

MADISON SCHOOL DISTRICT
FINANCIAL REPORT
WITH SUPPLEMENTAL INFORMATION
JUNE 30, 2009

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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, 2009, 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, 2009, 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 29, 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 October 5, 2009 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
October 5, 2009

MADISON SCHOOL DISTRICT

ADMINISTRATION'S DISCUSSION AND ANALYSIS For Fiscal Year Ended June 30, 2009

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, 2009.

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, 2009

Summary of Net Assets:

The following summarizes the net assets at fiscal year ended June 30, 2009.

Net Assets Summary	<u>June 30, 2009</u>
Assets	
Current assets	\$ <u>5,186,646</u>
Capital assets	19,905,631
Less: Accumulated depreciation	<u>(5,888,913)</u>
Capital assets, net book value	<u>14,016,718</u>
Total assets	<u>\$19,203,364</u>
Liabilities	
Current liabilities	\$ 2,368,183
Long-term liabilities	<u>934,284</u>
Total liabilities	<u>3,302,467</u>
Net Assets	
Invested in capital assets, net of related debt	12,873,744
Restricted for construction/repairs	(13,708)
Restricted for debt service	54,241
Unrestricted	<u>2,986,620</u>
Total net assets	<u>15,900,897</u>
Total liabilities and net assets	<u>\$19,203,364</u>

MADISON SCHOOL DISTRICT

ADMINISTRATION'S DISCUSSION AND ANALYSIS For Fiscal Year Ended June 30, 2009

Analysis of Financial Position:

During fiscal year ended June 30, 2009, the District's net assets increased by \$267,001. A few of the significant factors affecting net assets during the year are discussed below:

A. General Fund Operations

The District's expenditures from General Fund operations exceeded revenues by \$1,023,585 for the fiscal year ended June 30, 2009. See the section entitled Results of Operations for further discussion of General Fund operations.

B. Debt, Principal Payments

The District made principal payments on bonded, long-term debt obligations that reduced the amount of the District's long-term liabilities as follows:

	<u>Principal Balance June 30, 2008</u>	<u>Principal Payments June 30, 2009</u>	<u>Principal Balance June 30, 2009</u>
1998 Bond Debt	\$1,315,000	\$240,000	\$1,075,000
Durant Debt	<u>75,048</u>	<u>7,074</u>	<u>67,974</u>
Total long-term bond obligations	<u>\$1,390,048</u>	<u>\$247,074</u>	<u>\$1,142,974</u>

C. Net Investment in Capital Assets

The District's net investment in capital assets increased by \$1,337,978 during the fiscal year. This can be summarized as follows:

	<u>Balance June 30, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2009</u>
Capital assets	\$18,165,481	\$1,783,074	\$ 42,924	\$19,905,631
Less: Accumulated depreciation	<u>5,486,741</u>	<u>445,096</u>	<u>42,924</u>	<u>5,888,913</u>
Net investment capital outlay	<u>\$12,678,740</u>	<u>\$ 1,337,978</u>	<u>\$ -</u>	<u>\$14,016,718</u>

MADISON SCHOOL DISTRICT

ADMINISTRATION'S DISCUSSION AND ANALYSIS For Fiscal Year Ended June 30, 2009

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.

(Continued on next page)

MADISON SCHOOL DISTRICT

ADMINISTRATION'S DISCUSSION AND ANALYSIS For Fiscal Year Ended June 30, 2009

Results of Operations:

For the fiscal year ended June 30, 2009, the District-wide results of operations were:

	<u>June 30, 2009</u>
Revenues:	
General Revenues:	
Property taxes levied for general operations	\$ 2,076,829
Property taxes levied for debt service	279,747
Property taxes levied for construction/repairs	188,646
State of Michigan unrestricted foundation aid	9,228,653
State of Michigan restricted	8,926
Other general revenues	<u>277,222</u>
Total general revenues	<u>12,060,023</u>
Operating Grants:	
Federal	1,173,576
State of Michigan	22,512
Other operating grants	<u>560,040</u>
Total operating grants	<u>1,756,128</u>
Charges for Services:	
Food service	194,211
Other charges for services	<u>72,865</u>
Total charges for services	<u>267,076</u>
Total revenues	<u>14,083,227</u>
Expenses:	
Instruction and instructional support	7,513,606
Support services	4,899,808
Food service	599,385
Athletics	305,191
Interest on long-term debt	53,140
Depreciation	<u>445,096</u>
Total expenses	<u>13,816,226</u>
Increase in Net Assets	267,001
Beginning Net Assets	<u>15,633,896</u>
Ending Net Assets	<u>\$ 15,900,897</u>

MADISON SCHOOL DISTRICT

ADMINISTRATION'S DISCUSSION AND ANALYSIS For Fiscal Year Ended June 30, 2009

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 was \$8,318 for the 2008-2009 school year. This is an increase of \$84 per student over last year's allowance amount.

Student Enrollment:

The District's student enrollment for the fall count of 2008-2009 was 1,409 students. The District's enrollment decreased 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>
2008-2009	1,409	(3.82) %
2007-2008	1,465	0.76 %
2006-2007	1,454	0.97 %
2005-2006	1,440	2.35 %
2004-2005	1,407	3.76 %

Subsequent to year-end June 30, 2009, preliminary student enrollments for 2009-2010 indicate that the enrollment decline experienced in 2008-2009 will be reversed and a small enrollment increase will be experienced in the 2009-2010 school year. This projected enrollment growth is based on an anticipated increase in Schools of Choice students as a result of an expanded public relations campaign. 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, 2009

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 2008-2009 fiscal year was \$2,075,990. The non-homestead tax levy increased by 10.81 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>% Increase From Prior Year</u>
2008-2009	\$2,075,990	10.81 %
2007-2008	\$1,873,513	10.45 %
2006-2007	\$1,696,189	2.80 %
2005-2006	\$1,641,923	4.27 %
2004-2005	\$1,574,667	2.60 %
Average Increase Last 5 Years 6.19%		

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 2008-2009, the District's debt millage levy was 1.40 mills that generated revenue of \$279,747. The District's sinking fund millage levy was 0.96260 mills that generated revenue of \$188,646.

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 \$13,391, to \$194,211.

The total expenditures from Food Service operations exceeded total revenues for the year by \$1,806 in the Food Services Fund.

