

**MADISON SCHOOL DISTRICT**  
**FINANCIAL REPORT**  
**WITH SUPPLEMENTAL INFORMATION**  
**JUNE 30, 2012**

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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, 2012, 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 respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Madison School District as of June 30, 2012, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2012 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, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of Education  
Madison School District  
Adrian, Michigan

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

Our audit was conducted 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 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards, identified in the table of contents as Federal Awards Supplemental Information, is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Madison School District. This supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Drake, Watters & Associates, PLLC*

Jackson, Michigan  
September 12, 2012

# **MADISON SCHOOL DISTRICT**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS For Fiscal Year Ended June 30, 2012**

This section of Madison School District's annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2012. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

### **Using this Annual Report**

This annual report consists of a series of financial statements and notes to those financial statements. These statements are organized so the reader can understand Madison School District's financial operations. The government-wide financial statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements look at the School District's operations in more detail than the government-wide financial statements by providing information about the School District's most significant funds - the General Fund, Capital Projects Fund, Sinking Fund, Debt Retirement Fund - with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary assets and liabilities, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Management's Discussion and Analysis (MD&A)  
(Required Supplemental Information)

Basic Financial Statements

Government-wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statements

Budgetary Information for Major Funds  
(Required Supplemental Information)

Other Supplemental Information

Federal Awards Supplemental Information

# **MADISON SCHOOL DISTRICT**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued) For Fiscal Year Ended June 30, 2012**

### ***Reporting the School District as a Whole - Government-wide Financial Statements***

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. These statements are prepared to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid. These two statements report the School District's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenue and expenses is the School District's operating results. However, the School District's mission is to provide each of our students with the education necessary to be successful in an ever changing world. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and the statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, support services, community services, athletics, food services, enrichment, debt retirement, and internal services. Property taxes, unrestricted state aid (foundation allowance revenue), and state and federal grants finance most of these activities.

### ***Reporting the School District's Most Significant Funds - Fund Financial Statements***

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by state law and by bond covenants. However, the School District may establish other funds to help it control and manage money for particular purposes (the Food Services and Capital Projects Funds are examples) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

# **MADISON SCHOOL DISTRICT**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued) For Fiscal Year Ended June 30, 2012**

- **Governmental Funds** - All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a separate reconciliation schedule.

### ***The School District as Trustee - Reporting the School District's Fiduciary Responsibilities***

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in a separate statement of fiduciary assets and liabilities. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

### **The School District as a Whole**

Recall that the statement of net assets provides the perspective of the School District as a whole. Table I provides a summary of the School District's net assets as of June 30, 2012 and 2011:

(See next page)



# MADISON SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued) For Fiscal Year Ended June 30, 2012

TABLE I

	Governmental Activities	
	June 30	
	2012	2011
	(in millions)	
<b>Assets</b>		
Current and other assets	\$ 9.8	\$ 10.1
Capital assets	13.6	13.4
Total assets	23.4	23.5
<b>Liabilities</b>		
Current liabilities	2.4	2.6
Long-term liabilities	3.6	3.9
Total liabilities	6.0	6.5
<b>Net Assets</b>		
Invested in capital assets - Net of related debt	9.7	9.1
Restricted	3.7	4.0
Unrestricted	4.0	3.9
Total net assets	\$ 17.4	\$ 17.0

The above analysis focuses on the net assets (Table 1). The change in net assets (Table 2) of the School District's governmental activities is discussed below. The School District's net assets were \$17.4 million at June 30, 2012. The investment in capital assets, net of related debt, reflects a balance of \$9.7 million. This figure compares the original cost less depreciation of the School District's capital assets to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets, \$4.0 million, was unrestricted.

The \$4.0 million in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The unrestricted net assets balance enables the School District to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (Table 2), which shows the changes in net assets for the fiscal years ended June 30, 2012 and 2011.

# MADISON SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued) For Fiscal Year Ended June 30, 2012

TABLE 2

	Governmental Activities	
	2012	2011
	(in millions)	
Revenue		
Program revenue:		
Charges for services	\$ 0.2	\$ 0.2
Operating grants and contributions	1.9	2.2
General revenue:		
Property taxes	2.8	2.6
State foundation allowance	10.1	9.7
Other	0.4	0.3
Total revenue	15.4	15.0
Functions/Program Expenses		
Instruction	9.7	9.7
Support services	3.6	3.3
Food services	0.7	0.7
Athletics	0.3	0.3
Interest on long-term debt	0.2	0.0
Depreciation (unallocated)	0.5	0.6
Total functions/program expenses	15.0	14.6
(Decrease) Increase in Net Assets	0.4	0.4
Net Assets - Beginning of year	17.0	16.6
Net Assets - End of year	\$ 17.4	\$ 17.0

As reported in the statement of activities, the cost of all of our governmental activities this year was \$15.0 million. Certain activities were partially funded from those who paid for goods and services from those programs, \$0.2 million, or by other governments and organizations that subsidized certain programs with grants and contributions, \$1.9 million. We paid for the remaining "public benefit" portion of our governmental activities with \$2.8 million in taxes, \$10.1 million in state foundation allowance, and with our other revenue (i.e., interest and general entitlements) of \$0.4 million. Overall, the amount of revenue from funding sources exceeded the cost of activities by \$0.4 million, resulting in a corresponding increase in net assets.

# **MADISON SCHOOL DISTRICT**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued) For Fiscal Year Ended June 30, 2012**

As discussed above, the net cost shows the financial burden that was placed on the state and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted state aid constitute the vast majority of the School District's operating revenue sources, the Board of Education and administration must annually evaluate the needs of the School District and balance those needs with available funding resources.

### **The School District's Funds**

As we noted earlier, the School District uses funds to help it control and manage money for particular purposes. Reviewing our various funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As of June 30, 2012, the governmental funds reported a combined fund balance of \$7.7 million, which is a decrease of \$0.1 million from last year. The primary reasons for the decrease are as follows:

- In the General Fund, our principal operating fund, the fund balance increased by \$0.25 million to \$4.0 million. This amount helps to provide for cash flow needs, particularly during the month of September when there are no state aid receipts, and also during the several months of the year when we experience minimal local tax receipts.
- The overall decrease in governmental funds was mainly due to the excess of capital expenditures over property tax and investment revenues in the Capital Projects and Sinking Funds.

The General Fund balance is available to fund costs related to allowable school operating purposes.

Our Other Nonmajor Fund grew compared to prior years, showing a net increase of approximately \$106,000 due to an increase in the level of federal revenue received.

Combined, the Debt Service Funds showed a fund balance decrease of approximately \$36,000. This decrease is due primarily to a loss in property tax revenue as a result of declining property values. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Debt Service fund balances are reserved since they can only be used to pay debt service obligations.

# **MADISON SCHOOL DISTRICT**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued) For Fiscal Year Ended June 30, 2012**

### **General Fund Budgetary Highlights**

By state law, the Madison School District Board of Education must approve a balanced budget, effective July 1 of each year. At the same time, the State Legislature's fiscal year does not begin until October 1 of the same year.

Over the course of the year, the School District must revise its budget as additional information, including changes in student enrollment, unanticipated costs, and state funding changes, become available. These revisions, known as budget adjustments, are again required by state law to ensure that expenditures do not exceed the Board's authorized budget.

