

**MADISON SCHOOL DISTRICT
ADRIAN, MICHIGAN**

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

**WITH
INDEPENDENT AUDITORS' REPORT**

CONTENTS

	<u>PAGE</u>
Management’s Discussion and Analysis	i – vii
Independent Auditors’ Report	1 – 3
Basic Financial Statements:	
Government-wide Financial Statements	
Statements of Net Position	4
Statement of Activities	5
Fund Financial Statements	
Balance Sheet – Governmental Funds	6
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	7
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	8
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Changes in Net Position	9
Fiduciary Funds	
Statements of Fiduciary Net Position	10
Notes to Financial Statements	11 – 31
Notes to Required Supplementary Information	32
Required Supplementary Information:	
Budgetary Comparison Schedule – General Fund	33
Schedule of the Reporting Unit’s Contributions – Michigan Public Schools Employees Retirement Plan	34
Schedule of Reporting Unit’s Proportionate Share of the Net Pension Liability - Michigan Public Schools Employees Retirement Plan	35

CONTENTS

	<u>PAGE</u>
Other Additional Information:	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	36 - 38
Nonmajor Governmental Fund Types	
Combining Balance Sheet	39
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	40
Statement of Cash Receipts, Disbursements and Liabilities – Agency Fund	41
Single Audit Act Compliance	
Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by Uniform Guidance	42 - 43
Schedule of Expenditures of Federal Awards	44 - 45
Notes to Schedule of Expenditures of Federal Awards	46
Schedule of Findings and Questioned Costs	47 - 49

**MADISON SCHOOL DISTRICT- ADRIAN, MICHIGAN
MANAGEMENT AND DISCUSSION LETTER
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Our discussion and analysis of Madison School District's financial performance provides an overview of the School District's financial activities in the fiscal year ended June 30, 2016. The Madison School District implemented GASB requirements in the June 30, 2016 audit as required by the Governmental Accounting Standards Board (GASB). Please read it in conjunction with the School District's financial statements, which immediately follow this section.

The management's discussion and analysis is provided at the beginning of the audit and organized so that the reader can understand the current position of the Madison School District's financial condition. This summary should not be taken as a replacement for the audit which consists of the financial statements and other supplemental information that presents all the School District's revenues by program for the General Fund, Debt Service Fund, Capital Projects Fund, and Special Revenue Fund.

USING THIS ANNUAL REPORT

The School District's Annual Report consists of a series of financial statements that show information for the School District as a whole, its funds, and its fiduciary responsibilities. The *District Wide Financial Statements*, which include the **Statement of Net Position** and the **Statement of Activities** provide information about the district as a whole and present a longer-term view of the School District's finances. These statements 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 revenues and expenses are taken into account regardless of when cash is received or paid. The *Fund Financial Statements* provide detailed information about the School District's most significant funds-not the School District as a whole.

Reporting the school district as a whole

These two statements report the School District's Net Position-the difference between assets and liabilities and deferred inflows/outflows of resources as reported in the **Statement of Net Position** – as one way to measure the School District's financial health or financial position. The **Statement of Net Position**, for the first time, combines and consolidates governmental fund's current financial resources with capital assets and long-term obligations, regardless if they are currently available or not. In comparison to "other assets", capital assets are those assets that are tangible, valued over a specified amount, and usually have a long life. They are depreciated over a useful life. More detail on capital assets and their recorded useful lives is found in the footnote section of the audit. Long-term obligations (liabilities) are those that are longer than one year. Some liabilities are classified as "short-term" for the portion due in a year, and "long-term" for the portion due in the future years (such as leases payable, compensated absences, and debt obligations). "Other liabilities" are considered to be obligations due within a year. Over time, increases or decreases in the School District's Net Position – as reported in the **Statement of Activities** – is one indicator of whether its financial health is improving or deteriorating. The relationship between revenues and expenses indicates the School District's operating results.

However, the School District's goal is to provide services to our students, not to generate a profit as commercial entities do. There are other factors to consider such as quality of education and school safety to assess the overall health of the School District.

**MADISON SCHOOL DISTRICT- ADRIAN, MICHIGAN
MANAGEMENT AND DISCUSSION LETTER
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

The **Statement of Net Position** and **Statement of Activities** report the governmental activities. These statements for the Madison School District will include activities, which encompass all of the School District's services including instruction, supporting services, athletics, and food service. 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

The School District's fund financial statements provide detailed information about the School District's most significant funds- not the School District as a whole. The fund statements are similar to financial presentations in the past, but the new focus is on the District's major funds rather than fund types. The two Account Groups: General Fixed Assets and General Long-Term Debt are no longer reported. Some funds are required by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (such as **Food Service**) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other monies (such as **Debt and Capital Projects**). The School District's major fund is the **General Fund**.