MADISON SCHOOL DISTRICT

ADMINISTRATION'S DISCUSSION AND ANALYSIS For Fiscal Year Ended June 30, 2009

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>
2004-2005	\$11,314,057	\$11,071,801	\$10,890,159	(3.75) %	(1.64) %
2005-2006	\$12,320,019	\$12,344,687	\$12,100,284	(1.78) %	(1.98) %
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) %
Five Year Average Over (Under) Budget				0.16 %	(1.30) %

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>
2004-2005	\$11,036,108	\$11,882,467	\$11,876,807	7.62 %	(0.05) %
2005-2006	\$11,750,670	\$12,087,758	\$12,101,660	2.99 %	0.12 %
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 %
Five Year Average Over (Under) Budget				4.86 %	.43 %

MADISON SCHOOL DISTRICT

ADMINISTRATION'S DISCUSSION AND ANALYSIS For Fiscal Year Ended June 30, 2009

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 June 30, 2009 budget amendment was the final budget for the fiscal year.

Change from Original to Final Budget

Total Revenues Original Budget	\$12,868,106	<u>100</u>
Total Revenues Final Budget	<u>12,916,325</u>	<u>101</u>
Increase/Decrease in Budgeted Revenues	<u>\$ 48,219</u>	<u>1</u>

The District's final, actual General Fund revenues differed from final budget by \$14,191, a variance of .11 percent from final budget.

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

- The original budget was based on a student FTE enrollment of 1,437 students. The actual FTE was 1,414, or 23 students less than projected.
- At Risk revenue was \$42,000 higher than projected.
- Interest on investments was about \$35,000 lower than projected due to lower than anticipated interest rates.
- Special Education Reimbursement from LISD was \$42,000 higher than projected.
- ARRA revenue of \$526,000 was unanticipated at the start of the fiscal year and replaced budgeted State Aid.

General Fund Expenditures:

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

Total Expenditures Original Budget	\$13,769,421	<u>100</u>
Total Expenditures Final Budget	<u>13,984,215</u>	<u>102</u>
Increase/Decrease in Budgeted Expenditures	<u>\$ 214,794</u>	<u>2</u>

The District's actual expenditures were less than final budget by \$30,114, a variance of 0.21 percent. Some of the significant expenditure activities for the year include:

- \$7,254,000 in basic instructional program expenditures
- \$2,047,000 of "added needs" expenditures, including at-risk, Title I, Special Education, and summer school
- \$1,214,000 in "plant operations" – includes maintenance and custodial expenses, electricity, heat, etc.
- \$1,200,000 in "operating transfers" – primarily for the construction of the new elementary school gymnasium

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, 2009

ASSETS	<u>Governmental Activities</u>
CURRENT ASSETS:	
Cash and cash equivalents (Note 3)	\$ 3,370,650
Accounts receivable	20,221
Due from other governmental units (Note 4)	1,786,316
Inventories	<u>9,459</u>
TOTAL CURRENT ASSETS	<u>5,186,646</u>
NONCURRENT ASSETS	
Capital assets (Note 5)	19,905,631
Less: Accumulated depreciation	<u>(5,888,913)</u>
TOTAL NONCURRENT ASSETS	<u>14,016,718</u>
TOTAL ASSETS	<u>\$ 19,203,364</u>
LIABILITIES	
CURRENT LIABILITIES:	
Accounts payable	\$ 15,993
Accrued expenses	278,325
Accrued salaries and withholding	723,291
Deferred revenue	1,083,052
Accrued Interest	7,232
Bonds payable, Due within one year (Note 6)	257,410
Compensated absences and severance pay, Due within one year (Note 6)	<u>2,880</u>
TOTAL CURRENT LIABILITIES	<u>2,368,183</u>
NONCURRENT LIABILITIES	
Bonds payable (Note 6)	885,564
Compensated absences and severance pay (Note 6)	<u>48,720</u>
TOTAL NONCURRENT LIABILITIES	<u>934,284</u>
TOTAL LIABILITIES	<u>3,302,467</u>
NET ASSETS	
Invested in capital assets, net of related debt	12,873,744
Restricted for construction/repairs	(13,708)
Restricted for debt service	54,241
Unrestricted	<u>2,986,620</u>
TOTAL NET ASSETS	<u>15,900,897</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 19,203,364</u>

See auditors' report and accompanying notes to financial statements.

MADISON SCHOOL DISTRICT

BALANCE SHEET GOVERNMENTAL FUNDS June 30, 2009

	General	Debt Retirement	Sinking Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and investments (Note 3)	\$ 3,151,823	\$ 52,989	\$ 1,055	\$ 164,783	\$ 3,370,650
Accounts receivable (Note 4)	18,839	-	-	1,382	20,221
Due from other funds	-	1,252	1,230	-	2,482
Due from other governmental units (Note 4)	1,786,316	-	-	-	1,786,316
Inventories	-	-	-	9,459	9,459
TOTAL ASSETS	\$ 4,956,978	\$ 54,241	\$ 2,285	\$ 175,624	\$ 5,189,128
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ -	\$ -	\$ 15,993	\$ -	\$ 15,993
Due to other funds	2,482	-	-	-	2,482
Accrued expenses	278,325	-	-	-	278,325
Salaries payable	723,291	-	-	-	723,291
Deferred revenue	1,079,787	-	-	3,265	1,083,052
TOTAL LIABILITIES	2,083,885	-	15,993	3,265	2,103,143
Fund Balances					
Reserved for inventory	-	-	-	9,459	9,459
Reserved for debt retirement	-	54,241	-	-	54,241
Reserved for construction/repairs	-	-	(13,708)	-	(13,708)
Unreserved and undesignated	2,873,093	-	-	-	2,873,093
Unreserved and undesignated, food services	-	-	-	158,579	158,579
Unreserved and undesignated, athletics	-	-	-	4,321	4,321
TOTAL FUND BALANCES	2,873,093	54,241	(13,708)	172,359	3,085,985
TOTAL LIABILITIES AND FUND BALANCES	\$ 4,956,978	\$ 54,241	\$ 2,285	\$ 175,624	\$ 5,189,128

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, 2009

Total Governmental Fund Balances		\$	3,085,985
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	\$	19,905,631	
Accumulated depreciation is		<u>(5,888,913)</u>	14,016,718
Long-term liabilities are not due and payable in the current period and are not reported in the fund;			
Bonds payable			(1,142,974)
Compensated absences			<u>(51,600)</u>
Accrued Interest is not included as a liability in governmental funds			<u>(7,232)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES		\$	<u>15,900,897</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, 2009