The School District made budget amendments during the 2011-2012 year, the final of which was approved by the Board of Education on June 18, 2012. A schedule showing the School District's original and final budget amounts compared to actual amounts is provided in the required supplemental information in these financial statements.

Budgeted revenue increased \$0.4 million as a result of an unanticipated increase in foundation allowance payments due to the actual student enrollment being greater than original estimates, the addition of Best Practice Incentive Funds, and an increase in federal grant awards.

Budgeted expenditures were also increased \$0.3 million to account for changes in costs of basic programs and supporting services to serve the additional students.

The School District's final actual fund balance was approximately \$184,000 higher than the final budget.

### **Capital Assets and Debt Administration**

#### ***Capital Assets***

As of June 30, 2012, the School District had \$13.6 million invested in a broad range of capital assets, including land, buildings, vehicles, furniture, and equipment. This amount represents a net increase (including additions, disposals, and depreciation) of approximately \$0.3 million from last year.

# MADISON SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued) For Fiscal Year Ended June 30, 2012

	2012	2011
Land	\$ 912,065	\$ 912,065
Construction in process	158,060	24,550
Buildings and building improvements	15,826,378	15,750,804
Buses and other vehicles	638,200	638,200
Furniture and equipment	3,520,238	2,939,793
Total capital assets	21,054,941	20,265,412
Less: accumulated depreciation	7,445,249	6,922,391
Net capital assets	\$ 13,609,692	\$ 13,343,021

This year's additions of \$0.8 million included building additions, computer and other technology related equipment, kitchen equipment, student desks, courtyard and middle school parking lot repairs and a pole building addition for storage. No new debt was issued for these additions.

Major capital projects planned for the 2012-2013 fiscal year include technology upgrades, energy improvements, parking lot and roof top heating unit repairs, and the completion of the Performing Arts Center. More detailed information about our capital assets is presented in the notes to the financial statements.

### Debt

At the end of this year, the School District had \$3.9 million in bonds and loans outstanding versus \$4.2 million in the previous year - a decrease of 7 percent. Those bonds and loans consisted of the following:

	2012	2011
General obligation bonds	\$ 3,890,000	\$ 4,165,000
Loans	8,519	52,801
Total bonds and loans	\$ 3,898,519	\$ 4,217,801

The School District's general obligation bond rating continues to be A+. The state limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. The School District's outstanding unqualified general obligation debt of \$3.9 million is below this statutorily imposed limit of 15 percent (\$27.7 million) of the assessed value of all taxable property within the School District's boundaries.

Other obligations include accrued vacation pay and sick leave. We present more detailed information about our long-term liabilities in the notes to the financial statements.

# **MADISON SCHOOL DISTRICT**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued) For Fiscal Year Ended June 30, 2012**

### **Economic Factors and Next Year's Budgets and Rates**

The following factors will affect the School District in the future and were considered in preparing the School District's budget for the 2012-13 fiscal year:

One of the most important factors affecting the budget is our student enrollment. The other is the state foundation revenue determined by multiplying the blended student count by the per pupil foundation allowance. The 2012-13 budget was adopted in June 2012, based on the estimated number of students who would be enrolled in September 2012. At that time we anticipated the fall student count would be consistent with what was used in creating the 2012-13 budget, subsequent to year end the enrollment increased significantly more than was earlier projected. In an effort to sustain student enrollment and maximize funding from the state, Madison School District continues to provide opportunities to students through Schools of Choice.

The State School Aid Act for 2012-13 maintains the foundation grant for each student in the Madison School District at \$7,848, with the reduction of \$470 per student from the foundation level of the 2010-11 fiscal year remaining in place. Due to the state's overall economic decline, Michigan school districts have been allocated funding at less than inflationary increases over the past nine years. Statewide job losses, reductions in consumer spending, and reductions in property values resulted in lower revenue from income, sales, and property taxes. In 2011 the Governor and State Legislature decided to fund K-16 public education from the School Aid Fund, which had previously only been used to fund K-12 public education. That decision further reduced the funding available to K-12 public schools from its primary revenue source, the State of Michigan. Additionally, the School District has been challenged by increased fixed costs such as retirement and health care.

Prudent fiscal responsibility and cost containment remain critical to the School District's ability to effectively operate in this volatile and difficult economic climate. Over the past five years, the School District has made a series of budget adjustments to protect its financial future. The School District continues to explore avenues that allow it to reduce costs by restructuring its delivery of services. To balance the 2012-13 budget, an estimated \$1.47 million contribution from fund balance and deferred revenue will be utilized to eliminate reductions in programs and services for our students.

### **Contacting the School District's Management**

This financial report will provide the School District's citizens, parents, and investors with a general overview of the School District's finances, and demonstrate the School District's accountability for the money it receives. If you have any questions about this report, or need additional information, please contact the Madison School District Superintendent's office.

# MADISON SCHOOL DISTRICT

## STATEMENT OF NET ASSETS

June 30, 2012

<b>ASSETS</b>	Governmental Activities
<b>CURRENT ASSETS:</b>	
Cash and cash equivalents (Note 3)	\$ 7,576,653
Accounts receivable (Note 4)	1,957
Unamortized bond issuance costs	79,919
Due from other governmental units (Note 4)	2,152,357
Inventories	<u>10,242</u>
<b>TOTAL CURRENT ASSETS</b>	<u>9,821,128</u>
<b>NONCURRENT ASSETS</b>	
Capital assets (Note 5)	21,054,941
Less: Accumulated depreciation	<u>(7,445,249)</u>
<b>TOTAL NONCURRENT ASSETS</b>	<u>13,609,692</u>
<b>TOTAL ASSETS</b>	<u>\$ 23,430,820</u>
<b>LIABILITIES</b>	
<b>CURRENT LIABILITIES:</b>	
Accounts payable	\$ 100,597
Accrued expenses	343,085
Accrued salaries and withholding	796,756
Deferred revenue	826,779
Accrued Interest	25,019
Bonds payable, Due within one year (Note 6)	298,519
Compensated absences and severance pay, Due within one year (Note 6)	<u>4,380</u>
<b>TOTAL CURRENT LIABILITIES</b>	<u>2,395,135</u>
<b>NONCURRENT LIABILITIES</b>	
Bonds payable (Note 6)	3,600,000
Compensated absences and severance pay (Note 6)	<u>45,560</u>
<b>TOTAL NONCURRENT LIABILITIES</b>	<u>3,645,560</u>
<b>TOTAL LIABILITIES</b>	<u>6,040,695</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	9,711,173
Nonspendable - inventories	10,242
Restricted for construction/repairs	3,379,275
Restricted for debt service	15,743
Restricted for food services	245,942
Unrestricted	<u>4,027,750</u>
<b>TOTAL NET ASSETS</b>	<u>17,390,125</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 23,430,820</u>

See auditors' report and accompanying notes to financial statements.

# MADISON SCHOOL DISTRICT

## STATEMENT OF ACTIVITIES Year Ended June 30, 2012

FUNCTIONS/PROGRAMS	Expenses	Program Revenues		Governmental
		Charges for Services	Operating Grants	Activities
				Net (Expense) Revenue and Changes in Net Assets
<b>Governmental Activities:</b>				
Instruction and instructional support	\$ 9,659,428	\$ -	\$ 1,220,943	\$ (8,438,485)
Support services	3,638,891	-	-	(3,638,891)
Food services	676,478	141,865	640,054	105,441
Athletics	282,779	49,564	-	(233,215)
Interest on long-term debt	164,927	-	-	(164,927)
Depreciation (Unallocated)	522,858	-	-	(522,858)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>\$ 14,945,361</b>	<b>\$ 191,429</b>	<b>\$ 1,860,997</b>	<b>(12,892,935)</b>
<b>GENERAL REVENUES:</b>				
Taxes				
				2,308,460
				268,282
				175,912
				10,067,841
				59,968
				46,589
				392,873
			<b>Total general revenues</b>	<b>13,319,925</b>
<b>CHANGE IN NET ASSETS</b>				
				426,990
Net assets:				
				16,963,135
				<b>17,390,125</b>

See auditors' report and accompanying notes to financial statements.



