

**MADISON SCHOOL DISTRICT**  
**FINANCIAL REPORT**  
**WITH SUPPLEMENTAL INFORMATION**  
**JUNE 30, 2011**

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*Certified Public Accountants*

## INDEPENDENT AUDITORS' REPORT

Board of Education  
Madison School District  
Adrian, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and aggregate remaining fund information of the Madison School District as of and for the year ended June 30, 2011, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Madison School District. Our responsibility is to express an opinion 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the government activities, each major fund, and the aggregate remaining fund information of the Madison School District as of June 30, 2011, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 3 through 11, and page 32, are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Board of Education  
Madison School District  
Adrian, Michigan

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Madison School District's basic financial statements. The accompanying supplemental information, identified in the table of contents as Other Supplemental Information and Federal Awards Supplemental Information, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2011 on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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* and should be read in conjunction with this report in considering the results of our audit.

*Drake, Watters & Associates, PLLC*

Jackson, Michigan  
September 9, 2011

# **MADISON SCHOOL DISTRICT**

## **ADMINISTRATION'S DISCUSSION AND ANALYSIS For Fiscal Year Ended June 30, 2011**

Madison School District is a K-12 school district located in Lenawee County, Michigan. The Administration's Discussion and Analysis, a requirement of GASB 34, is intended to be the Madison School Districts' Administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2011.

Generally accepted accounting principles (GAAP), according to the GASB 34, requires the reporting of two types of financial statements: Fund Financial Statements and District Wide Financial Statements.

### **Fund Financial Statements:**

The fund level financial statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Debt Retirement Fund, Sinking Fund and the School Service Funds which are comprised of: Food Service and Athletics accounts.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

### **District Wide Financial Statements:**

The District wide financial statements are full accrual basis statements. They report all of the District's assets and liabilities, both short and long-term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Retirement Fund solely for the payment of long-term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and long-term obligations of the District are reported in the Statement of Net Assets of the District wide financial statements.

# MADISON SCHOOL DISTRICT

## ADMINISTRATION'S DISCUSSION AND ANALYSIS For Fiscal Year Ended June 30, 2011

### Summary of Net Assets:

The following summarizes the net assets at fiscal year ended June 30, 2011.

<b>Net Assets Summary</b>	<u>June 30, 2011</u>
<b>Assets</b>	
Current assets	<u>\$10,133,504</u>
Capital assets	20,265,412
Less: Accumulated depreciation	<u>(6,922,391)</u>
Capital assets, net book value	<u>13,343,021</u>
Total assets	<u>\$23,476,525</u>
<b>Liabilities</b>	
Current liabilities	\$ 2,569,831
Long-term liabilities	<u>3,943,559</u>
Total liabilities	<u>6,513,390</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	9,125,220
Nonspendable – inventories	12,131
Restricted for construction/repairs	3,848,321
Restricted for debt service	52,188
Unrestricted	<u>3,925,275</u>
Total net assets	<u>16,963,135</u>
Total liabilities and net assets	<u>\$23,476,525</u>

# MADISON SCHOOL DISTRICT

## ADMINISTRATION'S DISCUSSION AND ANALYSIS For Fiscal Year Ended June 30, 2011

### Analysis of Financial Position:

During fiscal year ended June 30, 2011, the District's net assets increased by \$424,872. A few of the significant factors affecting net assets during the year are discussed below:

#### A. General Fund Operations

The District's revenues from General Fund operations exceeded expenditures by \$373,865 for the fiscal year ended June 30, 2011. See the section entitled Results of Operations for further discussion of General Fund operations.

#### B. Debt, Principal Payments

The District issued new bonded, long-term obligations and also made principal payments on bonded, long-term debt obligations as follows:

	<u>Principal Balance June 30, 2010</u>	<u>New Debt (Payments) June 30, 2011</u>	<u>Principal Balance June 30, 2011</u>
1998 Bond Debt	\$ 825,000	\$ (260,000)	\$ 565,000
2011 Building & Site Bonds	-	3,600,000	3,600,000
Durant Debt	<u>60,564</u>	<u>(7,763)</u>	<u>52,801</u>
Total long-term bond obligations	<u>\$ 885,564</u>	<u>\$3,332,237</u>	<u>\$4,217,801</u>

#### C. Net Investment in Capital Assets

The District's net investment in capital assets decreased by \$337,902 during the fiscal year. This can be summarized as follows:

	<u>Balance June 30, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2011</u>
Capital assets	\$20,042,944	\$ 266,382	\$ 43,914	\$20,265,412
Less: Accumulated depreciation	<u>6,362,021</u>	<u>604,284</u>	<u>43,914</u>	<u>6,922,391</u>
Net investment capital outlay	<u>\$13,680,923</u>	<u>\$ (337,902)</u>	<u>\$ -</u>	<u>\$13,343,021</u>



## **MADISON SCHOOL DISTRICT**

### **ADMINISTRATION'S DISCUSSION AND ANALYSIS For Fiscal Year Ended June 30, 2011**

On September 22, 1998, the qualified electors of the School District approved a proposal with a 72 percent affirmative statement authorizing the School District to issue bonds in the sum of not to exceed Three Million Six Hundred Twenty Thousand (\$3,620,000) for the purpose of erecting, furnishing, and equipping an addition to the Madison High School, and developing and improving the site and relocating the softball field (the "Project").

On May 3, 2005, the qualified electors of the School District approved a proposal with a 67 percent affirmative statement authorizing the School District to levy an additional 1 mill for a period of 3 years; 2005, 2006, and 2007. On September 26, 2006 the 1 mill levy was extended for eight additional years, 2008 to 2015, by a 58% affirmative statement. This revenue will be used to create a sinking fund for the purchase of real estate for sites, for the construction or repair of school buildings and all other purposes authorized by law.

On May 3, 2011, the qualified electors of the School District approved a proposal authorizing the School District to issue bonds in the sum of not to exceed Three Million Six Hundred Thousand (\$3,600,000) for the purpose of erecting, furnishing and equipping a performing arts addition to and partially remodeling the Madison High School and developing and improving the site.

(Continued on next page)

# MADISON SCHOOL DISTRICT

## ADMINISTRATION'S DISCUSSION AND ANALYSIS For Fiscal Year Ended June 30, 2011

### Results of Operations:

For the fiscal year ended June 30, 2011, the District-wide results of operations were:

	<u>June 30, 2011</u>
<b>Revenues:</b>	
General Revenues:	
Property taxes levied for general operations	\$ 2,107,082
Property taxes levied for debt service	280,606
Property taxes levied for construction/repairs	183,951
State of Michigan unrestricted foundation aid	9,719,383
State of Michigan restricted	8,925
Other general revenues	<u>285,435</u>
Total general revenues	<u>12,585,382</u>
Operating Grants:	
Federal	1,382,186
State of Michigan	26,266
Other operating grants	<u>784,586</u>
Total operating grants	<u>2,193,038</u>
Charges for Services:	
Food service	171,725
Other charges for services	<u>59,950</u>
Total charges for services	<u>231,675</u>
Total revenues	<u>15,010,095</u>
<b>Expenses:</b>	
Instruction and instructional support	9,659,159
Support services	3,301,043
Food service	674,311
Athletics	297,877
Interest on long-term debt	48,549
Depreciation	<u>604,284</u>
Total expenses	<u>14,585,223</u>
<b>Increase in Net Assets</b>	<b>424,872</b>
<b>Beginning Net Assets</b>	<b><u>16,538,263</u></b>
<b>Ending Net Assets</b>	<b><u>\$ 16,963,135</u></b>

# MADISON SCHOOL DISTRICT

## ADMINISTRATION'S DISCUSSION AND ANALYSIS For Fiscal Year Ended June 30, 2011

### 1. State of Michigan Unrestricted Aid (Net State Foundation Grant)

The State of Michigan Aid, unrestricted, is determined with the following variables:

- a. State of Michigan State Aid Act per student foundation allowance
- b. Student Enrollment – Blended at 75 percent of current year's fall count and 25 percent of prior year's winter count
- c. The District's non-homestead levy

#### Per Student, Foundation Allowance:

Annually, the State of Michigan establishes the per student foundation allowance. The Madison School District's foundation allowance for the 2010-2011 school year was established at \$8,318, which represented no change from the prior year.

#### Student Enrollment:

The District's student enrollment for the fall count of 2010-2011 was 1,484 students. The District's enrollment increased slightly from the prior school year's student count. The following summarizes fall student enrollments in the past five years:

	<u>Student FTE</u>	<u>FTE Change from Prior Year</u>
2010-2011	1,484	1.85 %
2009-2010	1,457	3.41 %
2008-2009	1,409	(3.82) %
2007-2008	1,465	0.76 %
2006-2007	1,454	0.97 %

Subsequent to year-end June 30, 2011, preliminary student enrollments for 2011-2012 indicate that the enrollment increase experienced in 2010-2011 will continue, at least in the short term, and an additional enrollment increase will be experienced in the 2011-2012 school year. This projected enrollment growth is based on an anticipated increase in Schools of Choice students, especially at the Young Fives and Kindergarten grade levels. It is the Board of Education's desire to maintain a stable enrollment, small class sizes, and insure space is available for students who live in the District.

# MADISON SCHOOL DISTRICT

## ADMINISTRATION'S DISCUSSION AND ANALYSIS For Fiscal Year Ended June 30, 2011

### 2. Property Taxes levied for General Operations (General Fund Non-Homestead Taxes)

The District levies 18 mills of property taxes for operations (General Fund) on non-homestead properties not including the Madison Township TIFA. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually the taxable increase in property value is capped at the rate of the prior year's CPI increase or 5 percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value.

The District's non-homestead property revenue for the 2010-2011 fiscal year was \$2,107,082. The non-homestead tax levy decreased by 2.39 percent over the prior year.