	General	Debt Retirement	Sinking Fund	Other Nonmajor Governmental Funds	Totals
Revenues					
Local sources	\$ 2,262,666	\$ 281,514	\$ 191,827	\$ 269,607	\$ 3,005,614
State sources	9,228,653	8,926	-	22,512	9,260,091
Federal sources	795,251	-	-	378,325	1,173,576
Interdistrict sources	560,040	-	-	-	560,040
Miscellaneous	83,906	-	-	-	83,906
TOTAL REVENUES	12,930,516	290,440	191,827	670,444	14,083,227
Expenditures					
Current:					
Instruction and instructional support services	9,805,496	-	-	-	9,805,496
Supporting services	2,901,123	-	-	904,576	3,805,699
Repairs/renovations	-	-	1,494,719	-	1,494,719
Debt Service:					
Principal repayment	-	247,074	-	-	247,074
Interest and other expenses	-	54,752	-	-	54,752
TOTAL EXPENDITURES	12,706,619	301,826	1,494,719	904,576	15,407,740
Excess (Deficiency) of Revenues Over Expenditures	223,897	(11,386)	(1,302,892)	(234,132)	(1,324,513)
Other Financing Sources (Uses)					
Operating transfers in	-	-	1,034,533	212,949	1,247,482
Operating transfers out	(1,247,482)	-	-	-	(1,247,482)
TOTAL OTHER FINANCING SOURCES (USES)	(1,247,482)	-	1,034,533	212,949	-
Net Change in Fund Balances	(1,023,585)	(11,386)	(268,359)	(21,183)	(1,324,513)
Fund Balances - Beginning of year	3,896,678	65,627	254,651	193,542	4,410,498
Fund Balances - End of year	\$ 2,873,093	\$ 54,241	\$ (13,708)	\$ 172,359	\$ 3,085,985

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, 2009

Net Change in Fund Balances - Total Governmental Funds		\$ (1,324,513)
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	\$ (445,096)	
Capital outlay, net of disposals	<u>1,783,074</u>	
		1,337,978
Decrease in accrued interest payable is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid		1,612
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)		247,074
Decrease in compensated absences are not reported in the governmental funds		<u>4,850</u>
Change in Net Assets of Governmental Activities		\$ <u>267,001</u>

See auditors' report and accompanying notes to financial statements.

MADISON SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS FIDUCIARY FUNDS June 30, 2009

	<u>Agency Fund Student Activities</u>
Assets	
Cash and cash equivalents	\$ <u>124,592</u>
Liabilities	
Liabilities:	
Due to student groups	\$ <u>124,592</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 segregate the activity of Food Service and Athletics. For reporting purposes this activity is combined under the caption "GENERAL" in the general-purpose financial statements. Specific detail for these activities 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**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 Reserves – Fund reserves are portions of fund equity that are legally segregated for a specific future use or are not available for current operations. Following is a description of fund reserves used by the district:

Reserved for debt retirement - An account that represents the fund balance for the debt service fund resources which are legally restricted for the payment of general long-term debt principal and interest amounts maturing in future years.

Reserved for inventory - An account that represents a portion of the fund balance that indicates that inventories do not represent available spendable resources even though they are a component of net current assets.

Reserved for construction/repairs - An account that represents the fund balance for the sinking fund resources that are legally restricted for the payment of building repairs and renovations.

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.

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

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 - BUDGETS

The School District formally adopted General, Sinking and School Services Fund budgets by function for the fiscal year ended June 30, 2009; 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

Deposits in excess of the maximum insurance provided by the F.D.I.C. represent an uninsured risk to the School District.

Cash deposits of the District consist of the following items at June 30, 2009:

	<u>MATURITY DATES</u>	<u>INTEREST RATES</u>	<u>CARRYING AMOUNT</u>	<u>BANK BALANCE</u>
General Fund:				
United Bank & Trust	N/A	1.50%	\$ 234,925	\$ 435,504
United Bank & Trust	N/A	1.50%	9,064	8,992
MI Liquid Assets	N/A	VAR	22,037	24,948
TLC Comm. Cr. Union	N/A	1.26%	<u>435,080</u>	<u>435,080</u>
			<u>\$ 701,106</u>	<u>\$ 904,524</u>
Debt Retirement Fund:				
MI Liquid Assets	N/A	VAR	<u>\$ 52,989</u>	<u>\$ 52,989</u>
			<u>\$ 52,989</u>	<u>\$ 52,989</u>
Sinking Fund:				
Bank of Lenawee	N/A	0.30%	<u>\$ 1,055</u>	<u>\$ 21,884</u>
			<u>\$ 1,055</u>	<u>\$ 21,884</u>
School Service Fund:				
United Bank & Trust - School Lunch	N/A	1.50%	\$ 160,462	\$ 160,345
United Bank & Trust - Athletic	N/A	1.50%	4,321	4,621
			<u>\$ 164,783</u>	<u>\$ 164,966</u>
Agency Fund:				
United Bank & Trust	N/A	1.50%	\$ 118,265	\$ 131,180
United Bank & Trust	N/A	1.50%	6,327	6,327
			<u>\$ 124,592</u>	<u>\$ 137,507</u>
Total Cash			<u>\$1,044,525</u>	<u>\$1,281,870</u>

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

The School District invests surplus funds with Michigan School District Liquid Asset Fund Plus and MBIA Michigan Class Accounts 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. 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 3 – DEPOSITS AND INVESTMENTS Continued

The amount of investments, as of June 30, 2009, that are not required to be categorized as to level of risk are as follows:

	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>Carrying Amount</u>	<u>Bank Amount</u>
General Fund – MBIA	N/A	N/A	\$ 874,743	\$ 874,743
General Fund – MIMAX	N/A	N/A	975,974	975,974
General Fund – TLC Community Credit Union CDs	8/2/09- 8/5/09	3.25% 3.49%	<u>600,000</u>	<u>601,583</u>
TOTAL INVESTMENTS			<u>\$2,450,717</u>	<u>\$2,452,300</u>
 TOTAL CASH/INVESTMENTS			 <u>\$3,495,242</u>	 <u>\$3,734,170</u>

Deposit accounts are covered by federal depository insurance up to \$250,000 per institution.

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured	\$ 501,055	\$ 521,884
Uninsured – uncollateralized	<u>2,994,187</u>	<u>3,212,286</u>
 Total Cash and investments	 <u>\$3,495,242</u>	 <u>\$3,734,170</u>

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	\$1,786,316	\$ -	\$1,786,316
Other Receivables	<u>18,839</u>	<u>1,382</u>	<u>20,221</u>
 Net receivables	 <u>\$1,805,155</u>	 <u>\$1,382</u>	 <u>\$1,806,537</u>