# MADISON SCHOOL DISTRICT

## BALANCE SHEET GOVERNMENTAL FUNDS June 30, 2012

	General	Capital Projects Fund	Debt Retirement	Sinking Fund	Other Nonmajor Governmental Fund	Total Governmental Funds
<b>Assets</b>						
Cash and investments (Note 3)	\$ 3,878,877	\$ 3,437,737	\$ 15,743	\$ 10,117	\$ 234,179	\$ 7,576,653
Accounts receivable (Note 4)	659	-	-	-	1,298	1,957
Due from other funds	-	-	-	121	11,834	11,955
Due from other governmental units (Note 4)	2,152,357	-	-	-	-	2,152,357
Inventories	-	-	-	-	10,242	10,242
<b>TOTAL ASSETS</b>	<b>\$ 6,031,893</b>	<b>\$ 3,437,737</b>	<b>\$ 15,743</b>	<b>\$ 10,238</b>	<b>\$ 257,553</b>	<b>\$ 9,753,164</b>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities</b>						
Accounts payable	\$ 31,897	\$ 68,700	\$ -	\$ -	\$ -	\$ 100,597
Due to other funds	11,955	-	-	-	-	11,955
Accrued expenses	343,085	-	-	-	-	343,085
Salaries payable	796,756	-	-	-	-	796,756
Deferred revenue	825,410	-	-	-	1,369	826,779
<b>TOTAL LIABILITIES</b>	<b>2,009,103</b>	<b>68,700</b>	<b>-</b>	<b>-</b>	<b>1,369</b>	<b>2,079,172</b>
<b>Fund Balances</b>						
Nonspendable - inventory	-	-	-	-	10,242	10,242
Restricted - debt retirement	-	-	15,743	-	-	15,743
Restricted - construction/repairs/renovations	-	3,369,037	-	10,238	-	3,379,275
Restricted, food services	-	-	-	-	245,942	245,942
Assigned, subsequent year budget shortfall	644,772	-	-	-	-	644,772
Unassigned	3,378,018	-	-	-	-	3,378,018
<b>TOTAL FUND BALANCES</b>	<b>4,022,790</b>	<b>3,369,037</b>	<b>15,743</b>	<b>10,238</b>	<b>256,184</b>	<b>7,673,992</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 6,031,893</b>	<b>\$ 3,437,737</b>	<b>\$ 15,743</b>	<b>\$ 10,238</b>	<b>\$ 257,553</b>	<b>\$ 9,753,164</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, 2012**

Total Governmental Fund Balances		\$	7,673,992
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		\$	21,054,941 <u>(7,445,249)</u>
			13,609,692
Long-term liabilities are not due and payable in the current period and are not reported in the fund; Bonds payable Compensated absences			(3,898,519) (49,940)
Bond issuance costs reported as an expenditure in the governmental fund financial statements are capitalized in the government-wide financial statements			79,919
Accrued Interest is not included as a liability in governmental funds			<u>(25,019)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES		\$	<u>17,390,125</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, 2012**

	General	Capital Projects Fund	Debt Retirement	Sinking Fund	Other Nonmajor Governmental Fund	Totals
<b>Revenues</b>						
Local sources	\$ 2,506,174	\$ 27,802	\$ 268,307	\$ 178,732	\$ 141,865	\$ 3,122,880
State sources	10,067,841	-	59,968	-	28,802	10,156,611
Federal sources	313,312	-	-	-	611,252	924,564
Interdistrict sources	907,631	-	-	-	-	907,631
Miscellaneous	260,009	-	-	-	656	260,665
<b>TOTAL REVENUES</b>	<b>14,054,967</b>	<b>27,802</b>	<b>328,275</b>	<b>178,732</b>	<b>782,575</b>	<b>15,372,351</b>
<b>Expenditures</b>						
Current:						
Instruction and instructional support services	10,683,428	-	-	-	-	10,683,428
Supporting services	3,094,599	-	-	-	676,478	3,771,077
Capital Projects						
Building construction	-	150,090	-	440,490	-	590,580
Debt Service:						
Principal repayment	-	-	319,282	-	-	319,282
Interest and other expenses	-	-	155,438	-	-	155,438
<b>TOTAL EXPENDITURES</b>	<b>13,778,027</b>	<b>150,090</b>	<b>474,720</b>	<b>440,490</b>	<b>676,478</b>	<b>15,519,805</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>276,940</b>	<b>(122,288)</b>	<b>(146,445)</b>	<b>(261,758)</b>	<b>106,097</b>	<b>(147,454)</b>
<b>Other Financing Sources (Uses)</b>						
Fund Modification	(25,000)	-	110,000	(85,000)	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(25,000)</b>	<b>-</b>	<b>110,000</b>	<b>(85,000)</b>	<b>-</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>251,940</b>	<b>(122,288)</b>	<b>(36,445)</b>	<b>(346,758)</b>	<b>106,097</b>	<b>(147,454)</b>
<b>Fund Balances - Beginning 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>
<b>Fund Balances - End of year</b>	<b>\$ 4,022,790</b>	<b>\$ 3,369,037</b>	<b>\$ 15,743</b>	<b>\$ 10,238</b>	<b>\$ 256,184</b>	<b>\$ 7,673,992</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, 2012**

<b>Net Change in Fund Balances - Total Governmental Funds</b>		<b>\$ (147,454)</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	\$ (522,858)	
Capital outlay, net of disposals	<u>789,529</u>	
		266,671
Increase in accrued interest payable is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid		(5,283)
Amortization of deferred bond related costs is reported as an expenditure in the government-wide financial statements. Bond related costs were recognized in the governmental fund when paid		(4,206)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)		319,282
Increase in compensated absences are not reported in the governmental funds		<u>(2,020)</u>
<b>Change in Net Assets of Governmental Activities</b>		<b>\$ <u>426,990</u></b>

See auditors' report and accompanying notes to financial statements.

**MADISON SCHOOL DISTRICT**

**STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
June 30, 2012**

	<u>Agency Fund Student Activities</u>
<b>Assets</b>	
Cash and cash equivalents	\$ <u>159,283</u>
<b>Liabilities</b>	
Liabilities:	
Due to student groups	\$ <u>159,283</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.

**GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The government-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**

**Government-wide Statements** – The government-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 \$7,788,942 had \$7,038,942 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.