Most of the School District's services are reported in governmental funds. Governmental fund reporting focuses on how money flows into and out of the funds and the balances left at year-end that are available for spending in future periods. They are reported using an accounting method called "modified accrual" accounting, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the School District's operations and 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 Position** and the **Statement of Activities**) and *governmental funds* in reconciliation on pages 7 and 9.

Fund types include the General Fund, Special Revenue Fund, Debt Retirement Fund, Capital Projects Fund, and Fiduciary Fund. The General Fund is used primarily to account for the general education requirements of the District. Its revenues are derived from property taxes, state and federal distributions and grants and other intergovernmental revenues. The Debt Fund is used to record the funding and payment of principal and interest on Bonded Debt. The Special Revenue Fund is used to record the funding and expenditures of monies specified for a specific purpose (Food Service). The Fiduciary Funds account for assets held by the District in a trustee capacity or as an agent for various student groups and related activities.

The School District as a Whole

The School District's net position was \$(2,672,540), at the end of June 30, 2016 and \$(2,516,462) as of June 30, 2015, representing a decrease of \$156,078. Of the total amount \$(17,101,454) was unrestricted. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those funds for day-to-day operations. Our analysis below focuses on the **Net Position** (Table 1) and **Change in Net Position** (Table 2) of the School District's governmental activities.

**MADISON SCHOOL DISTRICT- ADRIAN, MICHIGAN
MANAGEMENT AND DISCUSSION LETTER
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Net Position (Table 1)

	2016	2015
ASSETS:		
Current assets	\$ 6,589,092	\$ 5,777,643
Noncurrent assets	17,120,098	17,649,399
Total Assets	23,709,190	23,427,042
DEFERRED OUTFLOWS OF RESOURCES:		
Pension resources	3,666,981	3,235,697
LIABILITIES:		
Current liabilities	1,967,442	3,322,795
Noncurrent liabilities	27,948,902	23,432,652
Total Liabilities	29,916,344	26,755,447
DEFERRED INFLOWS:		
Unearned income	49,488	-
Pension resources	82,879	2,423,754
Total Deferred Inflows	132,367	2,423,754
NET POSITION:		
Invested in capital assets	14,189,146	14,531,093
Restricted for School Lunch program	225,810	159,480
Restricted for Debt Service	13,958	15,798
Unrestricted	(17,101,454)	(17,222,833)
Total Net Position	\$(2,672,540)	\$ (2,516,462)

The Statement of Activities presented later in the government-wide financial statement, provides greater detail on the District's annual activity. The Statement of Net Position (Table 2) shown next details the cost of the District's governmental activities and how those activities were financed.

**MADISON SCHOOL DISTRICT- ADRIAN, MICHIGAN
MANAGEMENT AND DISCUSSION LETTER
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

- *Schools of Choice*-The School District has an agreement with the other public schools in Lenawee County to implement Lenawee County Schools of Choice (Open Enrollment) program. During the 2015-16 school year, of the 1,597 pupils enrolled, 813 (50.91%) of our student population were schools of choice pupils.
- *Sinking Fund Millage* – Revenues are generated by taxes going toward building improvements.

Factors affecting Expenses

- *Salaries and Benefits*-A significant portion of the School District's expenses are related to compensation, 89.44% in 2015-16.
- *Instructional purchases*- Another part of each year's budgetary expenditures includes textbooks and supplemental learning materials, supplies, and purchased services.
- *Operation and Maintenance*-Each year's budgetary expenditures also include the general operation and maintenance of our school buildings.

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. As a matter of practice, the District amends its budget during the school year. In fact, all Michigan school districts must complete a second full budget after the state's official student membership count date (the fourth Wednesday in September), because only then are they knowledgeable of their Foundation Grant's income level. These revisions are made in order to deal with the unexpected changes in revenues and expenditures. The following analysis describes the reasons for changes in the budget during the year.

Original Budget versus Final Budget

- *Revenues*-Original estimated budgets for revenues were \$15,028,339 versus the final budget of \$15,865,226. Major components of revenue and their original budget versus final budget are discussed below.
- There was an increase in revenue from *State Aid* due to an increase in student enrollment, increases in property taxes and special education payments.
- *Expenditures* – The original budget for expenditures was \$15,324,627 versus the final budget of \$15,833,470.

**MADISON SCHOOL DISTRICT- ADRIAN, MICHIGAN
MANAGEMENT AND DISCUSSION LETTER
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Final Budget versus Actual Figures

- The majority (about 91%) of *Local Revenues* are property taxes received from the City of Adrian and three townships including Adrian, Madison, and Palmyra.
- *State Revenues* were budgeted at \$12,160,841 versus actual of \$12,207,448. This is a difference of \$46,607.
- *Federal Revenues* were budgeted at \$351,319 versus actual of \$346,355.
- *Overall revenues* were over budget by \$199,048 from the final budget amounts.
- *Expenses*- Final estimated budgets for expenses were \$15,833,470 versus an actual final amount of \$15,802,267. The overall variation from final budget to actual was \$31,203 under budget.