Note 5 - CAPITAL ASSETS

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

	<u>Balance</u> <u>July 1, 2008</u>	<u>Additions</u>	<u>Disposals/ Adjustments</u>	<u>Balance</u> <u>June 30, 2009</u>
Assets not being depreciated:				
Construction in process	\$ 322,623	\$ 470,711	(\$ 150,156)	\$ 643,178
Land	<u>912,065</u>	<u>-</u>	<u>-</u>	<u>912,065</u>
Subtotal	<u>1,234,688</u>	<u>470,711</u>	<u>(\$ 150,156)</u>	<u>1,555,243</u>
Capital assets being depreciated:				
Building and building improvements	13,797,275	1,249,372	35,870	15,082,517
Buses and other vehicles	559,598	14,675	-	574,273
Furniture and equipment	<u>2,573,920</u>	<u>48,316</u>	<u>71,362</u>	<u>2,693,598</u>
Subtotal	<u>16,930,793</u>	<u>1,312,363</u>	<u>107,232</u>	<u>18,350,388</u>
Accumulated depreciation:				
Building and building improvements	3,183,308	273,309	-	3,456,617
Buses and other vehicles	363,470	36,324	-	399,794
Furniture and equipment	<u>1,939,963</u>	<u>135,463</u>	<u>(42,924)</u>	<u>2,032,502</u>
Subtotal	<u>5,486,741</u>	<u>445,096</u>	<u>(42,924)</u>	<u>5,888,913</u>
Net capital assets being depreciated	<u>11,444,052</u>	<u>867,267</u>	<u>150,156</u>	<u>12,461,475</u>
Net capital assets	<u>\$12,678,740</u>	<u>\$ 1,337,978</u>	<u>\$ -</u>	<u>\$14,016,718</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, 2009:

	LONG-TERM DEBT <u>JULY 1, 2008</u>	INCREASED LONG-TERM DEBT	PAYMENTS/ REDUCTIONS	LONG-TERM DEBT <u>JUNE 30, 2009</u>	DUE WITHIN <u>ONE YEAR</u>
UNUSED SICK LEAVE	\$ 56,450	\$6,880	\$ 11,730	\$ 51,600	\$ 2,880
1998 BOND ISSUE	1,315,000	-	240,000	1,075,000	250,000
DURANT DEBT	<u>75,048</u>	<u>-</u>	<u>7,074</u>	<u>67,974</u>	<u>7,410</u>
	<u>\$1,446,498</u>	<u>\$6,880</u>	<u>\$258,804</u>	<u>\$1,194,574</u>	<u>\$260,290</u>

Long-term liabilities at June 30, 2009 are comprised of the following individual issues:

Due to the uncertainty of unused sick leave maturity as of June 30, 2009, this liability has been included in the amount due "Thereafter" section.

\$ 51,600

\$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%.

\$1,075,000

\$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%.

\$ 67,974

The annual requirements to amortize all debts outstanding as of June 30, 2009, including interest payments of \$128,969 are as follows:

YEAR ENDING <u>JUNE 30</u>	UNUSED SICK <u>LEAVE</u>	1998 BOND <u>ISSUE</u>	DURANT <u>ISSUE</u>
2010	\$ 2,880	\$ 293,000	\$ 8,925
2011	-	293,000	8,925
2012	-	297,600	59,968
2013	-	301,600	8,925
2014	-	-	-
Thereafter	<u>48,720</u>	<u>-</u>	<u>-</u>
	<u>\$51,600</u>	<u>\$1,185,200</u>	<u>\$86,743</u>

Note 7 - DEFINED BENEFIT PENSION PLAN

Substantially all School District employees participate in the Michigan Public School Employees Retirement System (MPSERS). MPSERS 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. MPSERS was established to provide retirement, survivor and disability benefits to the public school employees. MPSERS 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.

MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. A copy of the report may be obtained by writing to the: Michigan Public School Employees Retirement System, P.O. Box 30026, Lansing, Michigan 48909.

The School District is required to contribute at a current rate of 16.54% of annual covered payroll. The School District's contribution for years ending June 30, 2009, 2008, and 2007 were \$1,255,511, \$1,275,579, and \$1,321,805, 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.

Under the MPSERS Act, all retirees participating in the MPSERS 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 B Medicare and 10 percent of the monthly premium for the selected coverage.

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, 2009 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 – SUBSEQUENT EVENTS

During the period of July 1, 2009 through August 31, 2009, the District collected Sinking Fund millage revenue in the amount of \$19,805. As of June 30, 2009, the Sinking Fund had a deficit fund balance of \$13,708 due to expenditures that were recorded as accounts payable. The subsequent collection of tax revenue has provided funds to satisfy the accounts payable and eliminate the fund deficit.

Required Supplemental Information

MADISON SCHOOL DISTRICT

REQUIRED SUPPLEMENTAL INFORMATION BUDGETARY COMPARISON SCHEDULE - GENERAL FUND Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Over (Under) Actual
	Original	Final		
Revenues:				
Local sources	\$ 2,692,538	\$ 2,274,667	\$ 2,262,666	\$ 12,001
State sources	9,427,117	9,216,965	9,228,653	(11,688)
Federal sources	264,651	838,102	795,251	42,851
Interdistrict sources	450,000	517,580	560,040	(42,460)
Miscellaneous	33,800	69,011	83,906	(14,895)
TOTAL REVENUES	<u>12,868,106</u>	<u>12,916,325</u>	<u>12,930,516</u>	<u>(14,191)</u>
Expenditures:				
Current:				
Instruction:				
Basic programs	7,122,386	7,262,213	7,254,487	(7,726)
Added needs	2,047,774	2,070,067	2,047,043	(23,024)
Community services	60,604	64,926	64,462	(464)
Pupil services	232,887	241,502	236,806	(4,696)
Instructional staff	186,767	197,330	202,698	5,368
Supporting Services:				
School administration and business	1,377,500	1,375,714	1,379,161	3,447
Operation, transportation and central	2,542,811	1,539,512	1,521,962	(17,550)
Other		-	-	-
Other Uses:				
Operating transfers	198,692	1,232,951	1,247,482	14,531
TOTAL EXPENDITURES	<u>13,769,421</u>	<u>13,984,215</u>	<u>13,954,101</u>	<u>(30,114)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER USES	(901,315)	(1,067,890)	(1,023,585)	(44,305)
Budgetary fund balance - July 1, 2008	<u>3,896,678</u>	<u>3,896,678</u>	<u>3,896,678</u>	<u>-</u>
Budgetary fund balance - June 30, 2009	<u>\$ 2,995,363</u>	<u>\$ 2,828,788</u>	<u>\$ 2,873,093</u>	<u>\$ (44,305)</u>

See auditors' report and accompanying notes to financial statements.

Other Supplemental Information

MADISON SCHOOL DISTRICT

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS June 30, 2009

	Nonmajor Special Revenue Funds		Nonmajor Governmental Funds
	School Lunch	Athletics	Total
Assets			
Cash and investments	\$ 160,462	\$ 4,321	\$ 164,783
Accounts receivable	1,382	-	1,382
Inventories	9,459	-	9,459
TOTAL ASSETS	\$ 171,303	\$ 4,321	\$ 175,624
Liabilities and Fund Balances			
Liabilities			
Deferred revenue	\$ 3,265	\$ -	\$ 3,265
TOTAL LIABILITIES	3,265	-	3,265
Fund Balances			
Reserved for inventories	9,459	-	9,459
Unreserved and undesignated	158,579	4,321	162,900
TOTAL FUND BALANCES	168,038	4,321	172,359
TOTAL LIABILITIES AND FUND BALANCES	\$ 171,303	\$ 4,321	\$ 175,624

See auditors' report.