# MADISON SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2012

### 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, 2012:

	<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	0.30%	\$ 533,621	\$ 577,661
United Bank & Trust	N/A	0.30%	9,354	9,434
MI Liquid Asset Fund	N/A	VAR	22,137	27,884
United Bank & Trust - Athletic	N/A	0.30%	10,550	11,055
TLC Comm. Cr. Union	N/A	0.35%	924,535	924,535
1 <sup>st</sup> Federal Bank	N/A	VAR	642	642
MBIA	N/A	VAR	762	762
MI Liquid Asset Fund	N/A	VAR	1,110,107	1,110,107
1 <sup>st</sup> Federal Bank	N/A	VAR	<u>1,267,169</u>	<u>1,267,169</u>
			<u>\$3,878,877</u>	<u>\$3,929,249</u>
<b>Debt Retirement Fund:</b>				
MI Liquid Assets	N/A	VAR	<u>\$ 15,743</u>	<u>\$ 15,743</u>
<b>Sinking Fund:</b>				
1 <sup>st</sup> Federal Bank	N/A	VAR	<u>\$ 10,117</u>	<u>\$ 10,117</u>
<b>Capital Projects Fund:</b>				
1 <sup>st</sup> Federal Bank	N/A	VAR	<u>\$3,437,737</u>	<u>\$3,437,737</u>
<b>School Service Fund:</b>				
United Bank & Trust - School Lunch	N/A	0.30%	<u>\$ 234,179</u>	<u>\$ 234,244</u>
<b>Agency Fund:</b>				
United Bank & Trust	N/A	0.30%	\$ 148,763	\$ 151,332
United Bank & Trust	N/A	0.30%	<u>10,520</u>	<u>10,520</u>
			<u>\$ 159,283</u>	<u>\$ 161,852</u>
<b>Total Cash</b>			<u>\$7,735,936</u>	<u>\$7,788,942</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, 2012, the District had \$1,153,734 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, 2012, the fair value of the District's investments is the same as the value of the pool shares. As of June 30, 2012, the District had \$762 invested in MBIA accounts.

**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	\$2,152,357	\$ 0	\$2,152,357
Other Receivables	<u>659</u>	<u>1,298</u>	<u>1,957</u>
Net receivables	<u>\$2,153,016</u>	<u>\$ 1,298</u>	<u>\$2,154,314</u>

(continued on next page)

# MADISON SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENT,S  
June 30, 2012

## Note 5 - CAPITAL ASSETS

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

	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Disposals/ Adjustments</u>	<u>Balance June 30, 2012</u>
Assets not being depreciated:				
Construction in process	\$ 24,550	\$ 133,510	\$ -	\$ 158,060
Land	<u>912,065</u>	<u>-</u>	<u>-</u>	<u>912,065</u>
Subtotal	<u>936,615</u>	<u>133,510</u>	<u>-</u>	<u>1,070,125</u>
Capital assets being depreciated:				
Building and building improvements	15,750,804	75,574	-	15,826,378
Buses and other vehicles	638,200	-	-	638,200
Furniture and equipment	<u>2,939,793</u>	<u>580,445</u>	<u>-</u>	<u>3,520,238</u>
Subtotal	<u>19,328,797</u>	<u>656,019</u>	<u>-</u>	<u>19,984,816</u>
Accumulated depreciation:				
Building and building improvements	4,141,139	370,053	-	4,511,192
Buses and other vehicles	391,617	41,612	-	433,229
Furniture and equipment	<u>2,389,635</u>	<u>111,193</u>	<u>-</u>	<u>2,500,828</u>
Subtotal	<u>6,922,391</u>	<u>522,858</u>	<u>-</u>	<u>7,445,249</u>
Net capital assets being depreciated	<u>12,406,406</u>	<u>133,161</u>	<u>-</u>	<u>12,539,567</u>
Net capital assets	<u>\$13,343,021</u>	<u>\$ 266,671</u>	<u>\$ -</u>	<u>\$13,609,692</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, 2012:

	LONG-TERM DEBT <u>JULY 1, 2011</u>	INCREASED LONG-TERM DEBT	PAYMENTS/ REDUCTIONS	LONG-TERM DEBT <u>JUNE 30, 2012</u>	DUE WITHIN <u>ONE YEAR</u>
UNUSED SICK LEAVE	\$ 47,920	\$ 5,880	\$ 3,860	\$ 49,940	\$ 4,380
1998 BOND ISSUE	565,000	-	275,000	290,000	290,000
2011 BUILDING & SITE	3,600,000	-	-	3,600,000	-
DURANT DEBT	<u>52,801</u>	<u>-</u>	<u>44,282</u>	<u>8,519</u>	<u>8,519</u>
	<u>\$4,265,721</u>	<u>\$ 5,880</u>	<u>\$323,142</u>	<u>\$3,948,459</u>	<u>\$302,899</u>

Long-term liabilities at June 30, 2012 are comprised of the following individual issues:

Due to the uncertainty of unused sick leave maturity as of June 30, 2012, this liability has been included in the amount due "Thereafter" section.

\$ 49,940

\$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%.

\$ 290,000

\$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%.

\$ 8,519

An amount of \$15,743 is available in the debt service funds to service the general obligation debt.

# MADISON SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2012

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

The annual requirements to amortize all debts outstanding as of June 30, 2012, including interest payments of \$1,755,116 are as follows:

YEAR ENDING <u>JUNE 30</u>	UNUSED SICK <u>LEAVE</u>	2011 BUILDING & <u>SITE ISSUE</u>	1998 BOND <u>ISSUE</u>	DURANT <u>ISSUE</u>
2013	\$ 4,380	\$ 138,200	\$301,600	\$8,925
2014	-	268,200	-	-
2015	-	269,950	-	-
2016	-	271,575	-	-
2017	-	278,075	-	-
2018-2022	-	1,425,625	-	-
2023-2027	-	1,482,845	-	-
2028-2033	-	1,208,640	-	-
Thereafter	<u>45,560</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$49,940</u>	<u>\$5,343,110</u>	<u>\$301,600</u>	<u>\$8,925</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 24.46% of annual covered payroll. The District's contribution for years ending June 30, 2012, 2011, and 2010 were \$1,880,606, \$1,517,605, and \$1,310,637, 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.



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

**Postemployment Benefits** - 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. 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, 2012 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 - 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, 2012

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Over (Under) Actual
	Original	Final		
<b>Revenues:</b>				
Local sources	\$ 2,517,519	\$ 2,449,969	\$ 2,506,174	\$ (56,205)
State sources	9,992,122	10,145,940	10,067,841	78,099
Federal sources	271,380	338,217	313,312	24,905
Interdistrict sources	700,000	708,000	907,631	(199,631)
Miscellaneous	62,300	301,843	260,009	41,834
<b>TOTAL REVENUES</b>	<b>13,543,321</b>	<b>13,943,969</b>	<b>14,054,967</b>	<b>(110,998)</b>
<b>Expenditures:</b>				
Current:				
Instruction:				
Basic programs	7,820,941	7,963,898	7,919,335	(44,563)
Added needs	2,408,101	2,401,730	2,377,512	(24,218)
Community services	62,466	62,318	60,193	(2,125)
Pupil services	243,159	238,218	229,569	(8,649)
Instructional staff	100,610	98,178	96,819	(1,359)
Supporting Services:				
School administration and business	1,458,200	1,565,516	1,553,722	(11,794)
Operation, transportation and central	1,186,223	1,250,611	1,258,098	7,487
Athletics	302,509	270,714	282,779	12,065
<b>TOTAL EXPENDITURES</b>	<b>13,582,209</b>	<b>13,851,183</b>	<b>13,778,027</b>	<b>(73,156)</b>
<b>Other financing sources (uses):</b>				
Fund Modification	-	(25,000)	(25,000)	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-</b>	<b>(25,000)</b>	<b>(25,000)</b>	<b>-</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER USES</b>	<b>(38,888)</b>	<b>67,786</b>	<b>251,940</b>	<b>(184,154)</b>
<b>Budgetary fund balance - July 1, 2011</b>	<b>3,770,850</b>	<b>3,770,850</b>	<b>3,770,850</b>	<b>-</b>
<b>Budgetary fund balance - June 30, 2012</b>	<b>\$ 3,731,962</b>	<b>\$ 3,838,636</b>	<b>\$ 4,022,790</b>	<b>\$ (184,154)</b>