The following summarizes the District's non-homestead levy the past five years:

<u>Fiscal Year</u>	<u>Non-Homestead Tax Levy</u>	<u>% Change From Prior Year</u>
2010-2011	\$2,107,082	(2.39)%
2009-2010	\$2,158,771	3.99 %
2008-2009	\$2,075,990	10.81 %
2007-2008	\$1,873,513	10.45 %
2006-2007	\$1,696,189	2.80 %

Average Increase Last 5 Years 5.13%

### 3. Debt Fund Property and Renaissance Zone In Lieu of Taxes

The District's debt fund levy, which is used to pay the principal and interest on bond obligations, is based on the taxable valuation of all properties: homestead and non-homestead.

For 2010-2011, the District's debt millage levy was 1.45 mills that generated revenue of \$280,606. The District's sinking fund millage levy was 0.9626 mills that generated revenue of \$183,951.

### 4. Food Sales to Students & Adults (School Lunch Program)

The sale of food and milk to the District's students and adults decreased from the prior school year by approximately \$9,431, to \$171,725.

The total expenditures from Food Service operations exceeded total revenues for the year by \$16,222 in the Food Services Fund.

# MADISON SCHOOL DISTRICT

## ADMINISTRATION'S DISCUSSION AND ANALYSIS For Fiscal Year Ended June 30, 2011

### GENERAL FUND BUDGET & ACTUAL REVENUES & EXPENDITURES

#### General Fund Expenditures Budget vs. Actual 5-Year History

<u>Fiscal Year</u>	<u>Expenditures Original Budget</u>	<u>Expenditures Final Budget</u>	<u>Expenditures Final Actual</u>	<u>Expenditures Variance Actual to Original Budget</u>	<u>Expenditures Variance Actual to Final Budget</u>
2006-2007	\$12,440,135	\$12,454,278	\$12,225,432	(1.73) %	(1.84) %
2007-2008	\$12,486,198	\$13,232,647	\$13,122,771	5.10 %	(0.83) %
2008-2009	\$13,769,421	\$13,984,215	\$13,954,101	1.34 %	(0.21) %
2009-2010	\$12,953,120	\$12,874,096	\$12,817,393	(1.04) %	(0.44) %
2010-2011	\$13,003,601	\$13,549,331	\$13,504,351	3.80 %	(0.33) %
Five Year Average Over (Under) Budget				1.49 %	(0.73) %

#### General Fund Revenue Budget vs. Actual 5-Year History

<u>Fiscal Year</u>	<u>Revenue Original Budget</u>	<u>Revenue Final Budget</u>	<u>Revenue Final Actual</u>	<u>Revenue Variance Actual to Original Budget</u>	<u>Revenue Variance Actual to Final Budget</u>
2006-2007	\$12,384,342	\$12,771,959	\$12,801,998	3.37 %	0.24 %
2007-2008	\$12,168,426	\$13,137,253	\$13,365,270	9.84 %	1.74 %
2008-2009	\$12,868,106	\$12,916,325	\$12,930,516	.48 %	.11 %
2009-2010	\$12,694,199	\$13,218,417	\$13,333,238	5.03 %	.87 %
2010-2011	\$12,911,460	\$13,907,696	\$13,878,216	7.49 %	(0.21) %
Five Year Average Over (Under) Budget				5.24 %	0.55 %

#### Original vs. Final Budget:

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. As a matter of practice, Madison School District amends its budget periodically during the school year. The 2010-2011 budgeting process was clearly one of the most (perhaps the most) challenging in our history. American Recovery and Reinvestment Act (ARRA) funding, continually changing restrictions on how those funds could be utilized, and State of Michigan funding reductions during the fiscal year made it extremely difficult to accurately project revenue and determine allowable ARRA expenditures. The June 27, 2011 budget amendment was the final budget for the fiscal year.

# MADISON SCHOOL DISTRICT

## ADMINISTRATION'S DISCUSSION AND ANALYSIS For Fiscal Year Ended June 30, 2011

### Change from Original to Final Budget

		%
Total Revenues Original Budget	\$12,911,460	100
Total Revenues Final Budget	<u>13,907,696</u>	<u>108</u>
Increase/Decrease in Budgeted Revenues	<u>\$ 996,236</u>	<u>8</u>

The District's final, actual General Fund revenues were less than final budget by \$29,480, a variance of 0.21 percent from final budget.

The final revenue budget reflects the following changes from the original budget:

- The original budget was based on a FTE blended count of 1,433 students. The actual FTE was 1,484.
- Total federal revenue was approximately \$479,000 higher than originally anticipated.

### General Fund Expenditures:

The District's budget for expenditures changed as follows during the year:

		%
Total Expenditures Original Budget	\$13,003,601	100
Total Expenditures Final Budget	<u>13,549,331</u>	<u>104</u>
Increase/Decrease in Budgeted Expenditures	<u>\$ 545,730</u>	<u>4</u>

The District's actual expenditures were less than final budget by \$44,980, a variance of 0.33 percent.

The 2010-11 fiscal year was unique with the significant amount of one-time federal ARRA funding utilized to replace State funding. State per pupil funding is, again, dramatically reduced for 2011-12. The continued weak State economy, and State funding reductions, makes it clear that schools need to closely monitor expenses. As is the case in all public schools, labor related costs are the most significant component of Madison's budget. In the past two years the required District contribution to the Michigan Public Schools Employee Retirement System on behalf of Madison employees has increased by 26%. Madison employees have demonstrated their understanding of the challenges confronting the District and have worked with the Board and administration to contain employee related expenditures.

### Contacting the District's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Superintendent's Office, Madison School District.

# MADISON SCHOOL DISTRICT

## STATEMENT OF NET ASSETS June 30, 2011

<b>ASSETS</b>	<u>Governmental Activities</u>
<b>CURRENT ASSETS:</b>	
Cash and cash equivalents (Note 3)	\$ 7,448,640
Accounts receivable (Note 4)	2,266
Unamortized bond issuance costs	84,125
Due from other governmental units (Note 4)	2,586,342
Inventories	<u>12,131</u>
<b>TOTAL CURRENT ASSETS</b>	<u>10,133,504</u>
<b>NONCURRENT ASSETS</b>	
Capital assets (Note 5)	20,265,412
Less: Accumulated depreciation	<u>(6,922,391)</u>
<b>TOTAL NONCURRENT ASSETS</b>	<u>13,343,021</u>
<b>TOTAL ASSETS</b>	<u>\$ 23,476,525</u>
<b>LIABILITIES</b>	
<b>CURRENT LIABILITIES:</b>	
Accounts payable	\$ 32,685
Accrued expenses	327,366
Accrued salaries and withholding	784,405
Deferred revenue	1,083,477
Accrued Interest	19,736
Bonds payable, Due within one year (Note 6)	319,282
Compensated absences and severance pay, Due within one year (Note 6)	<u>2,880</u>
<b>TOTAL CURRENT LIABILITIES</b>	<u>2,569,831</u>
<b>NONCURRENT LIABILITIES</b>	
Bonds payable (Note 6)	3,898,519
Compensated absences and severance pay (Note 6)	<u>45,040</u>
<b>TOTAL NONCURRENT LIABILITIES</b>	<u>3,943,559</u>
<b>TOTAL LIABILITIES</b>	<u>6,513,390</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	9,125,220
Nonspendable - inventories	12,131
Restricted for construction/repairs	3,848,321
Restricted for debt service	52,188
Unassigned	<u>3,925,275</u>
<b>TOTAL NET ASSETS</b>	<u>16,963,135</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 23,476,525</u>

See auditors' report and accompanying notes to financial statements.

# MADISON SCHOOL DISTRICT

## STATEMENT OF ACTIVITIES Year Ended June 30, 2011

FUNCTIONS/PROGRAMS	Expenses	Program Revenues		Governmental
		Charges for Services	Operating Grants	Activities
				Net (Expense) Revenue and Changes in Net Assets
Governmental Activities:				
Instruction and instructional support	\$ 9,659,159	\$ -	\$ 1,708,241	\$ (7,950,918)
Support services	3,301,043	-	-	(3,301,043)
Food services	674,311	171,725	484,797	(17,789)
Athletics	297,877	59,950	-	(237,927)
Interest on long-term debt	48,549	-	-	(48,549)
Depreciation (Unallocated)	604,284	-	-	(604,284)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>\$ 14,585,223</b>	<b>\$ 231,675</b>	<b>\$ 2,193,038</b>	<b>(12,160,510)</b>

### GENERAL REVENUES:

Taxes	
Property taxes, levied for general operations	2,107,082
Property taxes, levied for debt service	280,606
Property taxes, levied for construction/repairs	183,951
State of Michigan aid, unrestricted	9,719,383
State of Michigan aid, restricted	8,925
Interest and investment earnings	18,382
Other	267,053
<b>Total general revenues</b>	<b>12,585,382</b>

### CHANGE IN NET ASSETS

Net assets:	
Beginning of year	16,538,263
End of year	\$ 16,963,135

See auditors' report and accompanying notes to financial statements.



**MADISON SCHOOL DISTRICT**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2011**

	General	Capital Projects Fund	Debt Retirement	Sinking Fund	Other Nonmajor Governmental Fund	Total Governmental Funds
<b>Assets</b>						
Cash and investments (Note 3)	\$ 3,457,114	\$ 3,522,874	\$ 48,946	\$ 356,996	\$ 62,710	\$ 7,448,640
Accounts receivable (Note 4)	727	-	-	-	1,539	2,266
Due from other funds	-	-	3,242	-	54,761	58,003
Due from other governmental units (Note 4)	2,563,706	-	-	-	22,636	2,586,342
Inventories	-	-	-	-	12,131	12,131
<b>TOTAL ASSETS</b>	<b>\$ 6,021,547</b>	<b>\$ 3,522,874</b>	<b>\$ 52,188</b>	<b>\$ 356,996</b>	<b>\$ 153,777</b>	<b>\$ 10,107,382</b>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities</b>						
Accounts payable	\$ 1,136	\$ 31,549	\$ -	\$ -	\$ -	\$ 32,685
Due to other funds	58,003	-	-	-	-	58,003
Accrued expenses	327,366	-	-	-	-	327,366
Salaries payable	784,405	-	-	-	-	784,405
Deferred revenue	1,079,787	-	-	-	3,690	1,083,477
<b>TOTAL LIABILITIES</b>	<b>2,250,697</b>	<b>31,549</b>	<b>-</b>	<b>-</b>	<b>3,690</b>	<b>2,285,936</b>
<b>Fund Balances</b>						
Nonspendable - inventory	-	-	-	-	12,131	12,131
Restricted - debt retirement	-	-	52,188	-	-	52,188
Restricted - construction/repairs/renovations	-	3,491,325	-	356,996	-	3,848,321
Unassigned	3,770,850	-	-	-	-	3,770,850
Restricted, food services	-	-	-	-	137,956	137,956
<b>TOTAL FUND BALANCES</b>	<b>3,770,850</b>	<b>3,491,325</b>	<b>52,188</b>	<b>356,996</b>	<b>150,087</b>	<b>7,821,446</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 6,021,547</b>	<b>\$ 3,522,874</b>	<b>\$ 52,188</b>	<b>\$ 356,996</b>	<b>\$ 153,777</b>	<b>\$ 10,107,382</b>

See auditors' report and accompanying notes to financial statements.