MADISON SCHOOL DISTRICT**COMBINING STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2009**

	<u>Nonmajor Special Revenue Funds</u>		<u>Nonmajor Governmental Funds</u>
	<u>School Lunch</u>	<u>Athletics</u>	<u>Total</u>
Revenues			
Local sources	\$ 194,211	\$ 72,865	\$ 267,076
State sources	22,512	-	22,512
Federal sources	378,325	-	378,325
Miscellaneous	2,531	-	2,531
Transfers from General Fund	-	212,949	212,949
	<u>597,579</u>	<u>285,814</u>	<u>883,393</u>
TOTAL REVENUES			
	<u>597,579</u>	<u>285,814</u>	<u>883,393</u>
Expenditures			
Current operations:			
Food services	598,343	-	598,343
Athletics	-	268,637	268,637
Capital outlay	1,042	36,554	37,596
	<u>599,385</u>	<u>305,191</u>	<u>904,576</u>
TOTAL EXPENDITURES			
	<u>599,385</u>	<u>305,191</u>	<u>904,576</u>
Excess of Revenues Over (Under) Expenditures	(1,806)	(19,377)	(21,183)
Fund Balances - July 1, 2008	<u>168,038</u>	<u>23,698</u>	<u>191,736</u>
Fund Balances - June 30, 2009	<u>\$ 166,232</u>	<u>\$ 4,321</u>	<u>\$ 170,553</u>

See auditors' report.

MADISON SCHOOL DISTRICT

GENERAL FUND SCHEDULE OF REVENUES - BUDGET AND ACTUAL Year Ended June 30, 2009

	2009 Budget	2009 Actual	Over (Under) Budget	2008 Actual
Revenue from Local Sources:				
Property tax	\$ 2,080,233	\$ 2,076,829	\$ (3,404)	\$ 2,112,803
Tuition	42,758	43,055	297	45,528
Earnings on investments and deposits	88,000	88,773	773	162,630
Other local revenue	63,676	54,009	(9,667)	50,507
TOTAL REVENUE FROM LOCAL SOURCES	2,274,667	2,262,666	(12,001)	2,371,468
Revenue from State Sources:				
State School Aid	9,216,965	9,228,653	11,688	10,085,034
Other	-	-	-	12,710
TOTAL REVENUE FROM STATE SOURCES	9,216,965	9,228,653	11,688	10,097,744
Revenue from Federal Sources:				
ARRA stabilization aid	526,009	526,009	-	-
Title I	197,916	197,916	-	207,279
Other	114,177	71,326	(42,851)	61,169
TOTAL REVENUE FROM FEDERAL SOURCES	838,102	795,251	(42,851)	268,448
Incoming Transfers and Other Transactions:				
County special education	517,580	560,040	42,460	583,161
Payments received from other units	69,011	83,906	14,895	44,448
TOTAL INCOMING TRANSFERS AND OTHER TRANSACTIONS	586,591	643,946	57,355	627,609
TOTAL REVENUE AND OTHER FINANCING SOURCES	\$ 12,916,325	\$ 12,930,516	\$ 14,191	\$ 13,365,269

See auditors' report.

MADISON SCHOOL DISTRICT

GENERAL FUND SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL Year Ended June 30, 2009

	2009 Budget	2009 Actual	Over (Under) Budget	2008 Actual
Instruction:				
Basic Programs - Pre-School:				
Salaries	\$ 77,560	\$ 76,016	\$ (1,544)	\$ 73,842
Benefits	36,745	35,957	(788)	36,904
Purchased services	240	240	-	900
Supplies and materials	1,310	1,299	(11)	1,612
TOTAL PRE-SCHOOL	<u>115,855</u>	<u>113,512</u>	<u>(2,343)</u>	<u>113,258</u>
Basic Programs - Elementary:				
Salaries	2,262,276	2,261,642	(634)	2,325,137
Benefits	1,031,182	1,031,075	(107)	1,128,619
Purchased services	128,690	128,680	(10)	101,459
Supplies and materials	90,255	90,152	(103)	74,618
Capital outlay	47,000	46,903	(97)	31,170
TOTAL ELEMENTARY	<u>3,559,403</u>	<u>3,558,452</u>	<u>(951)</u>	<u>3,661,003</u>
Basic Programs - High School/Middle School:				
Salaries	2,214,117	2,212,741	(1,376)	2,184,643
Benefits	1,069,059	1,068,729	(330)	1,072,984
Purchased services	129,623	129,126	(497)	118,508
Supplies and materials	130,601	130,338	(263)	87,717
Capital outlay	43,555	41,589	(1,966)	26,874
TOTAL HIGH SCHOOL/MIDDLE SCHOOL	<u>3,586,955</u>	<u>3,582,523</u>	<u>(4,432)</u>	<u>3,490,726</u>
TOTAL BASIC PROGRAMS	<u>7,262,213</u>	<u>7,254,487</u>	<u>(7,726)</u>	<u>7,264,987</u>
Added Needs - Special Education				
Salaries	924,480	924,953	473	970,797
Benefits	404,223	383,641	(20,582)	533,473
Purchased services	106,338	106,534	196	108,903
Supplies and materials	16,749	16,735	(14)	13,058
Capital outlay	8,671	8,671	-	-
TOTAL SPECIAL EDUCATION	<u>1,460,461</u>	<u>1,440,534</u>	<u>(19,927)</u>	<u>1,626,231</u>
Added Needs - Compensatory Education				
Salaries	166,084	166,084	-	180,554
Benefits	46,061	44,879	(1,182)	52,033
Purchased services	600	600	-	500
TOTAL COMPENSATORY EDUCATION	<u>212,745</u>	<u>211,563</u>	<u>(1,182)</u>	<u>233,087</u>

See auditors' report.