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, 2012

	<u>Nonmajor Special Revenue/ Governmental Fund</u>	<u>School Lunch Fund</u>
<b>Assets</b>		
Cash and investments	\$ 234,179	
Accounts receivable	1,298	
Due from general fund	11,834	
Due from other government	-	
Inventory		10,242
		<u>10,242</u>
TOTAL ASSETS	\$	<u>257,553</u>
<b>Liabilities and Fund Balance</b>		
<b>Liabilities</b>		
Deferred revenue	\$	<u>1,369</u>
TOTAL LIABILITIES		<u>1,369</u>
<b>Fund Balance</b>		
Nonspendable - inventory		10,242
Restricted		245,942
		<u>256,184</u>
TOTAL FUND BALANCE		<u>256,184</u>
TOTAL LIABILITIES AND FUND BALANCE	\$	<u>257,553</u>

See auditors' report.

# MADISON SCHOOL DISTRICT

## NONMAJOR GOVERNMENTAL FUND STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE Year Ended June 30, 2012

	Nonmajor Special Revenue/ Governmental Fund	School Lunch Fund
<b>Revenues</b>		
Local sources	\$ 141,865	
State sources	28,802	
Federal sources	611,252	
Miscellaneous	656	
<b>TOTAL REVENUES</b>	<u>782,575</u>	
<b>Expenditures</b>		
Current operations:		
Food services	669,871	
Capital outlay	6,607	
<b>TOTAL EXPENDITURES</b>	<u>676,478</u>	
<b>Excess of Revenues Over (Under) Expenditures</b>	106,097	
<b>Fund Balance - July 1, 2011</b>	<u>150,087</u>	
<b>Fund Balance - June 30, 2012</b>	<u>\$ 256,184</u>	

See auditors' report.

# MADISON SCHOOL DISTRICT

## GENERAL FUND SCHEDULE OF REVENUES - BUDGET AND ACTUAL Year Ended June 30, 2012

	2012 Budget	2012 Actual	Over (Under) Budget	2011 Actual
<b>Revenue from Local Sources:</b>				
Property tax	\$ 2,260,676	\$ 2,308,460	\$ 47,784	\$ 2,107,082
Tuition	32,219	36,472	4,253	31,550
Earnings on investments and deposits	18,053	18,249	196	18,074
Athletics	89,508	49,564	(39,944)	59,950
Other local revenue	49,513	93,429	43,916	95,116
<b>TOTAL REVENUE FROM LOCAL SOURCES</b>	<u>2,449,969</u>	<u>2,506,174</u>	<u>56,205</u>	<u>2,311,772</u>
<b>Revenue from State Sources:</b>				
State School Aid	10,145,940	10,067,841	(78,099)	9,719,383
<b>TOTAL REVENUE FROM STATE SOURCES</b>	<u>10,145,940</u>	<u>10,067,841</u>	<u>(78,099)</u>	<u>9,719,383</u>
<b>Revenue from Federal Sources:</b>				
ARRA education stabilization fund	-	-	-	167,625
Title I	198,655	198,655	-	206,918
Other	139,562	114,657	(24,905)	549,112
<b>TOTAL REVENUE FROM FEDERAL SOURCES</b>	<u>338,217</u>	<u>313,312</u>	<u>(24,905)</u>	<u>923,655</u>
<b>Incoming Transfers and Other Transactions:</b>				
County special education	708,000	907,631	199,631	784,586
Payments received from other units	301,843	260,009	(41,834)	138,820
<b>TOTAL INCOMING TRANSFERS AND OTHER TRANSACTIONS</b>	<u>1,009,843</u>	<u>1,167,640</u>	<u>157,797</u>	<u>923,406</u>
<b>TOTAL REVENUE AND OTHER FINANCING SOURCES</b>	<u>\$ 13,943,969</u>	<u>\$ 14,054,967</u>	<u>\$ 110,998</u>	<u>\$ 13,878,216</u>

See auditors' report.

# MADISON SCHOOL DISTRICT

## GENERAL FUND SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL Year Ended June 30, 2012

Instruction:	2012 Budget	2012 Actual	Over (Under) Budget	2011 Actual
<b>Basic Programs - Pre-School:</b>				
Salaries	\$ 67,054	\$ 68,393	\$ 1,339	\$ 66,704
Benefits	35,110	34,851	(259)	39,176
Purchased services	8,050	8,050	-	2,285
Supplies and materials	858	855	(3)	800
<b>TOTAL PRE-SCHOOL</b>	<b>111,072</b>	<b>112,149</b>	<b>1,077</b>	<b>108,965</b>
<b>Basic Programs - Elementary:</b>				
Salaries	2,505,188	2,512,105	6,917	2,395,064
Benefits	1,340,642	1,316,556	(24,086)	1,210,777
Purchased services	52,161	52,530	369	69,974
Supplies and materials	51,997	51,959	(38)	84,462
Capital outlay	63,775	63,770	(5)	107,139
<b>TOTAL ELEMENTARY</b>	<b>4,013,763</b>	<b>3,996,920</b>	<b>(16,843)</b>	<b>3,867,416</b>
<b>Basic Programs - High School/Middle School:</b>				
Salaries	2,321,087	2,322,425	1,338	2,282,816
Benefits	1,267,550	1,241,921	(25,629)	1,174,261
Purchased services	114,469	111,290	(3,179)	148,716
Supplies and materials	111,193	109,868	(1,325)	141,606
Capital outlay	24,764	24,762	(2)	77,348
<b>TOTAL HIGH SCHOOL/MIDDLE SCHOOL</b>	<b>3,839,063</b>	<b>3,810,266</b>	<b>(28,797)</b>	<b>3,824,747</b>
<b>TOTAL BASIC PROGRAMS</b>	<b>7,963,898</b>	<b>7,919,335</b>	<b>(44,563)</b>	<b>7,801,128</b>
<b>Added Needs - Special Education</b>				
Salaries	996,156	994,916	(1,240)	862,465
Benefits	493,193	487,363	(5,830)	409,937
Purchased services	60,315	58,130	(2,185)	74,738
Supplies and materials	6,232	5,429	(803)	6,261
Capital outlay	2,932	2,932	-	1,936
<b>TOTAL SPECIAL EDUCATION</b>	<b>1,558,828</b>	<b>1,548,770</b>	<b>(10,058)</b>	<b>1,355,337</b>
<b>Added Needs - Compensatory Education</b>				
Salaries	249,547	245,127	(4,420)	233,906
Benefits	58,373	56,309	(2,064)	71,298
Supplies and materials	4,521	5,473	952	2,313
Purchased services	900	900	-	900
<b>TOTAL COMPENSATORY EDUCATION</b>	<b>313,341</b>	<b>307,809</b>	<b>(5,532)</b>	<b>308,417</b>

See auditors' report.