# MADISON SCHOOL DISTRICT

## RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO NET ASSETS OF GOVERNMENTAL ACTIVITIES June 30, 2011

Total Governmental Fund Balances		\$	7,821,446
Amounts reported for governmental activities in the statements of net assets are different because:			
Capital assets used in governmental activities are not financial resources, and are not reported in the funds; The costs of the capital assets are Accumulated depreciation is		\$	20,265,412
			<u>(6,922,391)</u>
			13,343,021
Long-term liabilities are not due and payable in the current period and are not reported in the fund; Bonds payable Compensated absences			(4,217,801)
			<u>(47,920)</u>
Bond issuance costs reported as an expenditure in the governmental fund financial statements are capitalized in the government-wide financial statements			84,125
Accrued Interest is not included as a liability in governmental funds			<u>(19,736)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES		\$	<u>16,963,135</u>

See auditors' report and accompanying notes to financial statements.

**MADISON SCHOOL DISTRICT**

**STATEMENT OF REVENUE, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
Year Ended June 30, 2011**

	General	Capital Projects Fund	Debt Retirement	Sinking Fund	Other Nonmajor Governmental Fund	Totals
<b>Revenues</b>						
Local sources	\$ 2,311,772	\$ -	\$ 280,665	\$ 184,200	\$ 171,725	\$ 2,948,362
State sources	9,719,383	-	8,925	-	26,266	9,754,574
Federal sources	923,655	-	-	-	458,531	1,382,186
Interdistrict sources	784,586	-	-	-	-	784,586
Miscellaneous	138,820	-	-	-	1,567	140,387
<b>TOTAL REVENUES</b>	<b>13,878,216</b>	<b>-</b>	<b>289,590</b>	<b>184,200</b>	<b>658,089</b>	<b>15,010,095</b>
<b>Expenditures</b>						
Current:						
Instruction and instructional support services	10,304,014	-	-	-	-	10,304,014
Supporting services	3,200,337	-	-	-	674,311	3,874,648
Capital Projects						
Building construction	-	24,550	-	-	-	24,550
Bond issuance costs	-	84,125	-	-	-	84,125
Debt Service:						
Principal repayment	-	-	267,763	-	-	267,763
Interest and other expenses	-	-	34,462	-	-	34,462
<b>TOTAL EXPENDITURES</b>	<b>13,504,351</b>	<b>108,675</b>	<b>302,225</b>	<b>-</b>	<b>674,311</b>	<b>14,589,562</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>373,865</b>	<b>(108,675)</b>	<b>(12,635)</b>	<b>184,200</b>	<b>(16,222)</b>	<b>420,533</b>
<b>Other Financing Sources (Uses)</b>						
School building and site bond proceeds	-	3,600,000	-	-	-	3,600,000
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-</b>	<b>3,600,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,600,000</b>
<b>Net Change in Fund Balances</b>	<b>373,865</b>	<b>3,491,325</b>	<b>(12,635)</b>	<b>184,200</b>	<b>(16,222)</b>	<b>4,020,533</b>
<b>Fund Balances - Beginning of year</b>	<b>3,396,985</b>	<b>-</b>	<b>64,823</b>	<b>172,796</b>	<b>166,309</b>	<b>3,800,913</b>
<b>Fund Balances - End of year</b>	<b>\$ 3,770,850</b>	<b>\$ 3,491,325</b>	<b>\$ 52,188</b>	<b>\$ 356,996</b>	<b>\$ 150,087</b>	<b>\$ 7,821,446</b>

See auditors' report and accompanying notes to financial statements.

**MADISON SCHOOL DISTRICT****RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
Year Ended June 30, 2011**

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$ 4,020,533</b>
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures in the statement of activities; these costs are allocated over their estimated useful lives as depreciation.	
Depreciation expense	\$ (604,284)
Capital outlay, net of disposals	<u>266,382</u>
	(337,902)
Increase in accrued interest payable is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid	(14,087)
Proceeds from 2011 building and site bonds is revenue in the governmental funds, but not in the statement of activities (where it increases long-term debt)	(3,600,000)
Capitalize bond issuance costs expensed in the government-wide statements in fiscal 2006. Amount was expensed when paid in the governmental fund.	84,125
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	267,763
Decrease in compensated absences are not reported in the governmental funds	<u>4,440</u>
<b>Change in Net Assets of Governmental Activities</b>	<b>\$ <u>424,872</u></b>

See auditors' report and accompanying notes to financial statements.

**MADISON SCHOOL DISTRICT**

**STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
June 30, 2011**

	<u>Agency Fund Student Activities</u>
<b>Assets</b>	
Cash and cash equivalents	\$ <u>155,280</u>
<b>Liabilities</b>	
Liabilities:	
Due to student groups	\$ <u>155,280</u>

See auditors' report and accompanying notes to financial statements.

**Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Madison School District (the "School District") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District.

**REPORTING ENTITY**

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational and financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate, component units of the School District. Based on application of the criteria, the entity does not contain any component units.

**DISTRICT-WIDE AND FUND FINANCIAL STATEMENTS**

The district-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government. Substantially all inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the School District's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenue are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, although the fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Continued****Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

**District-wide Statements** – The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The effect of inter-fund activity has been substantially eliminated from the government-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted State Aid.

**Fund Financial Statements** – The accounts of the School District are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the combined financial statements in this report, into generic fund types in two broad fund categories as follows:

**GOVERNMENTAL FUNDS**

**General Fund** - The General Fund is the general operating fund of the School District. It is used to account for all financial resources except those that are required to be accounted for in another fund.

**School Service Funds** - The School Service Funds are used to report the activity of Food Service. For reporting purposes this activity is combined under the caption "GENERAL" in the general-purpose financial statements. Specific detail for the activity can be seen presented in the Supplemental Financial Information.

**Debt Retirement Fund** - Debt Retirement Funds are used to account for the accumulation of resources for and the payment of general long-term principal, interest, and related costs.

**Sinking Fund** – Sinking Funds are used to account for the accumulation of resources for and the payment of building repairs and renovations on a pay as you go basis, in accordance with Michigan law. The District has complied with the applicable provisions of Section 1212 (1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan.

**Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Continued**

**Capital Projects Fund** – The Capital Projects Fund is used to account for all resources for the acquisitions of capital facilities and equipment. The District has complied with the applicable provisions of Section 1212 (1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan.

**FIDUCIARY FUNDS**

**Agency Fund** - Agency Funds are used to account for assets held by the School District as an agent for student clubs, organizations, and classes. Agency Funds are custodial in nature and do not involve measurement of results of operations.

**ACCOUNT GROUPS**

Account groups are not funds. They do not reflect available financial resources and related liabilities or the measurement of results of operations. They are the District's accounting records of general long-term debt. The General Long-Term Debt Account Group is used to record the outstanding bonded debt, long-term notes payable and any other non-current obligation of the District.

**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 modified accrual or accrual basis of accounting, as appropriate, is used in measuring financial position and operating results:

Governmental Funds are accounted for using the current financial resources measurement focus. Accordingly, only current assets and liabilities are included on the balance sheets and the fund balances report only spendable resources. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net assets. These funds use the modified accrual basis of accounting. Under this basis of accounting, revenues are recognized when they are available and measurable and expenditures are recorded when the fund liability is incurred, if measurable.

Fiduciary fund revenues and expenses or expenditures as appropriate are recognized on the accrual basis and use the economic resources measurement focus. Nonexpendable Trust Funds and Agency Fund assets and liabilities are accounted for on the modified accrual basis and are prepared using the current financial resources measurement focus.

The term "Fund Modification" is used to refer to transfers that are recognized in the accounting period in which the inter-fund receivable and payable arise.

Governmental Funds, Agency Funds and the Expendable Trust Funds utilize the modified-accrual basis of accounting. Modifications in such method from the accrual basis are as follows:



**Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Continued****BASIS OF ACCOUNTING Continued**

- a. Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned. Other revenue is recorded when received. Properties are assessed as of December 31 and the related property taxes are levied and become a lien on July 1 for the property taxes that are due on February 14. The final collection date is February 28 after which they are added to the county tax rolls.
- b. Principal and interest on general long-term debt are not recorded as expenditures until their due dates.
- c. The non-current portion of vested sick days is reflected in the General Long-term Debt Account Group.

**Inventories** – Inventories of expendable school and maintenance supplies are not recognized. These items are charged to the appropriate expense at the time of purchase. No central inventory is maintained. The School Service Fund inventory consists of food and paper supplies. USDA commodities are stated at a value established by the USDA.

**Fund Balance Reporting** – The Governmental Accounting Standards Board (GASB) has issued Statement No. 54. This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories listed below:

**Nonspendable** – Fund balances associated with inventories, prepaids, long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed or assigned).

**Restricted** – Fund balances including amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

**Committed** – Fund balance reporting required by the School Board, either because of a School Board Policy in the School Board Policy Manual, or because of motions that passed at School Board meetings.

**Assigned** – Fund balance reporting occurring by School Board Administration authority, under the direction of the Chief Business Officer.

**Unassigned** – Fund balance representing the residual classification for the District's general fund and includes all spendable amounts not contained in the other classifications.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Continued

**Order of Fund Balance Spending Policy** – The District's policy is to apply expenditures against non-spendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance at the end of the fiscal year by adjusting journal entry.