MADISON SCHOOL DISTRICT

GENERAL FUND SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL Year Ended June 30, 2009

Instruction continued:	2009 Budget	2009 Actual	Over/(Under) Budget	2008 Actual
Other added needs:				
Salaries	\$ 298,880	\$ 298,894	\$ 14	\$ 253,019
Benefits	92,118	91,259	(859)	84,385
Purchased services	590	590	-	500
Supplies and materials	5,273	4,203	(1,070)	13,842
TOTAL OTHER ADDED NEEDS	396,861	394,946	(1,915)	351,746
TOTAL ADDED NEEDS	2,070,067	2,047,043	(23,024)	2,211,064
TOTAL INSTRUCTION	9,332,280	9,301,530	(30,750)	9,476,051
COMMUNITY SERVICES:				
Salaries	48,698	48,698	-	41,861
Benefits	11,787	11,323	(464)	10,001
Supplies and materials	4,209	4,209	-	5,843
Capital outlay	232	232	-	-
TOTAL COMMUNITY SERVICES	64,926	64,462	(464)	57,705
SUPPORTING SERVICES:				
Pupil Services:				
Salaries	164,290	164,147	(143)	159,095
Benefits	66,152	61,873	(4,279)	57,403
Purchased services	1,514	1,240	(274)	495
Supplies and materials	9,377	9,377	-	250
Capital outlay	169	169	-	-
TOTAL PUPIL SERVICES	241,502	236,806	(4,696)	217,243
Instructional staff:				
Salaries	98,157	101,458	3,301	96,460
Benefits	75,755	77,822	2,067	49,222
Purchased services	769	769	-	938
Supplies and materials	21,869	21,869	-	18,760
Capital outlay	780	780	-	1,217
TOTAL INSTRUCTIONAL STAFF	197,330	202,698	5,368	166,597
General Administration:				
Salaries	365,287	368,474	3,187	350,341
Benefits	168,463	159,537	(8,926)	154,871
Purchased services	61,380	60,713	(667)	88,217
Supplies and materials	17,012	17,012	-	36,829
Capital outlay	5,030	5,030	-	4,944
TOTAL GENERAL ADMINISTRATION	617,172	610,766	(6,406)	635,202
School Administration:				
Salaries	483,300	492,731	9,431	480,828
Benefits	243,279	243,701	422	260,489
Purchased services	11,130	11,130	-	4,270
Supplies and materials	16,948	16,948	-	14,672
Capital outlay	3,885	3,885	-	15,548
TOTAL SCHOOL ADMINISTRATION	758,542	768,395	9,853	775,807

See auditors' report.

MADISON SCHOOL DISTRICT

GENERAL FUND SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL Year Ended June 30, 2009

	<u>2009 Budget</u>	<u>2009 Actual</u>	<u>Over (Under) Budget</u>	<u>2008 Actual</u>
Supporting Services continued:				
Operation and maintenance of plant:				
Salaries	\$ 329,366	\$ 327,858	\$ (1,508)	\$ 330,997
Benefits	210,755	210,863	108	205,396
Purchased services	402,385	401,625	(760)	313,213
Supplies and materials	63,997	63,977	(20)	51,808
Capital outlay	<u>222,488</u>	<u>209,676</u>	<u>(12,812)</u>	<u>339,941</u>
TOTAL OPERATION AND MAINTENANCE OF PLANT	<u>1,228,991</u>	<u>1,213,999</u>	<u>(14,992)</u>	<u>1,241,355</u>
Pupil Transportation Services				
Salaries	170,897	169,296	(1,601)	159,751
Benefits	51,478	50,521	(957)	49,743
Purchased services	24,478	24,478	-	20,249
Supplies and materials	48,623	48,623	-	61,536
Capital outlay	14,675	14,675	-	72,606
Other	<u>370</u>	<u>370</u>	<u>-</u>	<u>570</u>
TOTAL TRANSPORTATION SERVICES	<u>310,521</u>	<u>307,963</u>	<u>(2,558)</u>	<u>364,455</u>
TOTAL SUPPORTING SERVICES	<u>3,354,058</u>	<u>3,340,627</u>	<u>(13,431)</u>	<u>3,400,659</u>
TOTAL EXPENDITURES	<u>12,751,264</u>	<u>12,706,619</u>	<u>(44,645)</u>	<u>12,934,415</u>
Outgoing Transfers and Other Transactions:				
Fund modification	<u>1,232,951</u>	<u>1,247,482</u>	<u>14,531</u>	<u>188,356</u>
TOTAL TRANSFERS AND OTHER TRANSACTIONS	<u>1,232,951</u>	<u>1,247,482</u>	<u>14,531</u>	<u>188,356</u>
TOTAL EXPENDITURES AND TRANSFERS	<u>\$ 13,984,215</u>	<u>\$ 13,954,101</u>	<u>\$ (30,114)</u>	<u>\$ 13,122,771</u>

See auditors' report.

MADISON SCHOOL DISTRICT

SPECIAL REVENUE FUNDS COMBINING BALANCE SHEET June 30, 2009

	<u>School Lunch</u>	<u>Athletics</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 160,462	\$ 4,321	\$ 164,783
Accounts receivable	1,382	-	1,382
Inventories	9,459	-	9,459
TOTAL ASSETS	\$ 171,303	\$ 4,321	\$ 175,624
Liabilities and Fund Balances			
Liabilities			
Deferred revenue	\$ 3,265	\$ -	\$ 3,265
TOTAL LIABILITIES	3,265	-	3,265
Fund Balances			
Reserved for inventory	9,459	-	9,459
Unreserved and undesignated	158,579	4,321	162,900
TOTAL FUND BALANCES	168,038	4,321	172,359
TOTAL LIABILITIES AND FUND BALANCES	\$ 171,303	\$ 4,321	\$ 175,624

See auditors' report.

MADISON SCHOOL DISTRICT

SPECIAL REVENUE FUNDS COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL Year Ended June 30, 2009

	School Lunch			Athletics		
	Budget	Actual	Over (Under) Budget	Budget	Actual	Over (Under) Budget
Revenues						
Local sources	\$ 192,303	\$ 194,211	\$ 1,908	\$ 89,500	\$ 72,865	\$ (16,635)
State sources	22,526	22,512	(14)	-	-	-
Federal sources	354,341	378,325	23,984	-	-	-
Miscellaneous	2,204	2,531	327	-	-	-
Transfer from General Fund	-	-	-	198,394	212,949	14,555
TOTAL REVENUES	571,374	597,579	26,205	287,894	285,814	(2,080)
Expenditures						
Salaries	177,833	177,773	(60)	159,750	159,271	(479)
Benefits	59,838	61,725	1,887	38,644	37,040	(1,604)
Purchased services	3,500	3,815	315	18,545	17,220	(1,325)
Supplies and materials	338,094	351,625	13,531	46,107	55,106	8,999
Capital outlay	1,500	1,042	(458)	33,277	36,554	3,277
Other	5,533	3,405	(2,128)	685	-	(685)
TOTAL EXPENDITURES	586,298	599,385	13,087	297,008	305,191	8,183
Excess (Deficiency) of Revenues Over Expenditures	(14,924)	(1,806)	13,118	(9,114)	(19,377)	(10,263)
Fund Balances - July 1, 2008	169,844	169,844	-	23,698	23,698	-
Fund Balances - June 30, 2009	\$ 154,920	\$ 168,038	\$ 13,118	\$ 14,584	\$ 4,321	\$ (10,263)

See auditors' report.