# MADISON SCHOOL DISTRICT

## GENERAL FUND SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL Year Ended June 30, 2012

Instruction continued:	2012 Budget	2012 Actual	Over/(Under) Budget	2011 Actual
Other added needs:				
Salaries	\$ 365,915	\$ 360,661	\$ (5,254)	\$ 312,529
Benefits	157,871	153,547	(4,324)	124,771
Purchased services	225	539	314	-
Supplies and materials	5,550	6,186	636	3,249
<b>TOTAL OTHER ADDED NEEDS</b>	<b>529,561</b>	<b>520,933</b>	<b>(8,628)</b>	<b>440,549</b>
<b>TOTAL ADDED NEEDS</b>	<b>2,401,730</b>	<b>2,377,512</b>	<b>(24,218)</b>	<b>2,104,303</b>
<b>TOTAL INSTRUCTION</b>	<b>10,365,628</b>	<b>10,296,847</b>	<b>(68,781)</b>	<b>9,905,431</b>
<b>Community Services:</b>				
Salaries	45,169	45,076	(93)	45,481
Benefits	14,360	12,340	(2,020)	10,985
Purchased services	149	149	-	-
Supplies and materials	2,640	2,628	(12)	2,102
<b>TOTAL COMMUNITY SERVICES</b>	<b>62,318</b>	<b>60,193</b>	<b>(2,125)</b>	<b>58,568</b>
<b>Supporting Services:</b>				
Pupil Services:				
Salaries	165,821	164,956	(865)	164,900
Benefits	71,357	63,614	(7,743)	60,463
Purchased services	240	229	(11)	115
Supplies and materials	800	770	(30)	9,748
Capital outlay	-	-	-	224
<b>TOTAL PUPIL SERVICES</b>	<b>238,218</b>	<b>229,569</b>	<b>(8,649)</b>	<b>235,450</b>
Instructional staff:				
Salaries	65,031	65,031	-	63,885
Benefits	18,849	17,657	(1,192)	25,574
Purchased services	7,753	7,721	(32)	465
Supplies and materials	6,445	6,350	(95)	3,750
Capital outlay	100	60	(40)	10,891
<b>TOTAL INSTRUCTIONAL STAFF</b>	<b>98,178</b>	<b>96,819</b>	<b>(1,359)</b>	<b>104,565</b>
General Administration:				
Salaries	280,946	281,101	155	294,192
Benefits	199,421	195,357	(4,064)	134,729
Purchased services	90,934	89,659	(1,275)	96,845
Supplies and materials	108,773	111,350	2,577	16,334
Capital outlay	924	924	-	4,377
<b>TOTAL GENERAL ADMINISTRATION</b>	<b>680,998</b>	<b>678,391</b>	<b>(2,607)</b>	<b>546,477</b>
School Administration:				
Salaries	582,493	582,377	(116)	573,668
Benefits	287,467	279,736	(7,731)	232,212
Purchased services	4,837	4,819	(18)	10,007
Supplies and materials	8,707	7,385	(1,322)	12,756
Capital outlay	1,014	1,014	-	718
<b>TOTAL SCHOOL ADMINISTRATION</b>	<b>884,518</b>	<b>875,331</b>	<b>(9,187)</b>	<b>829,361</b>

See auditors' report.

# MADISON SCHOOL DISTRICT

## GENERAL FUND SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL Year Ended June 30, 2012

	2012 Budget	2012 Actual	Over (Under) Budget	2011 Actual
<b>Supporting Services continued:</b>				
Operation and maintenance of plant:				
Salaries	\$ 328,688	\$ 331,528	\$ 2,840	\$ 308,240
Benefits	215,234	214,741	(493)	196,319
Purchased services	251,323	261,968	10,645	285,410
Supplies and materials	44,200	43,427	(773)	42,560
Capital outlay	137,200	137,128	(72)	343,544
<b>TOTAL OPERATION AND MAINTENANCE OF PLANT</b>	<u>976,645</u>	<u>988,792</u>	<u>12,147</u>	<u>1,176,073</u>
Pupil Transportation Services				
Salaries	145,320	144,496	(824)	140,032
Benefits	49,701	46,041	(3,660)	40,104
Purchased services	17,950	17,877	(73)	24,741
Supplies and materials	60,925	60,822	(103)	57,377
Capital outlay	-	-	-	88,150
Other	70	70	-	145
<b>TOTAL TRANSPORTATION SERVICES</b>	<u>273,966</u>	<u>269,306</u>	<u>(4,660)</u>	<u>350,549</u>
Athletics				
Salaries	92,950	92,927	(23)	107,890
Benefits	28,964	29,176	212	30,296
Purchased services	95,800	95,734	(66)	86,356
Supplies and materials	53,000	62,806	9,806	64,750
Capital outlay	-	2,136	2,136	8,585
<b>TOTAL ATHLETICS</b>	<u>270,714</u>	<u>282,779</u>	<u>12,065</u>	<u>297,877</u>
<b>TOTAL SUPPORTING SERVICES</b>	<u>3,423,237</u>	<u>3,420,987</u>	<u>(2,250)</u>	<u>3,540,352</u>
<b>TOTAL EXPENDITURES</b>	<u>13,851,183</u>	<u>13,778,027</u>	<u>(73,156)</u>	<u>13,504,351</u>
Outgoing Transfers and Other Transactions:				
Fund modification	25,000	25,000	-	-
<b>TOTAL TRANSFERS AND OTHER TRANSACTIONS</b>	<u>25,000</u>	<u>25,000</u>	<u>-</u>	<u>-</u>
<b>TOTAL EXPENDITURES AND TRANSFERS</b>	<u>\$ 13,876,183</u>	<u>\$ 13,803,027</u>	<u>\$ (73,156)</u>	<u>\$ 13,504,351</u>

See auditors' report.

# MADISON SCHOOL DISTRICT

## DEBT RETIREMENT FUND COMBINING BALANCE SHEET June 30, 2012

	1998 Debt	Durant Issue	Totals
<b>Assets</b>			
Cash	\$ 15,743	\$ -	\$ 15,743
<b>TOTAL ASSETS</b>	<u>\$ 15,743</u>	<u>\$ -</u>	<u>\$ 15,743</u>
<b>Fund Balance</b>			
Restricted:			
Debt retirement	\$ 15,743	\$ -	\$ 15,743
<b>TOTAL FUND BALANCE</b>	<u>\$ 15,743</u>	<u>\$ -</u>	<u>\$ 15,743</u>

See auditors' report.

# MADISON SCHOOL DISTRICT

## DEBT RETIREMENT FUND COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES Year ended June 30, 2012

	1998 Debt	Durant Issue	Totals
<b>Revenues</b>			
Local Sources:			
Property tax levy	\$ 268,282	\$ -	\$ 268,282
Earnings on investments	25	-	25
State Sources:			
State aid restricted	-	59,968	59,968
<b>TOTAL REVENUES</b>	<b>268,307</b>	<b>59,968</b>	<b>328,275</b>
<b>Expenditures</b>			
Debt Service:			
Redemption of principal	275,000	44,282	319,282
Interest on debt	139,302	15,686	154,988
Other	450	-	450
<b>TOTAL EXPENDITURES</b>	<b>414,752</b>	<b>59,968</b>	<b>474,720</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(146,445)</b>	<b>-</b>	<b>(146,445)</b>
<b>Other financing sources (uses):</b>			
Fund Modification	110,000	-	110,000
<b>TOTAL OTHER FINANCING SOURCES</b>	<b>110,000</b>	<b>-</b>	<b>110,000</b>
<b>Net Change In Fund Balances</b>	<b>(36,445)</b>	<b>-</b>	<b>(36,445)</b>
<b>Fund Balance - July 1, 2011</b>	<b>52,188</b>	<b>-</b>	<b>52,188</b>
<b>Fund Balance - June 30, 2012</b>	<b>\$ 15,743</b>	<b>\$ -</b>	<b>\$ 15,743</b>

See auditors' report.