First non-spendable fund balances are determined. Then restricted fund balances for specific purposes are determined (not including non-spendable amounts). Then any remaining fund balance amounts for the non-general funds are classified as restricted fund balances.

It is possible for the non-general funds to have negative unassigned fund balances when non-spendable amounts plus the restricted fund balances for specific purposes amounts exceed the positive fund balance for the non-general fund.

**Capital Assets** – Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental column in the government-wide financial statements. The Government defines capital assets as at least 80% of those tangible assets of the District with an estimated useful life in excess of one year and an initial cost equal to or exceeding \$5,000. A professional property appraisal firm has been used to perform an asset inventory and give an objective estimate of the asset's useful lives and values.

Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extended asset life are not capitalized. The School District does not have infrastructure-type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20–50 years
Buses and other vehicles	8 years
Furniture and other equipment	5-20 years

**Compensated Absences** – The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

**Long-term Obligations** – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. In the fund financial statements, governmental fund types recognize bond proceeds, premiums and discounts, as well as bond issuance costs, during the current period.

**Comparative Data** – Comparative data is not included in the School District's financial statements.

**Note 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**Budgetary Information** - The School District formally adopted General, Sinking and School Services Fund budgets by function for the fiscal year ended June 30, 2011; expenditures at this level in excess of amounts budgeted is a violation of Michigan law. Unexpended appropriations lapse at year-end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner. The budget has been prepared in accordance with generally accepted accounting principles.

The budget statement (combined statement of revenue, expenditures and changes in fund balances - budget and actual – general, sinking and school service fund types) is presented on the same basis of accounting used in preparing the adopted budget.

**Note 3 – DEPOSITS AND INVESTMENTS**

State statutes authorize the District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The District is allowed to invest in U.S. Treasury or agency obligations. U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The District's deposits are in accordance with statutory authority.

The District has designated three banks for the deposit of its funds.

The investment policy adopted by the board has authorized investments as listed in the state statutory authority as listed above.

The District's cash and investments are subject to several types of risk, which are examined in more detail below:

**Custodial Credit Risk of Bank Deposits** – Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. At year end, the District's deposit balance of \$7,941,032 had \$7,220,032 of bank deposits that were uninsured and uncollateralized. The District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**Custodial Credit Risk of Investments** – Custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District will minimize custodial credit risk by limiting investments to the types of securities allowed by state law; and by pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the District will do business.

**Concentration of Credit Risk** – The District places no limit on the amount the District may invest in any one issuer. The District minimizes concentration of credit risk by requiring diversification of the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**Note 3 – DEPOSITS AND INVESTMENTS continued**

**Foreign Currency Risk** – Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. State law prohibits investment in foreign currency.

Cash deposits and investments of the District consist of the following items at June 30, 2011:

	<u>MATURITY DATES</u>	<u>INTEREST RATES</u>	<u>CARRYING AMOUNT</u>	<u>BANK BALANCE</u>
<b>General Fund:</b>				
United Bank & Trust	N/A	0.50%	\$ 479,820	\$ 775,518
United Bank & Trust	N/A	0.50%	9,330	8,826
MI Liquid Asset Fund	N/A	VAR	22,345	22,345
United Bank & Trust - Athletic	N/A	0.50%	6,183	6,803
TLC Comm. Cr. Union	N/A	0.45%	921,179	921,531
1 <sup>st</sup> Federal Bank	N/A	1.00%	73	289
MBIA	N/A	VAR	762	762
MI Liquid Asset Fund	N/A	VAR	762,748	762,748
1 <sup>st</sup> Federal Bank	N/A	1.00%	<u>1,254,674</u>	<u>1,254,674</u>
			<u>\$3,457,114</u>	<u>\$3,753,496</u>
<b>Debt Retirement Fund:</b>				
MI Liquid Assets	N/A	VAR	<u>\$ 48,946</u>	<u>\$ 48,946</u>
<b>Sinking Fund:</b>				
1 <sup>st</sup> Federal Bank	N/A	1.00%	<u>\$ 356,996</u>	<u>\$ 356,996</u>
<b>Capital Projects Fund:</b>				
1 <sup>st</sup> Federal Bank	N/A	1.00%	<u>\$3,522,874</u>	<u>\$3,555,345</u>
<b>School Service Fund:</b>				
United Bank & Trust - School Lunch	N/A	0.50%	<u>\$ 62,710</u>	<u>\$ 62,642</u>
<b>Agency Fund:</b>				
United Bank & Trust	N/A	0.50%	\$ 144,797	\$ 153,123
United Bank & Trust	N/A	0.50%	<u>10,483</u>	<u>10,484</u>
			<u>\$ 155,280</u>	<u>\$ 163,607</u>
<b>Total Cash</b>			<u>\$7,603,920</u>	<u>\$7,941,032</u>

Deposits are carried at cost. The carrying amount of deposits is included on the balance sheet as "Cash".

The District invests certain excess funds with Michigan School District Liquid Asset Fund (MILAF) in investment trust accounts in accordance with Section 622, 1221, and 1223 of the Michigan School Code. Investments are stated at cost, which approximates market value. The Investment Funds are categorized as mutual funds. Each School District owns a pro-rata share of each investment or deposit that is held in the name of the fund. MILAF is rated AAAM by Standard & Poor's. As of June 30, 2011, the District had \$834,039 invested in MILAF accounts.

**Note 3 - DEPOSITS AND INVESTMENTS continued**

The District also invests certain excess funds in pooled short term investment funds which included money market funds. One of the pooled investment funds utilized by the School District is MBIA Michigan Class Accounts, in accordance with Sections 622, 1221, and 1223 of the Michigan School Code. MBIA is not regulated nor is it registered with the SEC. MBIA reports as of June 30, 2011, the fair value of the District's investments is the same as the value of the pool shares. As of June 30, 2011, the District had \$762 invested in MBIA accounts.

The District holds an investment in a U.S. Treasury Note as an agent on behalf of the McGee Scholarship, which is a part of the Agency Fund.

**Note 4 - RECEIVABLES**

Receivables as of year-end for the School District's individual major funds and the nonmajor and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General Fund</u>	<u>Nonmajor and Other Funds</u>	<u>Total</u>
Receivables:			
Intergovernmental	\$2,563,706	\$22,636	\$2,586,342
Other Receivables	<u>727</u>	<u>1,539</u>	<u>2,266</u>
Net receivables	<u>\$2,564,433</u>	<u>\$24,175</u>	<u>\$2,588,608</u>

(continued on next page)

**MADISON SCHOOL DISTRICT****NOTES TO FINANCIAL STATEMENTS  
June 30, 2011****Note 5 - CAPITAL ASSETS**

Capital asset activity of the School District's Governmental Activities was as follows:

	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Disposals/ Adjustments</u>	<u>Balance June 30, 2011</u>
Assets not being depreciated:				
Construction in process	\$ 657,807	\$ 24,550	\$(657,807)	\$ 24,550
Land	<u>912,065</u>	<u>-</u>	<u>-</u>	<u>912,065</u>
Subtotal	<u>1,569,872</u>	<u>24,550</u>	<u>(657,807)</u>	<u>936,615</u>
Capital assets being depreciated:				
Building and building improvements	15,101,172	-	649,632	15,750,804
Buses and other vehicles	635,623	88,150	(85,573)	638,200
Furniture and equipment	<u>2,736,277</u>	<u>153,682</u>	<u>49,834</u>	<u>2,939,793</u>
Subtotal	<u>18,473,072</u>	<u>241,832</u>	<u>613,893</u>	<u>19,328,797</u>
Accumulated depreciation:				
Building and building improvements	3,770,143	370,996	-	4,141,139
Buses and other vehicles	438,484	38,691	(85,558)	391,617
Furniture and equipment	<u>2,153,394</u>	<u>194,597</u>	<u>41,644</u>	<u>2,389,635</u>
Subtotal	<u>6,362,021</u>	<u>604,284</u>	<u>(43,914)</u>	<u>6,922,391</u>
Net capital assets being depreciated	<u>12,111,051</u>	<u>(362,452)</u>	<u>657,807</u>	<u>12,406,406</u>
Net capital assets	<u>\$13,680,923</u>	<u>\$ (337,902)</u>	<u>\$ -</u>	<u>\$13,343,021</u>

**Note 6 - LONG-TERM LIABILITIES**

Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-Term Debt Account Group, not in the governmental funds.

Because of their spending measurement focus, expenditure recognition for governmental fund types is limited to excluding amounts represented by non-current liabilities. Since they do not affect current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities. They are instead reported as liabilities in the General Long-Term Debt Account Group.

**Note 6 - LONG-TERM LIABILITIES - continued**

The following is a summary of the long-term debt transactions of the District for the year ended June 30, 2011:

	LONG-TERM DEBT JULY 1, 2010	INCREASED LONG-TERM DEBT	PAYMENTS/ REDUCTIONS	LONG-TERM DEBT JUNE 30, 2011	DUE WITHIN ONE YEAR
UNUSED SICK LEAVE	\$ 52,360	\$ 5,880	\$ 10,320	\$ 47,920	\$ 2,880
1998 BOND ISSUE	825,000	-	260,000	565,000	275,000
2011 BUILDING & SITE	-	3,600,000	-	3,600,000	-
DURANT DEBT	<u>60,564</u>	<u>-</u>	<u>7,763</u>	<u>52,801</u>	<u>44,282</u>
	<u>\$937,924</u>	<u>\$3,605,880</u>	<u>\$278,083</u>	<u>\$ 4,265,721</u>	<u>\$322,162</u>

Long-term liabilities at June 30, 2011 are comprised of the following individual issues:

Due to the uncertainty of unused sick leave maturity as of June 30, 2011, this liability has been included in the amount due "Thereafter" section.

\$ 47,920

\$3,600,000 – 2011 School Building and Site Bonds for the purpose of erecting, furnishing and equipping a performing arts addition to and partially remodeling the Madison High School, and developing and improving the site, due in annual installments of \$116,702 to \$305,425 through May 1, 2031; interest of 2.50% to 4.50%.

