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Variance with Final
Revenues				
State Revenue:				
Florida Education Finance Program	\$ 249,447	\$ 221,208	\$ 214,768	\$ (6,440)
Other State Revenue	-	-	44,890	44,890
Local Revenue:				
Interest Income	-	-	5	5
Other Local Revenue	10,800	10,800	26,149	15,349
Total Revenue	260,247	232,008	285,812	53,804
Expenditures and Changes in Fund Balances				
Current Expenditures:				
Instructional	110,860	111,135	90,627	(20,510)
Instructional Support Services	103	103	795	692
General Support	191,747	182,623	176,013	(6,610)
Total Expenditures	302,710	293,861	267,435	(26,426)
Excess (Deficiency) of Revenues Over/ (Under) Expenditures	(42,463)	(61,853)	18,377	80,230
Other Financing Uses:				
Transfers Out	-	-	(35,346)	(35,346)
Increase (Decrease) in Fund Balance	(42,463)	(61,853)	(16,969)	44,884
Fund Balances, July 1, 2013	328	328	328	-
Fund Balances, June 30, 2014	\$ (42,135)	\$ (61,525)	\$ 16,641	\$ 78,166

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The James Madison Preparatory High School, Inc.(School), a component unit of the District School Board of Madison County, as of and for the year ended June 30,2014, and have issued our report thereon dated November 6, 2014.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompany schedule of findings and responses as 2014-01 and 2014-02 to be material weaknesses.

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. No significant deficiencies were discovered in our testing.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards*, described in the accompanying schedule of findings and responses as 2014-03.

The School's Response to Findings

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

Purpose of this Report

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

Buescher & Company, LLC

Buescher & Company, LLC

Madison, Florida
November 6, 2014

The James Madison Preparatory High School, Inc.
Schedule of Findings and Responses
Year Ended June 30, 2014

Current Year

2014-01 – Capital Assets were not properly maintained

Condition: In our testing, we noted that the School did not properly capitalize two pieces of equipment that met the capitalization threshold, causing assets to be understated by \$15,874. Depreciation was not properly calculated for the period under review, causing expenses to be understated by \$6,919.

Criteria: The School's management is responsible for designing and maintaining internal controls that provide assurance transactions are processed according to established procedures.

Cause: Lack of implementation of adequate internal controls for Capital Assets and failure to have a system to maintain annual depreciation.

Effect: Reporting on the School's financial position and results of operations could be misstated.

Recommendation: The School's management should implement adequate internal controls that provide reasonable assurance capital asset transactions are processed according to established policies and procedures. A system to capture depreciation adjustments should be created.

Management Response: The capitalization policy was not in effect until September 2013. All object 6xx expenditures are now reviewed monthly to ensure they are properly expensed or capitalized. Capital asset purchases are submitted on an annual basis to an outside service to maintain a capital asset listing and provide us with the annual depreciation expense.

2014-02 – Payables not properly recorded

Condition: In our testing for unrecorded liabilities after the fiscal year end, we noted the School did not record the liability for six invoices, causing liabilities to be understated by \$15,349.93.

Criteria: The School's management is responsible for designing and maintaining internal controls that provide assurance transactions are processed in the correct period and according to established procedures.

Cause: Lack of a detailed policy in place as to when payables are entered into the accounting system and how often they are reconciled.

Effect: Reporting on the School's financial position and results of operations could be misstated.

Recommendation: The School's management should implement adequate internal controls that provide reasonable assurance payables are processed according to established policies and procedures. The policy should be updated to the frequency that payables are entered into the QuickBooks system and when they are reconciled. All reconciliations should be reviewed and approved by someone other than the person preparing the reconciliation.

Management Response: A policy is being implemented to include all invoices received but not paid by June 30 (or grant periods with ending date later than June 30) to accounts payable in the fiscal year incurred.

2014-03 – Not in compliance with board policy requirement

Condition: In our testing, we noted that School employees who handle cash are not bonded.

Criteria: Per Board policy, employees who handle cash should be bonded through a fidelity (crime) bond.

Cause: The School is not in compliance due to failure to obtain a fidelity (crime) bond for Heather Johnson, an administrative assistant that handles cash.

Effect: The School is in violation of the Board policy and has potential contingent liability from dishonest employee actions.

Recommendation: We recommend that the School take action and obtain a fidelity bond for all employees that handle cash.

Management Response: The failure to obtain the bond was an oversight when employee was hired. The School will obtain the needed bond.

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

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

We have audited the basic financial statements of The James Madison Preparatory High School, Inc. (School), a charter school and component unit of the District School Board of Madison County, Florida, as of and for the fiscal year ended June 30, 2014, and have issued our report thereon dated November 6, 2014.

We have issued our independent auditor's report on compliance and on internal control over financial reporting based on an audit of the financial statements performed in accordance with *Government Auditing Standards* dated November 6, 2014. Disclosures in that report, if any, should be considered in conjunction with this management letter.

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

The Rules of the Auditor General (Section 10.854(1)(e)1.), require that we comment as to whether corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report. There were no prior audit findings and recommendations.

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

Pursuant to Sections 10.854(1)(e)6.a. and 10.855(11), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the School's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by management.

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

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

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

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

Buescher & Company, LLC

Buescher & Company, LLC

Madison, Florida
November 6, 2014