# MADISON SCHOOL DISTRICT

## CAPITAL PROJECTS FUND BALANCE SHEET June 30, 2012

<b>Assets</b>		
Cash		\$ <u>3,437,737</u>
TOTAL ASSETS		\$ <u><u>3,437,737</u></u>
<b>Liabilities and Fund Balances</b>		
<b>Liabilities</b>		
Accounts Payable		\$ <u>68,700</u>
TOTAL LIABILITIES		<u>68,700</u>
<b>Fund Balance</b>		
Restricted:		
Building Construction		<u>3,369,037</u>
TOTAL FUND BALANCE		<u>3,369,037</u>
TOTAL LIABILITIES AND FUND BALANCE		\$ <u><u>3,437,737</u></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, 2012

	Budget	Actual	Over (Under) Budget
<b>Revenues</b>			
Local Sources:			
Earnings on investments	\$ 22,632	\$ 27,802	\$ 5,170
<b>TOTAL REVENUES</b>	<b>22,632</b>	<b>27,802</b>	<b>5,170</b>
<b>Expenditures</b>			
Building construction	81,390	150,090	68,700
<b>TOTAL EXPENDITURES</b>	<b>81,390</b>	<b>150,090</b>	<b>68,700</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(58,758)</b>	<b>(122,288)</b>	<b>(63,530)</b>
<b>Fund Balance - July 1, 2011</b>	<b>3,491,325</b>	<b>3,491,325</b>	<b>-</b>
<b>Fund Balance - June 30, 2012</b>	<b>\$ 3,432,567</b>	<b>\$ 3,369,037</b>	<b>\$ (63,530)</b>

See auditors' report.

# MADISON SCHOOL DISTRICT

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## SINKING FUND BALANCE SHEET June 30, 2012

<b>Assets</b>		
Cash		\$ 10,117
Due from other funds		<u>121</u>
TOTAL ASSETS		\$ <u>10,238</u>
<b>Fund Balance</b>		
Restricted:		
Repairs/renovations		\$ <u>10,238</u>
TOTAL FUND BALANCE		\$ <u>10,238</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, 2012

	Budget	Actual	Over (Under) Budget
<b>Revenues</b>			
Local Sources:			
Property tax levy	\$ 175,792	\$ 175,912	\$ 120
Donations	2,307	2,307	-
Earnings on investments	441	513	72
TOTAL REVENUES	178,540	178,732	192
<b>Expenditures</b>			
Repairs/renovations	440,490	440,490	-
TOTAL EXPENDITURES	440,490	440,490	-
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	(261,950)	(261,758)	192
<b>Other financing sources (uses):</b>			
Fund Modification	(85,000)	(85,000)	-
TOTAL OTHER FINANCING SOURCES	(85,000)	(85,000)	-
<b>Net Change in Fund Balance</b>	(346,950)	(346,758)	192
<b>Fund Balance - July 1, 2011</b>	356,996	356,996	-
<b>Fund Balance - June 30, 2012</b>	\$ 10,046	\$ 10,238	\$ 192

See auditors' report.



# MADISON SCHOOL DISTRICT

## TRUST AND AGENCY FUNDS COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES June 30, 2012

	GROUPS JULY 1, 2011	ADDITIONS	DEDUCTIONS	GROUPS JUNE 30, 2012
After Prom	\$ 438.55	\$ 4,114.95	\$ 4,863.73	\$ (310.23)
Athletic Boosters	3,988.33	26,392.33	23,672.80	6,707.86
Band Boosters	5,681.06	11,303.45	9,320.25	7,664.26
Baseball	367.05	-	-	367.05
Boys Basketball	217.55	-	99.95	117.60
Checking - Interest	4,553.76	701.52	344.96	4,910.32
Cheerleaders	665.31	1,596.85	1,353.67	908.49
Class of:				
2011	1,122.61	-	1,122.61	-
2012	1,112.00	4,073.10	5,185.10	-
2013	1,841.63	544.00	1,086.04	1,299.59
2014	986.78	-	-	986.78
2015	1,200.00	361.00	316.67	1,244.33
Community Rewards	4,245.85	230.92	-	4,476.77
Drama Account	656.43	-	-	656.43
Elementary Earth Club	-	941.49	777.00	164.49
Elementary Fund Raising	8,518.52	58,187.07	61,231.78	5,473.81
Elementary Library	86.44	662.60	227.97	521.07
Elementary Student Council	158.20	-	29.99	128.21
Fan	12,939.79	18,106.07	8,435.43	22,610.43
Fifth Grade Camp	814.71	24,870.55	23,730.98	1,954.28
Fifth Grade Room	190.31	983.75	1,020.00	154.06
Football	7,320.25	5,311.86	6,127.86	6,504.25
Girls Basketball	441.54	3,447.95	3,326.00	563.49
H.S. Library Account	707.36	3,512.51	3,659.62	560.25
H.S. Student Council	936.88	1,325.50	605.68	1,656.70
Interact Club	122.57	2,049.46	1,859.76	312.27
Junior Achievement	202.50	-	-	202.50
Lenawee Child	181.24	188.78	260.14	109.88
Locker Account	8,745.49	12,944.00	14,115.11	7,574.38
MCSSC	2,812.53	810.00	1,366.57	2,255.96
Madison EAC	43.49	-	43.49	-
Madison Football Club	1,420.68	3,430.00	3,240.00	1,610.68
Madison School Store	3,003.49	-	-	3,003.49
May Madness	358.34	3,317.83	2,843.61	832.56
M.S. Student Activity	2,410.31	14,803.30	13,755.74	3,457.87
M.S. Student Council	4,840.35	1,461.65	100.00	6,202.00
Musical Theatre	731.09	7,198.17	7,265.20	664.06
National Honor Society	333.94	480.00	428.88	385.06
P.A.T.T.	8,587.12	34,823.99	33,317.66	10,093.45
P.E.A.C.E	302.31	-	-	302.31
Pop Fund	6,847.12	493.92	1,520.93	5,820.11
Relay For Life	1,666.37	527.00	452.00	1,741.37
Savings Account Interest	4,582.80	36.72	-	4,619.52
Scholarship	16,549.50	2,851.75	1,000.00	18,401.25
Softball	839.59	185.50	-	1,025.09
Special Education - Elementary	38.88	-	-	38.88
Special Education - H.S./M.S.	1,300.48	-	334.48	966.00
Strength & Conditioning	6,337.90	1,116.50	1,058.60	6,395.80
Student Activities	2,498.27	8,122.01	10,001.44	618.84
Therapy Dog	-	2,930.00	2,930.00	-
Track	7,210.13	12,561.00	13,783.50	5,987.63
Varsity Volleyball	328.15	3,402.19	3,676.84	53.50
Washington DC	1,367.74	22,959.76	22,464.13	1,863.37
Wrestling	1,676.90	-	-	1,676.90
Wrestling Club	5,858.26	5,462.70	8,752.37	2,568.59
Yearbook	4,891.90	2,240.45	5,952.67	1,179.68
<b>TOTAL</b>	<b>\$ 155,280.35</b>	<b>\$ 311,064.15</b>	<b>\$ 307,061.21</b>	<b>\$ 159,283.29</b>