\$ 3,600,000

\$3,620,000 – 1998 General Obligation Bond Issue for the purpose of erecting, furnishing and equipping an addition to the Madison High School, and developing and improving the site and relocating the softball field, due in annual installments of \$70,000 to \$340,000 through May 1, 2013; interest of 3.40% to 4.0%.

\$ 565,000

\$127,000 – 1998 Durant School Improvement Bond Issue for the purpose of school improvement, due in various installments through May 15, 2013, interest at 4.76%.

\$ 52,801

An amount of \$52,188 is available in the debt service funds to service the general obligation debt.

**Note 6 - LONG-TERM LIABILITIES – continued**

The annual requirements to amortize all debts outstanding as of June 30, 2011, including interest payments of \$1,910,103 are as follows:

<u>YEAR ENDING JUNE 30</u>	<u>UNUSED SICK LEAVE</u>	<u>2011 BUILDING &amp; SITE ISSUE</u>	<u>1998 BOND ISSUE</u>	<u>DURANT ISSUE</u>
2012	\$ 2,880	\$ 116,702	\$297,600	\$59,967
2013	-	138,200	301,600	8,925
2014	-	268,200	-	-
2015	-	269,950	-	-
2016	-	271,575	-	-
2017-2021	-	1,412,425	-	-
2022-2026	-	1,475,735	-	-
2027-2032	-	1,507,025	-	-
Thereafter	<u>45,040</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$47,920</u>	<u>\$5,459,812</u>	<u>\$599,200</u>	<u>\$68,892</u>

**Note 7 - DEFINED BENEFIT PENSION PLAN AND POST RETIREMENT BENEFITS**

**Plan Description** - Substantially all District employees participate in the Michigan Public School Employees Retirement System (MPERS). MPERS is a cost-sharing multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, re-codified and currently operating under the provisions of Public Act 300 of 1980, as amended. MPERS was established to provide retirement, survivor and disability benefits to plan members and their beneficiaries. The system also provides postemployment healthcare benefits to retirees and beneficiaries who elect to receive those benefits. MPERS is a qualified trust fund under section 401(a) of the Internal Revenue Code. By statute, employees of K-12 public school districts may be members.

MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report is available on the web at <http://www.michigan.gov/orsschools>, or by writing to the Office of Retirement System at 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909.

**Funding Policy** - The District is required to contribute at a current rate of 20.66% of annual covered payroll. The District's contribution for years ending June 30, 2011, 2010, and 2009 were \$1,517,605, \$1,310,637, and \$1,255,511, respectively, which equals the required contribution for each year. Employer contributions to the system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus additional amounts to fund retiree health care benefits on a cash disbursement basis. Basic plan members make no contributions. All other participants contribute to a Member Investment Plan (MIP) with contribution rates varying based on Plan selections.

**Postemployment Benefits** - Under the MPERS Act, all retirees participating in the MPERS Pension Plan have the option of continuing health, dental, and vision coverage. Retirees having these benefits contribute an amount equivalent to the monthly cost for Part



**Note 7 – DEFINED BENEFIT PENSION PLAN AND POST RETIREMENT BENEFITS**

B Medicare and 10 percent of the monthly premium for the selected coverage. Required contributions for postemployment health care benefits are included as part of the District's total contribution to the MPSERS pension plan discussed above.

**Note 8 – CONTINGENT LIABILITIES**

The School District is a reimbursing employer to the Michigan Employment Security Commission and, as such, is responsible to pay the Commission for those benefits paid and charged to its account. As of June 30, 2011 appropriate liabilities have been recorded for all claims paid by the Commission. However, no provision has been made for future payments that might result from claims in process or not yet filed.

**Note 9 – RISK MANAGEMENT**

The District is exposed to various risks of loss from property and casualty theft damage to various tort and liability claims and worker's compensation claims. The District limits its exposure to such claims through its participation in and payments of premiums to SET-SEG, Inc. Insurance Trust. This pool maintains a loss fund and is also required by the terms of the participation agreement to obtain insurance and reinsurance as necessary.

The terms of the participation agreement with the pool indicate that, should losses of the pool incurred in a given coverage period exceed the loss fund and the aggregate excess reinsurance, the fund may access its member districts on a pro-rata basis to cover excess losses. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

**Note 10 - GASB 54 SPECIAL REVENUE FUNDS**

GASB 54 defines Special Revenue Funds as funds to be used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. The term "proceeds of specific revenue sources" establishes that one or more specific restricted or committed revenues should be the foundation for the special revenue fund. The District should discontinue reporting the fund as a Special Revenue Fund when the restricted or committed resource is no longer expected to be the substantial portion of the inflows to the fund.

Athletics has been reported as a Special Revenue Fund. It does not meet the definition of a Special Revenue Fund under GASB 54 as it receives a substantial portion of its revenue from the General Fund. As of July 1, 2010, athletics was combined with the General Fund. The following shows the restatement of fund balances as of July 1, 2010:

	General Fund	Athletics Fund
Fund Balance as of July 1, 2010, as reported	\$ 3,388,938	\$ 8,047
Effect of GASB 54 restatement	<u>8,047</u>	<u>(8,047)</u>
Restated Balance as of July 1, 2010	\$ <u>3,396,985</u>	\$ <u>0</u>

**Note 11 - RECLASSIFICATIONS**

Certain expenditures in the prior year amounts have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

## Required Supplemental Information

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# MADISON SCHOOL DISTRICT

## REQUIRED SUPPLEMENTAL INFORMATION BUDGETARY COMPARISON SCHEDULE - GENERAL FUND Year Ended June 30, 2011

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Over (Under) Actual
	Original	Final		
<b>Revenues:</b>				
Local sources	\$ 2,355,645	\$ 2,310,809	\$ 2,311,772	\$ (963)
State sources	9,545,110	9,752,053	9,719,383	32,670
Federal sources	481,476	960,315	923,655	36,660
Interdistrict sources	450,000	784,586	784,586	-
Miscellaneous	79,229	99,933	138,820	(38,887)
<b>TOTAL REVENUES</b>	<u>12,911,460</u>	<u>13,907,696</u>	<u>13,878,216</u>	<u>29,480</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Basic programs	7,594,169	7,830,468	7,801,128	(29,340)
Added needs	2,165,567	2,103,753	2,104,303	550
Community services	62,173	60,498	58,568	(1,930)
Pupil services	256,558	240,834	235,450	(5,384)
Instructional staff	97,014	105,420	104,565	(855)
Supporting Services:				
School administration and business	1,292,574	1,387,567	1,375,838	(11,729)
Operation, transportation and central	1,235,127	1,528,518	1,526,622	(1,896)
Athletics	300,419	292,273	297,877	5,604
<b>TOTAL EXPENDITURES</b>	<u>13,003,601</u>	<u>13,549,331</u>	<u>13,504,351</u>	<u>(44,980)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER USES</b>	(92,141)	358,365	373,865	(15,500)
<b>Budgetary fund balance - July 1, 2010</b>	<u>3,396,985</u>	<u>3,396,985</u>	<u>3,396,985</u>	<u>-</u>
<b>Budgetary fund balance - June 30, 2011</b>	<u>\$ 3,304,844</u>	<u>\$ 3,755,350</u>	<u>\$ 3,770,850</u>	<u>\$ (15,500)</u>

See auditors' report and accompanying notes to financial statements.

## Other Supplemental Information

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# MADISON SCHOOL DISTRICT

## BALANCE SHEET - NONMAJOR GOVERNMENTAL FUND June 30, 2011

	Nonmajor Special Revenue/ Governmental Fund
	School Lunch Fund
<b>Assets</b>	
Cash and investments	\$ 62,710
Accounts receivable	1,539
Due from general fund	54,761
Due from other government	22,636
Inventory	12,131
	<hr/>
TOTAL ASSETS	\$ 153,777
<b>Liabilities and Fund Balance</b>	
<b>Liabilities</b>	
Deferred revenue	\$ 3,690
	<hr/>
TOTAL LIABILITIES	3,690
<b>Fund Balance</b>	
Nonspendable - inventory	12,131
Restricted	137,956
	<hr/>
TOTAL FUND BALANCE	150,087
	<hr/>
TOTAL LIABILITIES AND FUND BALANCE	\$ 153,777
	<hr/>

See auditors' report.

# MADISON SCHOOL DISTRICT

## NONMAJOR GOVERNMENTAL FUND STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE Year Ended June 30, 2011

	Nonmajor Special Revenue/ Governmental Fund
	School Lunch Fund
<b>Revenues</b>	
Local sources	\$ 171,725
State sources	26,266
Federal sources	458,531
Miscellaneous	1,567
<b>TOTAL REVENUES</b>	<b>658,089</b>
<b>Expenditures</b>	
Current operations:	
Food services	668,348
Capital outlay	5,963
<b>TOTAL EXPENDITURES</b>	<b>674,311</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>(16,222)</b>
<b>Fund Balance - July 1, 2010</b>	<b>166,309</b>
<b>Fund Balance - June 30, 2011</b>	<b>\$ 150,087</b>

See auditors' report.

# MADISON SCHOOL DISTRICT

## GENERAL FUND SCHEDULE OF REVENUES - BUDGET AND ACTUAL Year Ended June 30, 2011

	2011 Budget	2011 Actual	Over (Under) Budget	2010 Actual
<b>Revenue from Local Sources:</b>				
Property tax	\$ 2,110,962	\$ 2,107,082	\$ (3,880)	\$ 2,158,771
Tuition	28,606	31,550	2,944	34,207
Earnings on investments and deposits	18,000	18,074	74	31,620
Athletics	84,237	59,950	(24,287)	282,485
Other local revenue	69,004	95,116	26,112	67,629
<b>TOTAL REVENUE FROM LOCAL SOURCES</b>	<u>2,310,809</u>	<u>2,311,772</u>	<u>963</u>	<u>2,574,712</u>
<b>Revenue from State Sources:</b>				
State School Aid	9,752,053	9,719,383	(32,670)	9,391,785
<b>TOTAL REVENUE FROM STATE SOURCES</b>	<u>9,752,053</u>	<u>9,719,383</u>	<u>(32,670)</u>	<u>9,391,785</u>
<b>Revenue from Federal Sources:</b>				
ARRA education stabilization fund	167,625	167,625	-	396,654
Title I	227,354	206,918	(20,436)	201,264
Other	565,336	549,112	(16,224)	321,791
<b>TOTAL REVENUE FROM FEDERAL SOURCES</b>	<u>960,315</u>	<u>923,655</u>	<u>(36,660)</u>	<u>919,709</u>
<b>Incoming Transfers and Other Transactions:</b>				
County special education	784,586	784,586	-	635,450
Payments received from other units	99,933	138,820	38,887	94,067
<b>TOTAL INCOMING TRANSFERS AND OTHER TRANSACTIONS</b>	<u>884,519</u>	<u>923,406</u>	<u>38,887</u>	<u>729,517</u>
<b>TOTAL REVENUE AND OTHER FINANCING SOURCES</b>	<u>\$ 13,907,696</u>	<u>\$ 13,878,216</u>	<u>\$ (29,480)</u>	<u>\$ 13,615,723</u>

See auditors' report.