MADISON SCHOOL DISTRICT

DEBT RETIREMENT FUND COMBINING BALANCE SHEET June 30, 2009

	1998 Debt	Durant Issue	Totals
Assets			
Cash	\$ 52,989	\$ -	\$ 52,989
Due from General Fund	1,252	-	1,252
TOTAL ASSETS	\$ 54,241	\$ -	\$ 54,241
Fund Balance			
Reserved:			
Debt retirement	\$ 54,241	\$ -	\$ 54,241
TOTAL FUND BALANCE	\$ 54,241	\$ -	\$ 54,241

See auditors' report.

MADISON SCHOOL DISTRICT**DEBT RETIREMENT FUND
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
Year Ended June 30, 2009**

	1998 Debt	Durant Issue	Totals
Revenues			
Local Sources:			
Property tax levy	\$ 279,747	\$ -	\$ 279,747
Earnings on investments	1,767	-	1,767
State Sources:			
State aid restricted	-	8,926	8,926
TOTAL REVENUES	<u>281,514</u>	<u>8,926</u>	<u>290,440</u>
Expenditures			
Debt Service:			
Redemption of principal	240,000	7,074	247,074
Interest on debt	52,600	1,852	54,452
Other	300	-	300
TOTAL EXPENDITURES	<u>292,900</u>	<u>8,926</u>	<u>301,826</u>
Excess (Deficiency) of Revenues Over Expenditures	(11,386)	-	(11,386)
Fund Balances - July 1, 2008	<u>65,627</u>	<u>-</u>	<u>65,627</u>
Fund Balances - June 30, 2009	<u>\$ 54,241</u>	<u>\$ -</u>	<u>\$ 54,241</u>

See auditors' report.

MADISON SCHOOL DISTRICT

SINKING FUND BALANCE SHEET June 30, 2009

Assets	
Cash	\$ 1,055
Due from General Fund	<u>1,230</u>
TOTAL ASSETS	\$ <u>2,285</u>
Liabilities	
Accounts payable	\$ <u>15,993</u>
TOTAL LIABILITIES	<u>15,993</u>
Fund Balance	
Reserved:	
Repairs/renovations	<u>(13,708)</u>
TOTAL FUND BALANCE	<u>(13,708)</u>
TOTAL LIABILITIES AND FUND BALANCE	\$ <u>2,285</u>

See auditors' report.

MADISON SCHOOL DISTRICT

SINKING FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL Year Ended June 30, 2009

	Budget	Actual	Over (Under) Budget
Revenues			
Local Sources:			
Property tax levy	\$ 187,561	\$ 188,646	\$ 1,085
Earnings on investments	1,274	1,278	4
Other	-	1,903	1,903
Transfer from General Fund	1,036,436	1,034,533	(1,903)
TOTAL REVENUES	1,225,271	1,226,360	1,089
Expenditures			
Repairs/renovations	1,563,766	1,494,719	(69,047)
TOTAL EXPENDITURES	1,563,766	1,494,719	(69,047)
Excess (Deficiency) of Revenues Over Expenditures	(338,495)	(268,359)	70,136
Fund Balances - July 1, 2008	338,662	254,651	(84,011)
Fund Balances - June 30, 2009	\$ 167	\$ (13,708)	\$ (13,875)

See auditors' report.

MADISON SCHOOL DISTRICT

TRUST AND AGENCY FUNDS COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES June 30, 2009

	GROUPS JULY 1, 2008	ADDITIONS	DEDUCTIONS	GROUPS JUNE 30, 2009
After Prom	\$ 355.52	\$ 2,688.66	\$ 2,962.26	\$ 81.92
Athletic Boosters	8,805.98	26,093.03	26,036.75	8,862.26
Band Boosters	-	10,982.81	5,101.50	5,881.31
Baseball	425.05	162.00	299.00	288.05
Boys Basketball	588.80	725.00	1,136.25	177.55
Checking - Interest	172.86	1,991.78	243.49	1,921.15
Cheerleaders	743.61	4,997.20	4,509.37	1,231.44
Class of:				
2006	1,253.55	-	1,253.55	-
2007	1,276.90	-	1,276.90	-
2008	729.30	-	729.30	-
2009	4,394.92	4,305.21	8,700.13	-
2010	1,051.05	1,229.00	31.64	2,248.41
2011	855.92	934.34	229.75	1,560.51
2012	400.00	1,330.00	-	1,730.00
2013	400.00	1,200.00	-	1,600.00
2014	-	1,200.00	-	1,200.00
Community Rewards	3,547.03	207.76	-	3,754.79
Drama Account	413.33	243.10	-	656.43
Elementary Fund Raising	19,464.35	36,714.66	47,935.98	8,243.03
Elementary Library	321.67	209.00	100.00	430.67
Elementary Student Council	58.49	78.21	-	136.70
Family Room	784.64	1,316.00	1,157.80	942.84
Football	4,166.52	7,842.40	5,215.71	6,793.21
Girls Basketball	73.67	4,790.07	4,307.02	556.72
H.S. Library Account	702.45	-	246.98	455.47
H.S. Student Council	1,189.83	2,403.14	2,613.25	979.72
Interact Club	425.97	633.25	819.62	239.60
Junior Achievement	202.50	-	-	202.50
Lenawee Child	1,714.58	1,700.00	1,795.77	1,618.81
Locker Account	13,222.86	14,504.00	17,680.10	10,046.76
MCSSC	1,019.96	7,070.33	5,639.14	2,451.15
Madison EAC	-	787.68	744.19	43.49
Madison Football Club	189.06	760.00	548.97	400.09
Madison Kids Closet	370.71	-	133.00	237.71
Madison School Store	3,003.49	-	-	3,003.49
May Madness	49.48	2,461.41	1,639.17	871.72
Miscellaneous	-	302.00	302.00	-
M.S. Student Activity	301.38	8,008.71	7,512.33	797.76
M.S. Student Council	4,271.24	5,400.55	6,850.85	2,820.94
Musical Theatre	-	13,620.60	11,708.90	1,911.70
National Honor Society	358.15	520.00	460.35	417.80
P.A.T.T.	2,829.48	29,184.70	29,539.83	2,474.35
P.E.A.C.E	1,112.29	1,849.53	1,878.36	1,083.46
Pop Fund	10,650.58	1,699.52	2,951.38	9,398.72
Relay For Life	1,670.00	2,152.30	1,670.00	2,152.30
Savings Account Interest	341.92	84.21	-	426.13
Scholarship	11,247.79	5,141.96	1,000.00	15,389.75
Softball	732.13	925.00	922.95	734.18
Special Education - Elementary	840.22	-	801.34	38.88
Special Education - H.S./M.S.	2,163.29	153.00	560.81	1,755.48
Strength & Conditioning	7,258.45	2,224.00	2,528.00	6,954.45
Student Activities	1,830.81	9,025.65	10,504.96	351.50
Track	3,638.87	7,928.00	7,844.14	3,722.73
Varsity Volleyball	274.89	572.55	847.44	-
Wrestling	1,123.35	255.25	-	1,378.60
Wrestling Club	2,106.52	3,257.25	2,514.83	2,848.94
Yearbook	-	10,546.11	9,459.19	1,086.92
TOTAL	\$ 125,125.41	\$ 242,410.93	\$ 242,944.25	\$ 124,592.09