See auditors' report

# MADISON SCHOOL DISTRICT

## PROPERTY TAX DATA Year Ended June 30, 2012

	Unpaid at July 1, 2011	Tax	Collections/ Adjustments	Unpaid (Deferred) at June 30, 2012
General Fund	\$ -	\$ 2,506,174	\$ 2,506,174	\$ -
Sinking Fund	-	178,732	178,732	-
Debt Retirement Funds	-	268,307	268,307	-
<b>TOTAL</b>	<b>\$ -</b>	<b>\$ 2,953,213</b>	<b>\$ 2,953,213</b>	<b>\$ -</b>

### Other Information

Taxable value of property assessed in the Madison School District

	2012			
	Homestead	Industrial PP	Commercial PP	Non-homestead
Municipality:				
Madison	\$ 43,530,889	\$ 7,672,900	\$ 6,830,300	\$ 60,540,069
Adrian City	6,225,306	1,619,900	6,107,700	44,468,422
Palmyra	2,959,455	-	1,153,300	2,562,302
Adrian	143,807	-	22,400	1,260,837
<b>Total</b>	<b>\$ 52,859,457</b>	<b>\$ 9,292,800</b>	<b>\$ 14,113,700</b>	<b>\$ 108,831,630</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

1,506.94

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 activities, each major fund, and the aggregate remaining fund information of the Madison School District as of and for the year ended June 30, 2012, which collectively comprise the Madison School District's basic financial statements and have issued our report thereon dated September 12, 2012. 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**

The management of Madison School District is responsible for establishing and maintaining an effective 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 opinions 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 previously. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Corrective Action Responses, referenced as 12-01 and 12-02, presented on pages 51-53 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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted other matters that we have reported to the management of the Madison School District in a separate letter dated September 12, 2012.

Madison School District's response to the findings identified in our audit is 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 it.

This report is intended solely for the information of the board of trustees, school district management, federal awarding agencies, and pass-through entities 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 12, 2012

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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 Madison School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Madison School District's major federal programs for the year ended June 30, 2012. 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 could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. 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 in the accompanying Schedule of Findings and Corrective Action Responses as items 12-01 and 12-02 presented on pages 51-53.

## **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 the requirements that could have a direct and material effect on a major federal program to determine the 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 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 that we consider to be significant deficiencies as described in the accompanying Schedule of Findings and Corrective Action Responses as items 12-01 and 12-02 on pages 51-53. 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, federal awarding agencies, and pass-through entities 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 12, 2012

# MADISON SCHOOL DISTRICT

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS Year Ended June 30, 2012

Federal Grantor Pass Through Grantor Program Title/Grant Number	CFDA Number	Approved Awards Amount	Accrued or (Deferred) Revenue July 1, 2011	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts	Accrued or (Deferred) Revenue June 30, 2012	Adjustments Debits (Credits)
<b>U.S. Department of Education:</b>								
Passed through Michigan Department of Education								
Title I, Part A 111530 1011	84 010	\$ 191,622	\$ 179,618	\$ 179,618	\$ -	\$ 179,618	\$ -	\$ -
Title I, Part A 121530 1112	84 010	198,655	-	-	198,655	-	198,655	-
ARRA Title I, Part A Carryover 111535 1011	84 389	59,532	59,532	59,532	-	59,532	-	-
Title II, Part A, Teacher/Principal Training 110520 1011	84 367	74,573	57,602	57,602	-	57,602	-	-
Title II, Part A, Teacher/Principal Training 120520 1112	84 367	65,083	-	-	61,634	-	61,634	-
Title VI, Part B, Rural and Low-Income Grant 120660 1112	84 358 B	29,944	-	-	29,944	-	29,944	-
Education Jobs Fund 112545 1011	84 410	238,075	238,075	238,075	-	238,075	-	-
Education Jobs Fund 112545 1112	84 410	17,985	-	-	17,985	-	17,985	-
ARRA Education Stabilization Fund 112525 1011	84 394	167,625	167,625	167,625	-	167,625	-	-
Total passed through Michigan Department of Education		1,043,094	702,452	702,452	308,218	702,452	308,218	-
Passed through I.S.D.								
ARRA Special Education IDEA	84 391 A	170,643	18,004	18,004	-	18,004	-	-
Title II, Part B Mathematics and Science Partnerships	84 366 B	2,590	-	-	2,590	2,590	-	-
Medicaid Outreach	93 780	2,504	-	-	2,504	2,504	-	-
Total passed through I.S.D.		175,737	18,004	18,004	5,094	23,098	-	-
Total U.S. Department of Education		1,218,831	720,456	720,456	313,312	725,550	308,218	-
<b>U.S. Department of Agriculture:</b>								
Passed through U.S. Department of Agriculture								
Child Nutrition Cluster - Cash Assistance	10 553	144,240	-	-	144,240	144,240	-	-
School Breakfast Program	10 555	421,068	-	-	421,068	421,068	-	-
National School Lunch Program		565,308	-	-	565,308	565,308	-	-
Total Cash Assistance								
Child Nutrition Cluster - Non-Cash Assistance	10 555	42,092	-	-	42,092	42,092	-	-
Commodities - Entitlement	10 555	3,852	-	-	3,852	3,852	-	-
Commodities - Bonus		45,944	-	-	45,944	45,944	-	-
Total - Non-Cash Assistance								
Total Child Nutrition Cluster		611,252	-	-	611,252	611,252	-	-
Total Passed Through U.S. Department of Agriculture		611,252	-	-	611,252	611,252	-	-
Total U.S. Department of Agriculture		611,252	-	-	611,252	611,252	-	-
<b>Total Federal Financial Assistance</b>		<b>\$ 1,830,083</b>	<b>\$ 720,456</b>	<b>\$ 720,456</b>	<b>\$ 924,564</b>	<b>\$ 1,336,802</b>	<b>\$ 308,218</b>	<b>\$ -</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. The value of the noncash assistance received was determined in accordance with the provisions of OMB Circular A-133.

See auditors' report



# MADISON SCHOOL DISTRICT

## SCHEDULE OF FINDINGS AND CORRECTIVE ACTION RESPONSES

June 30, 2012

### 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, 2012 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 10.553 and CFDA 10.555).

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

##### 12-01. 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.

##### 12-02. 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, 2012

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

#### 12-02. 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

#### U.S. Department of Agriculture

#### 12-03. Child Nutrition Cluster – CFDA No. 10.553 and 10.555

Statement of Condition: A 100% test of four applications selected by Madison School District for Local Educational Agency Review produced one applicant that received reduced price lunches when the income level indicated that the applicant should have paid full price for lunches.

Criteria: Eligibility guidelines provided by the U.S. Department of Agriculture determine the level of service based on the household income.

Effect of Condition: The cost difference between the two levels of service may be disallowed.

Population and sample size: Of 974 family applications, a sample of 4 was selected for verification. The test resulted in no questioned costs due to the immaterial amount.

Cause of Condition: Procedures are in place for supervisory review of eligibility determinations before assistance is authorized, but the error in calculating household income was not discovered.

Recommendation: The calculation of household income should be verified by supervisory personnel prior to approval of free or reduced priced meals.

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

**Financial Statement Findings**

**11-01. 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.

**11-02 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.

**Federal Award Program Findings**

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