# MADISON SCHOOL DISTRICT

## GENERAL FUND SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL Year Ended June 30, 2011

	2011 Budget	2011 Actual	Over (Under) Budget	2010 Actual
<b>Instruction:</b>				
Basic Programs - Pre-School:				
Salaries	\$ 66,704	\$ 66,704	\$ -	\$ 84,045
Benefits	39,358	39,176	(182)	39,079
Purchased services	2,285	2,285	-	784
Supplies and materials	800	800	-	584
<b>TOTAL PRE-SCHOOL</b>	<b>109,147</b>	<b>108,965</b>	<b>(182)</b>	<b>124,492</b>
Basic Programs - Elementary:				
Salaries	2,402,183	2,395,064	(7,119)	2,300,472
Benefits	1,227,717	1,210,777	(16,940)	1,096,869
Purchased services	70,126	69,974	(152)	75,647
Supplies and materials	84,410	84,462	52	72,880
Capital outlay	107,140	107,139	(1)	23,482
<b>TOTAL ELEMENTARY</b>	<b>3,891,576</b>	<b>3,867,416</b>	<b>(24,160)</b>	<b>3,569,350</b>
Basic Programs - High School/Middle School:				
Salaries	2,334,166	2,282,816	(51,350)	2,274,597
Benefits	1,163,272	1,174,261	10,989	1,105,805
Purchased services	105,184	148,716	43,532	100,397
Supplies and materials	153,043	141,606	(11,437)	180,087
Capital outlay	74,080	77,348	3,268	84,603
<b>TOTAL HIGH SCHOOL/MIDDLE SCHOOL</b>	<b>3,829,745</b>	<b>3,824,747</b>	<b>(4,998)</b>	<b>3,745,489</b>
<b>TOTAL BASIC PROGRAMS</b>	<b>7,830,468</b>	<b>7,801,128</b>	<b>(29,340)</b>	<b>7,439,331</b>
Added Needs - Special Education				
Salaries	862,379	862,465	86	853,396
Benefits	413,398	409,937	(3,461)	361,536
Purchased services	74,780	74,738	(42)	112,634
Supplies and materials	7,199	6,261	(938)	12,363
Capital outlay	1,940	1,936	(4)	2,468
<b>TOTAL SPECIAL EDUCATION</b>	<b>1,359,696</b>	<b>1,355,337</b>	<b>(4,359)</b>	<b>1,342,397</b>
Added Needs - Compensatory Education				
Salaries	228,559	233,906	5,347	273,271
Benefits	70,074	71,298	1,224	75,319
Supplies and materials	2,313	2,313	-	273
Purchased services	900	900	-	900
<b>TOTAL COMPENSATORY EDUCATION</b>	<b>301,846</b>	<b>308,417</b>	<b>6,571</b>	<b>349,763</b>

See auditors' report.

# MADISON SCHOOL DISTRICT

## GENERAL FUND SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL Year Ended June 30, 2011

	2011 Budget	2011 Actual	Over/(Under) Budget	2010 Actual
<b>Instruction continued:</b>				
Other added needs:				
Salaries	\$ 312,863	\$ 312,529	\$ (334)	\$ 310,387
Benefits	126,143	124,771	(1,372)	97,369
Purchased services	-	-	-	1,184
Supplies and materials	3,205	3,249	44	4,242
<b>TOTAL OTHER ADDED NEEDS</b>	<b>442,211</b>	<b>440,549</b>	<b>(1,662)</b>	<b>413,182</b>
<b>TOTAL ADDED NEEDS</b>	<b>2,103,753</b>	<b>2,104,303</b>	<b>550</b>	<b>2,105,342</b>
<b>TOTAL INSTRUCTION</b>	<b>9,934,221</b>	<b>9,905,431</b>	<b>(28,790)</b>	<b>9,544,673</b>
<b>COMMUNITY SERVICES:</b>				
Salaries	45,500	45,481	(19)	45,536
Benefits	12,693	10,985	(1,708)	9,936
Supplies and materials	2,305	2,102	(203)	1,593
<b>TOTAL COMMUNITY SERVICES</b>	<b>60,498</b>	<b>58,568</b>	<b>(1,930)</b>	<b>57,065</b>
<b>SUPPORTING SERVICES:</b>				
Pupil Services:				
Salaries	165,266	164,900	(366)	167,846
Benefits	65,480	60,463	(5,017)	61,818
Purchased services	115	115	-	694
Supplies and materials	9,749	9,748	(1)	7,913
Capital outlay	224	224	-	-
<b>TOTAL PUPIL SERVICES</b>	<b>240,834</b>	<b>235,450</b>	<b>(5,384)</b>	<b>238,271</b>
Instructional staff:				
Salaries	63,885	63,885	-	62,783
Benefits	26,543	25,574	(969)	21,810
Purchased services	464	465	1	719
Supplies and materials	3,723	3,750	27	8,249
Capital outlay	10,805	10,891	86	2,092
<b>TOTAL INSTRUCTIONAL STAFF</b>	<b>105,420</b>	<b>104,565</b>	<b>(855)</b>	<b>95,653</b>
General Administration:				
Salaries	294,192	294,192	-	376,947
Benefits	143,687	134,729	(8,958)	156,765
Purchased services	96,871	96,845	(26)	55,144
Supplies and materials	16,317	16,334	17	26,258
Capital outlay	4,378	4,377	(1)	4,653
<b>TOTAL GENERAL ADMINISTRATION</b>	<b>555,445</b>	<b>546,477</b>	<b>(8,968)</b>	<b>619,767</b>
School Administration:				
Salaries	574,711	573,668	(1,043)	563,074
Benefits	233,301	232,212	(1,089)	190,920
Purchased services	10,633	10,007	(626)	6,790
Supplies and materials	12,757	12,756	(1)	10,351
Capital outlay	720	718	(2)	3,224
<b>TOTAL SCHOOL ADMINISTRATION</b>	<b>832,122</b>	<b>829,361</b>	<b>(2,761)</b>	<b>774,359</b>

See auditors' report.

# MADISON SCHOOL DISTRICT

## GENERAL FUND SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL Year Ended June 30, 2011

	2011 Budget	2011 Actual	Over (Under) Budget	2010 Actual
<b>Supporting Services continued:</b>				
Operation and maintenance of plant:				
Salaries	\$ 308,933	\$ 308,240	\$ (693)	\$ 321,992
Benefits	196,296	196,319	23	205,714
Purchased services	287,123	285,410	(1,713)	251,972
Supplies and materials	42,375	42,560	185	45,771
Capital outlay	343,950	343,544	(406)	52,618
<b>TOTAL OPERATION AND MAINTENANCE OF PLANT</b>	<b>1,178,677</b>	<b>1,176,073</b>	<b>(2,604)</b>	<b>878,067</b>
Pupil Transportation Services				
Salaries	140,072	140,032	(40)	174,839
Benefits	39,346	40,104	758	67,557
Purchased services	24,743	24,741	(2)	25,376
Supplies and materials	57,385	57,377	(8)	52,102
Capital outlay	88,150	88,150	-	102,994
Other	145	145	-	210
<b>TOTAL TRANSPORTATION SERVICES</b>	<b>349,841</b>	<b>350,549</b>	<b>708</b>	<b>423,078</b>
Athletics				
Salaries	107,890	107,890	-	99,849
Benefits	29,428	30,296	868	24,032
Purchased services	86,370	86,356	(14)	80,809
Supplies and materials	60,000	64,750	4,750	67,625
Capital outlay	8,585	8,585	-	6,444
<b>TOTAL ATHLETICS</b>	<b>292,273</b>	<b>297,877</b>	<b>5,604</b>	<b>278,759</b>
<b>TOTAL SUPPORTING SERVICES</b>	<b>3,554,612</b>	<b>3,540,352</b>	<b>(14,260)</b>	<b>3,307,954</b>
<b>TOTAL EXPENDITURES</b>	<b>13,549,331</b>	<b>13,504,351</b>	<b>(44,980)</b>	<b>12,909,692</b>
Outgoing Transfers and Other Transactions:				
Fund modification	-	-	-	186,460
<b>TOTAL TRANSFERS AND OTHER TRANSACTIONS</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>186,460</b>
<b>TOTAL EXPENDITURES AND TRANSFERS</b>	<b>\$ 13,549,331</b>	<b>\$ 13,504,351</b>	<b>\$ (44,980)</b>	<b>\$ 13,096,152</b>

See auditors' report.

# MADISON SCHOOL DISTRICT

## DEBT RETIREMENT FUND COMBINING BALANCE SHEET June 30, 2011

	1998 Debt	Durant Issue	Totals
<b>Assets</b>			
Cash	\$ 48,946	\$ -	\$ 48,946
Due from general fund	3,242	-	3,242
<b>TOTAL ASSETS</b>	<b>\$ 52,188</b>	<b>\$ -</b>	<b>\$ 52,188</b>
<b>Fund Balance</b>			
Restricted:			
Debt retirement	\$ 52,188	\$ -	\$ 52,188
<b>TOTAL FUND BALANCE</b>	<b>\$ 52,188</b>	<b>\$ -</b>	<b>\$ 52,188</b>

See auditors' report.