See auditors' report

MADISON SCHOOL DISTRICT

PROPERTY TAX DATA Year Ended June 30, 2009

	Unpaid at JULY 1, 2008	Tax Levy	Collections/ Adjustments	Unpaid (Deferred) at JUNE 30, 2009
General Fund	\$ -	\$ 2,075,990	\$ 2,075,990	\$ -
Sinking Fund	-	188,646	188,646	-
Debt Retirement Funds	-	279,747	279,747	-
TOTAL	\$ -	\$ 2,544,383	\$ 2,544,383	\$ -

Other Information

Taxable value of property assessed in the Madison School District

	2009			
	Homestead	Industrial PP	Commercial PP	Non-homestead
Municipality:				
Madison	\$ 46,699,410	\$ 9,157,100	\$ 5,968,000	\$ 60,562,323
Adrian City	8,046,812	1,687,400	7,286,400	46,386,863
Palmyra	3,318,099	5,000	610,400	2,703,963
Adrian	139,003	-	-	1,468,896
Total	\$ 58,203,324	\$ 10,849,500	\$ 13,864,800	\$ 111,122,045

Tax Levy (Mills):	2009	
	Commercial PP	Non-homestead
Debt Retirement Funds	1.4000	1.4000
Sinking Fund	0.9626	0.9626
General Fund	18.0000	18.0000
Total tax levy	20.3626	20.3626

Blended official student enrollment 1,414.55

See auditors' report.

Federal Awards Supplemental Information

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Certified Public Accountants

**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, 2009, which collectively comprise the Madison School District's basic financial statements and have issued our report thereon dated October 5, 2009. 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 control deficiency 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 significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Corrective Action Responses presented on pages 49-51 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described in the Schedule of Findings and Corrective Action Responses presented on pages 49-51 is a material weakness.

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 October 5, 2009.

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
October 5, 2009

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Certified Public Accountants

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO 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 are applicable to each of its major federal programs for the year ended June 30, 2009. Madison School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. 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, 2009.

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, 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 control deficiency 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Corrective Action Responses presented on pages 49-51 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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
October 5, 2009

MADISON SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS Year Ended June 30, 2009

Federal Grantor Pass Through Grantor Program Title/Grant Number	CFDA Number	Approved Awards Amount	Accrued or (Deferred) Revenue July 1, 2008	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts	Accrued or (Deferred) Revenue June 30, 2009	Adjustments
U.S. Department of Education:								
Passed through Michigan Department of Education								
Title I 091530 0809	84.010	\$ 197,916	\$ -	\$ -	\$ 197,916	\$ 197,916	\$ -	\$ -
Title I 081530 0708	84.010	207,279	77,975	77,975	-	77,975	-	-
Title V 080250 0708	84.298	2,180	1,090	1,090	-	1,090	-	-
Enhancing Education Through Technology 094290 0809	84.318	1,690	-	-	1,690	1,690	-	-
Enhancing Education Through Technology 084290 0708	84.318	1,948	974	974	-	974	-	-
Improving Teacher Quality 090520 0809	84.367	54,794	-	-	54,794	-	54,794	-
Improving Teacher Quality 080520 0708	84.367	55,328	40,377	40,377	-	40,377	-	-
ARRA Stabilization Funds	84.394	526,009	-	-	526,009	-	526,009	-
Total passed through Michigan Department of Education		1,047,144	120,416	120,416	780,409	320,022	580,803	-
Passed through I.S.D.								
Drug Free Schools	84.186	1,689	530	530	1,689	530	1,689	-
Early Learning Opportunities Act 90LO0176/01	93.577	7,840	3,123	3,123	-	3,123	-	-
Medicaid Outreach	93.780	11,028	-	-	11,028	11,028	-	-
Total passed through I.S.D.		20,557	3,653	3,653	12,717	14,681	1,689	-
Total U.S. Department of Education		1,067,701	124,069	124,069	793,126	334,703	582,492	-
U.S. Department of Agriculture:								
Passed through U.S. Department of Agriculture								
Child Nutrition Cluster - Cash Assistance								
School Breakfast Program	10.553	73,095	-	-	73,095	73,095	-	-
National School Lunch Program	10.555	274,803	-	-	274,803	274,803	-	-
Special Milk Program for Children	10.556	258	-	-	258	258	-	-
Total Cash Assistance		348,156	-	-	348,156	348,156	-	-
Child Nutrition Cluster - Non-Cash Assistance								
Commodities - National School Lunch Program	10.555	30,169	-	-	30,169	30,169	-	-
Total - Non-Cash Assistance		30,169	-	-	30,169	30,169	-	-
Total Child Nutrition Cluster		378,325	-	-	378,325	378,325	-	-
Total Passed Through U.S. Department of Agriculture		378,325	-	-	378,325	378,325	-	-
Passed through I.S.D.								
Michigan Nutrition Network	10.561	2,125	-	-	2,125	2,125	-	-
Total passed through I.S.D.		2,125	-	-	2,125	2,125	-	-
Total U.S. Department of Agriculture		380,450	-	-	380,450	380,450	-	-
Total Federal Financial Assistance		\$ 1,448,151	\$ 124,069	\$ 124,069	\$ 1,173,576	\$ 715,153	\$ 582,492	\$ -

Notes:

1. See notes to financial statements for significant accounting policies and procedures.
2. The Grants Section Auditors Report (R7120) and the cash management auditor report was used in preparation of this schedule.

MADISON SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND CORRECTIVE ACTION RESPONSES

June 30, 2009

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, 2009 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: Child Nutrition Cluster (CFDA #s 10.553, 10.555 and 10.556) and, ARRA Stabilization Funds (CFDA # 84.394).

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

09-01. 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.

09-02. 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.

MADISON SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND CORRECTIVE ACTION RESPONSES

June 30, 2009

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

09-02. 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

There were no findings or questioned costs to be reported.

SECTION 4: SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Financial Statement Findings

08-01. 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.

08-02. 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, 2009

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.