# MADISON SCHOOL DISTRICT

## DEBT RETIREMENT FUND COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES Year ended June 30, 2011

	1998 Debt	Durant Issue	Totals
<b>Revenues</b>			
Local Sources:			
Property tax levy	\$ 280,606	\$ -	\$ 280,606
Earnings on investments	59	-	59
State Sources:			
State aid restricted	-	8,925	8,925
<b>TOTAL REVENUES</b>	<b>280,665</b>	<b>8,925</b>	<b>289,590</b>
<b>Expenditures</b>			
Debt Service:			
Redemption of principal	260,000	7,763	267,763
Interest on debt	33,000	1,162	34,162
Other	300	-	300
<b>TOTAL EXPENDITURES</b>	<b>293,300</b>	<b>8,925</b>	<b>302,225</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(12,635)</b>	<b>-</b>	<b>(12,635)</b>
<b>Net Change In Fund Balances</b>	<b>(12,635)</b>	<b>-</b>	<b>(12,635)</b>
<b>Fund Balance - July 1, 2010</b>	<b>64,823</b>	<b>-</b>	<b>64,823</b>
<b>Fund Balance - June 30, 2011</b>	<b>\$ 52,188</b>	<b>\$ -</b>	<b>\$ 52,188</b>

See auditors' report.

# MADISON SCHOOL DISTRICT

## CAPITAL PROJECTS FUND BALANCE SHEET June 30, 2011

<b>Assets</b>		
Cash		\$ <u>3,522,874</u>
TOTAL ASSETS		\$ <u>3,522,874</u>
<b>Liabilities and Fund Balances</b>		
<b>Liabilities</b>		
Accounts Payable		\$ <u>31,549</u>
TOTAL LIABILITIES		<u>31,549</u>
<b>Fund Balance</b>		
Restricted:		
Building Construction		<u>3,491,325</u>
TOTAL FUND BALANCE		<u>3,491,325</u>
TOTAL LIABILITIES AND FUND BALANCE		\$ <u>3,522,874</u>

See auditors' report.

**MADISON SCHOOL DISTRICT**

**CAPITAL PROJECTS FUND  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
Year Ended June 30, 2011**

	Budget	Actual	Over (Under) Budget
<b>Revenues</b>			
Local Sources:			
Property tax levy	\$ -	\$ -	\$ -
Earnings on investments	-	-	-
<b>TOTAL REVENUES</b>	-	-	-
<b>Expenditures</b>			
Building construction	-	24,550	24,550
Bond issuance costs	64,916	84,125	19,209
<b>TOTAL EXPENDITURES</b>	64,916	108,675	43,759
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	(64,916)	(108,675)	(43,759)
<b>Other financing sources (uses):</b>			
Bond proceeds	3,600,000	3,600,000	-
<b>TOTAL OTHER FINANCING SOURCES</b>	3,600,000	3,600,000	-
<b>Net Change in Fund Balance</b>	3,535,084	3,491,325	(43,759)
<b>Fund Balance - July 1, 2010</b>	-	-	-
<b>Fund Balance - June 30, 2011</b>	\$ 3,535,084	\$ 3,491,325	\$ (43,759)

See auditors' report.

# MADISON SCHOOL DISTRICT

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## SINKING FUND BALANCE SHEET June 30, 2011

<b>Assets</b>		
Cash		\$ <u>356,996</u>
TOTAL ASSETS		\$ <u>356,996</u>
<b>Fund Balance</b>		
Restricted:		
Repairs/renovations		\$ <u>356,996</u>
TOTAL FUND BALANCE		\$ <u>356,996</u>

See auditors' report.



# MADISON SCHOOL DISTRICT

## SINKING FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL Year Ended June 30, 2011

	Budget	Actual	Over (Under) Budget
<b>Revenues</b>			
Local Sources:			
Property tax levy	\$ 183,951	\$ 183,951	\$ -
Earnings on investments	230	249	19
	184,181	184,200	19
<b>TOTAL REVENUES</b>			
<b>Expenditures</b>			
Repairs/renovations	-	-	-
	-	-	-
<b>TOTAL EXPENDITURES</b>			
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	184,181	184,200	19
<b>Fund Balance - July 1, 2010</b>	172,796	172,796	-
<b>Fund Balance - June 30, 2011</b>	\$ 356,977	\$ 356,996	\$ 19

See auditors' report.

# MADISON SCHOOL DISTRICT

## TRUST AND AGENCY FUNDS COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES June 30, 2011

	GROUPS JULY 1, 2010	ADDITIONS	DEDUCTIONS	GROUPS JUNE 30, 2011
After Prom	\$ 1,031.11	\$ 5,239.99	\$ 5,832.55	\$ 438.55
Athletic Boosters	6,780.77	23,983.21	26,775.65	3,988.33
Band Boosters	5,910.52	8,360.69	8,590.15	5,681.06
Baseball	367.05	-	-	367.05
Boys Basketball	252.55	420.00	455.00	217.55
Checking - Interest	3,893.27	1,215.73	555.24	4,553.76
Cheerleaders	550.23	2,517.88	2,402.80	665.31
Class of:				
2010	1,628.42	-	1,628.42	-
2011	2,044.74	5,859.98	6,782.11	1,122.61
2012	1,612.00	-	500.00	1,112.00
2013	1,561.02	1,398.00	1,117.39	1,841.63
2014	1,200.00	-	213.22	986.78
2015	-	1,200.00	-	1,200.00
Community Rewards	4,010.48	235.37	-	4,245.85
Drama Account	656.43	-	-	656.43
Elementary Fund Raising	10,776.52	36,105.25	38,363.25	8,518.52
Elementary Library	80.60	110.00	104.16	86.44
Elementary Student Council	158.20	1,707.65	1,707.65	158.20
Family Room	577.18	-	577.18	-
Fan	-	15,698.50	2,758.71	12,939.79
Fifth Grade Camp	-	12,190.17	11,375.46	814.71
Fifth Grade Room	190.31	-	-	190.31
Football	6,351.31	5,779.39	4,810.45	7,320.25
Free2play	-	-	-	-
Girls Basketball	358.10	7,955.73	7,872.29	441.54
H.S. Library Account	661.72	3,994.05	3,948.41	707.36
H.S. Student Council	486.62	1,508.00	1,057.74	936.88
Interact Club	376.26	177.25	430.94	122.57
Junior Achievement	202.50	-	-	202.50
Lenawee Child	842.92	840.48	1,502.16	181.24
Locker Account	6,326.09	12,920.00	10,500.60	8,745.49
MCSSC	3,543.56	2,810.12	3,541.15	2,812.53
Madison EAC	43.49	-	-	43.49
Madison Football Club	611.09	866.05	56.46	1,420.68
Madison Kids Closet	237.71	-	237.71	-
Madison School Store	3,003.49	-	-	3,003.49
May Madness	477.48	2,391.42	2,510.56	358.34
M.S. Student Activity	1,545.57	15,587.51	14,722.77	2,410.31
M.S. Student Council	4,784.13	3,855.54	3,799.32	4,840.35
Musical Theatre	365.51	9,718.35	9,352.77	731.09
National Honor Society	506.30	375.00	547.36	333.94
P.A.T.T.	6,353.57	33,580.72	31,347.17	8,587.12
P.E.A.C.E	97.81	461.50	257.00	302.31
Pop Fund	8,841.41	518.30	2,512.59	6,847.12
Relay For Life	1,401.37	265.00	-	1,666.37
Savings Account Interest	514.98	4,067.82	-	4,582.80
Scholarship	14,952.50	3,597.00	2,000.00	16,549.50
Softball	1,333.63	2,760.46	3,254.50	839.59
Special Education - Elementary	38.88	-	-	38.88
Special Education - H.S./M.S.	1,300.48	-	-	1,300.48
Strength & Conditioning	7,807.74	1,504.00	2,973.84	6,337.90
Student Activities	1,975.23	5,871.30	5,348.26	2,498.27
Track	4,177.36	16,331.75	13,298.98	7,210.13
Varsity Volleyball	509.25	468.31	649.41	328.15
Washington DC	952.53	1,073.45	658.24	1,367.74
Wrestling	1,378.60	298.30	-	1,676.90
Wrestling Club	5,285.24	8,954.76	8,381.74	5,858.26
Yearbook	3,547.87	6,475.47	5,131.44	4,891.90
<b>TOTAL</b>	<b>\$ 134,473.70</b>	<b>\$ 271,249.45</b>	<b>\$ 250,442.80</b>	<b>\$ 155,280.35</b>

See auditors' report

# MADISON SCHOOL DISTRICT

## PROPERTY TAX DATA Year Ended June 30, 2011

	Unpaid at July 1, 2010	Tax	Collections/ Adjustments	Unpaid (Deferred) at June 30, 2011
General Fund	\$ -	\$ 2,107,082	\$ 2,107,082	\$ -
Sinking Fund	-	183,951	183,951	-
Debt Retirement Funds	-	280,606	280,606	-
<b>TOTAL</b>	<b>\$ -</b>	<b>\$ 2,571,639</b>	<b>\$ 2,571,639</b>	<b>\$ -</b>

### Other Information

Taxable value of property assessed in the Madison School District

	2011			
	Homestead	Industrial PP	Commercial PP	Non-homestead
Municipality:				
Madison	\$ 45,635,567	\$ 7,573,700	\$ 6,392,400	\$ 62,995,401
Adrian City	7,138,100	1,634,700	6,124,500	46,009,535
Palmyra	3,373,277	0	332,700	2,651,676
Adrian	144,679	-	20,600	1,328,948
<b>Total</b>	<b>\$ 56,291,623</b>	<b>\$ 9,208,400</b>	<b>\$ 12,870,200</b>	<b>\$ 112,985,560</b>

### Tax Levy (Mills):

Debt Retirement Funds	1.4500	1.4500
Sinking Fund	0.9626	0.9626
General Fund	18.0000	18.0000
<b>Total tax levy</b>	<b>20.4126</b>	<b>20.4126</b>

Blended official student enrollment

1,484.30

See auditors' report.

## Federal Awards Supplemental Information

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**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 Education  
Madison School District  
Adrian, Michigan

We have audited the financial statements of the governmental funds, each major fund, and the aggregate remaining fund information of the Madison School District as of and for the year ended June 30, 2011, which collectively comprise the Madison School District's basic financial statements and have issued our report thereon dated September 9, 2011. 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Madison School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Madison School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Madison School District's internal control over financial reporting.

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 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 entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Corrective Action Responses, referenced as 11-01 and 11-02, presented on pages 52-54 that we consider to be significant deficiencies in internal control over financial reporting. 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.

Board of Education  
Madison School District  
Adrian, Michigan

### **Compliance and other matters**

As part of obtaining reasonable assurance about whether the Madison School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material affect 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 other matters that we have reported to the management of the Madison School District in a separate letter dated September 9, 2011.

This report is intended for the information of the board of trustees, school district management and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Drake, Watters & Associates, PLLC*

Jackson, Michigan  
September 9, 2011

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*Certified Public Accountants*

**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Education  
Madison School District  
Adrian, Michigan

**Compliance**

We have audited the compliance of Madison School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. Madison School District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Corrective Action Responses.. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Madison School District's management. Our responsibility is to express an opinion on Madison School District's compliance based on our audit.

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 Madison School 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. Our audit does not provide a legal determination on Madison School District's compliance with those requirements.

In our opinion, Madison School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described as items 11-01 and 11-02 in the accompanying Schedule of Findings and Corrective Action Responses presented on pages 52-54.

## **Internal Control Over Compliance**

The management of Madison School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Madison School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 Madison School 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 a 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.

Our consideration of the 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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance, described in the accompanying Schedule of Findings and Corrective Action Responses, referenced as 11-01 and 11-02, presented on pages 52-54 that we consider to be significant deficiencies in internal control over compliance. A significant deficiency in internal control over compliance is a deficiency, or a 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.

Madison School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Corrective Action Responses. We did not audit Madison School District's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information of the board of trustees, school district management and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Drake, Watters & Associates, PLLC*

Jackson, Michigan  
September 9, 2011



# MADISON SCHOOL DISTRICT

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS Year Ended June 30, 2011

Federal Grantor Pass Through Grantor Program Title/Grant Number	CFDA Number	Approved Amount	Accrued or (Deferred) Revenue July 1, 2010	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts	Accrued or (Deferred) Revenue June 30, 2011	Adjustments Debits (Credits)
<b>U.S. Department of Education:</b>								
Passed through Michigan Department of Education								
Title I, Part A 101530 0910	84.010	\$ 206,244	\$ (4,980)	\$ -	\$ -	\$ -	\$ -	\$ 4,980
Title I, Part A 111530 1011	84.010	191,622	-	179,618	-	-	179,618	-
ARRA Title I, Part A Carryover 101535 0910	84.389	108,734	-	671	671	-	-	-
ARRA Title I, Part A Carryover 111535 1011	84.389	59,532	-	59,532	-	-	59,532	-
Title II, Part A, Teacher/Principal Training 110520 1011	84.367	74,573	-	57,602	-	-	57,602	-
Education Jobs Fund 112545 1011	84.410	238,075	-	238,075	-	-	238,075	-
ARRA Education Stabilization Fund 112525 1011	84.394	167,625	-	167,625	-	-	167,625	-
Total passed through Michigan Department of Education		1,046,405	(4,980)	703,123	671	671	702,452	4,980
Passed through I.S.D.								
ARRA Special Education IDEA	84.391	170,643	5,733	170,643	158,372	158,372	18,004	-
MILSI Cohort 5 School Agreement Year 2	84.027 A	1,000	-	1,000	1,000	1,000	-	-
Medicaid Outreach	93.780	6,514	-	6,514	6,514	6,514	-	-
Total passed through I.S.D.		178,157	5,733	178,157	165,886	165,886	18,004	-
Total U.S. Department of Education		1,224,562	753	881,280	166,557	166,557	720,456	4,980
<b>U.S. Environmental Protection Agency:</b>								
Passed through I.S.D.								
ARRA Midwest Diesel Emissions Reduction Program Grant Number 2A-00E86001-0	66.039	42,375	-	-	42,375	42,375	-	-
Total passed through I.S.D.		42,375	-	-	42,375	42,375	-	-
Total passed through U.S. Environmental Protection Agency		42,375	-	-	42,375	42,375	-	-
<b>U.S. Department of Agriculture:</b>								
Passed through U.S. Department of Agriculture								
Child Nutrition Cluster - Cash Assistance	10.553	90,325	4,356	4,356	85,970	90,326	-	-
School Breakfast Program	10.555	357,937	15,374	15,374	342,563	357,937	-	-
National School Lunch Program	10.556	312	-	-	312	312	-	-
Special Milk Program for Children		448,574	19,730	19,730	428,845	448,575	-	-
Total Cash Assistance		897,736	20,060	20,060	867,690	897,736	-	-
Child Nutrition Cluster - Non-Cash Assistance	10.555	29,292	-	29,292	29,292	29,292	-	-
Commodities - Entitlement	10.555	394	-	394	394	394	-	-
Commodities - Bonus		29,686	-	29,686	29,686	29,686	-	-
Total - Non-Cash Assistance		30,082	-	30,082	30,082	30,082	-	-
Total Child Nutrition Cluster		478,260	19,730	19,730	458,531	478,261	-	-
Total Passed Through U.S. Department of Agriculture		478,260	19,730	19,730	458,531	478,261	-	-
Total U.S. Department of Agriculture		478,260	19,730	19,730	458,531	478,261	-	-
<b>Total Federal Financial Assistance</b>		<b>\$ 1,745,197</b>	<b>\$ 20,483</b>	<b>\$ 1,382,186</b>	<b>\$ 687,193</b>	<b>\$ 720,456</b>	<b>\$ 4,980</b>	

**Notes:**

1. See notes to financial statements for significant accounting policies and procedures.
2. The Cash Management Grant Auditor Report was used in preparation of this schedule.
3. Revenue was deferred as of June 30, 2010 per the Title 1A co-ordinator's instructions. Funds were returned in the current year through a revenue adjustment.

See auditors' report

# MADISON SCHOOL DISTRICT

## SCHEDULE OF FINDINGS AND CORRECTIVE ACTION RESPONSES

June 30, 2011

### SECTION 1: SUMMARY OF AUDITORS' RESULTS

We have audited the financial statements of Madison School District as of and for the year ended June 30, 2011 and have issued an unqualified opinion on these financial statements.

Two control deficiencies were disclosed during the audit of the financial statements and are reported in Section 2 of this schedule. Both of the conditions were considered to be significant deficiencies, however, neither was considered to be a material weakness.

No instances of noncompliance that was material to the financial statements of Madison School District were disclosed during the audit.

An unqualified opinion was issued on compliance for major federal award programs.

Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.

The following federal programs were identified as major programs: Title I Cluster (CFDA 84.010 and 84.389), ARRA Special Education IDEA (CFDA 84.391), and ARRA Stabilization Funds (CFDA 84.394), Education Jobs Fund (CFDA 84.410), and ARRA Diesel Emissions Reduction Grant (CFDA 66.039).

The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.

The Madison School District was not considered to be a low-risk auditee.

### SECTION 2: FINDINGS RELATED TO THE FINANCIAL STATEMENTS

#### Significant Deficiencies

##### 11-01. Finding

Internal control was found to have a significant deficiency in regards to segregation of duties. The District has an inadequate number of personnel to accomplish a proper segregation of duties.

##### Response

Since our District office staff currently consist of three employees, it is difficult to separate the various duties to achieve an ideal segregation of duties. We have considered the need to separate the various accounting and recordkeeping functions. Where possible, we have cross-trained employees to reconcile the accounts of another person. We have established guidelines for supervisory approval of all invoices. As an additional measure, all payments receive board of trustee approval prior to issuance of checks. We will continue to pursue other measures that may be taken to improve our system.

##### 11-02. Finding

The District employs individuals with adequate skills in regards to controls over the period-end financial reporting process, including controls over procedures used to post to the general ledger; initiate, authorize, record and process journal entries; and, record recurring and nonrecurring adjustments. However, a significant deficiency exists due to the fact that the District does not currently have personnel with a level of knowledge or expertise to prepare and take responsibility for the District's external financial statements.

**SECTION 2: FINDINGS RELATED TO THE FINANCIAL STATEMENTS (continued)**

**11-02. Response**

The District relies on the current accounting staff to maintain accounting records on a day-to-day basis. The current skill level of the staff is adequate for daily operation of the District and they are quite capable of providing management information necessary for the operation of the District. For technical matters beyond the expertise of the District staff, we seek professional consultation. Currently, our external financial statements are drafted with the assistance of our auditors. The statements are reviewed and approved by the District Superintendent prior to publishing.

**Material Weaknesses**

Of the significant deficiencies reported above, none were determined to be material weaknesses.

**SECTION 3: FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

Other than the two financial statement findings shown above as 11-01 and 11-02, there were no program specific findings or questioned costs to be reported.

**SECTION 4: SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**Financial Statement Findings**

**10-01. Statement of Condition:** Internal control was found to have a significant deficiency in regards to segregation of duties. The District has an inadequate number of personnel to accomplish a proper segregation of duties.

**Current Status:** The segregation of duties finding has been addressed by the District to the extent it is economically feasible. Mitigating measures have been implemented, but this issue is not expected to be fully correctible and the District anticipates this will be an ongoing situation due to their small staff size. It remains a significant deficiency for the current year.

**10.02 Statement of Condition:** A significant deficiency exists due to the fact that the District does not currently have personnel with a level of knowledge or expertise to prepare and take responsibility for the District's external financial statements

**Current Status:** The District uses outside, professional services to overcome this deficiency. Currently, the external financial statements are drafted with the assistance of the District's auditors. The statements are reviewed and approved by the District Superintendent prior to publishing.

# **MADISON SCHOOL DISTRICT**

## **SCHEDULE OF FINDINGS AND CORRECTIVE ACTION RESPONSES**

**June 30, 2011**

### **SECTION 4: SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

#### **Federal Award Program Findings**

There were no prior year federal award program findings or questions costs to be reported.