SPECIAL REVENUE FUNDS

- *School Lunch Fund*-The School Lunch Fund receives its revenues from the sale of goods State reimbursement and federal grants.
- *Capital Projects Fund*- Consist of Bond Sinking Fund. These funds are used to do improvements to the district. These funds are restricted for improvements to the district. At the end of the fiscal year 2015-16 there was a fund balance of \$230,556.
- *Debt Service Fund* – This fund is directly funded through taxes. For fiscal year 2015-16 the collection of property taxes for the retirement of principal and interest relating to the 2011 Issue Fund was \$269,988. Principal and interest requirements for the 2015-16 retirement was \$271,975.

CAPITAL ASSET AND DEBT ADMINISTRATION

- *Capital Assets*-At June 30, 2016, the School District had \$17,120,098 invested in capital assets, net of accumulated depreciation. The district had bonded debt outstanding of \$3,195,000. As these items also relate to capital assets, the amount ***Invested in capital assets net of related debt*** is \$14,189,146. Assets, net of accumulated depreciation will probably continue to decrease because the district at this time has no intention of purchasing many capital assets. Those already on the books will continue to depreciate.
- *Debt Administration*- At the fiscal year ending June 30, 2016, the District's long term obligations included \$3,195,000 in 2011 and \$23,155 in compensated absences which included accrued sick pay leave.

**MADISON SCHOOL DISTRICT- ADRIAN, MICHIGAN
MANAGEMENT AND DISCUSSION LETTER
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Contacting the District's Financial Management

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional information, please contact:

Business Office Madison School District, 3948 Treat Highway, Adrian, MI 49221.



INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Madison School District
Adrian, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Madison School District as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the schools district's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

To the Board of Education
Madison School District
Adrian, Michigan

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the combining and individual nonmajor fund, and the aggregate remaining fund information of the Madison School District, as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i through vii and information shown in table of contents page 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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 combining and individual non major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual non-major fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Page 3

To the Board of Education
Madison School District
Adrian, Michigan

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2016, on our consideration of Madison School District internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Madison School District internal control over financial reporting and compliance.

Baker, Eaton & Owen
Adrian, Michigan

October 20, 2016

**MADISON SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2016**

	Governmental Activities
	2016
ASSETS:	
Current Assets:	
Cash and cash equivalents	\$ 1,547,641
Investments	1,836,207
Accounts receivable	248,792
Due from other governmental units	2,943,042
Inventory	13,410
	<hr/>
Total Current Assets	6,589,092
	<hr/>
Noncurrent Assets:	
Capital assets	27,299,392
Less: Accumulated depreciation	(10,179,294)
	<hr/>
Total Non Current Assets	17,120,098
	<hr/>
Total assets	\$ 23,709,190
	<hr/>
Deferred outflows of resources	
Deferred pension amounts	3,666,981
	<hr/>
LIABILITIES:	
Current liabilities:	
Accounts payable	\$ 45,446
Interest payable	21,346
Salaries payable	1,752,883
Current portion of long term obligations	147,767
	<hr/>
Total Current Liabilities	1,967,442
	<hr/>
Noncurrent liabilities:	
Noncurrent portion of long term obligations	3,013,741
Compensated absences	23,155
Net pension liability	24,912,006
	<hr/>
Total non current liabilities	27,948,902
	<hr/>
Total liabilities	29,916,344
	<hr/>
Deferred inflows of resources:	
Deferred pension amount	82,879
Unearned revenue	49,488
	<hr/>
Total deferred inflows of resources	132,367
	<hr/>
NET POSITION:	
Invested in capital assets, net of related debt	14,189,146
Restricted for:	
Debt service	13,958
Food Service	225,810
Unrestricted	(17,101,454)
	<hr/>
Total net position	\$ (2,672,540)
	<hr/>

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

**MADISON SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016**

MADISON SCHOOL DISTRICT STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2016					
Functions/programs	Expenses	Program Revenues			Total
		Charges for Services	Operating Grants	Capital Grants	Governmental Activities Net (Expense) Revenue and Changes in Net Position 2016
Governmental activities:					
Instruction	\$ 11,447,099	\$ 14,356	\$ 736,032		\$ (10,696,711)
Support services	3,893,469		1,317,581		(2,575,888)
Food services	770,998	129,429			(641,569)
Community services	132,373	45,078			(87,295)
Athletics	364,408	44,280			(320,128)
Interest on long term debt including amortization of discount	133,625				(133,625)
Unallocated depreciation	899,563				(899,563)
Total governmental activities	<u>\$ 17,641,535</u>	<u>\$ 233,143</u>	<u>\$ 2,053,613</u>	<u>\$ -</u>	<u>\$ (15,354,779)</u>
General revenues:					
Property taxes, levied for general purposes					\$ 1,971,404
Property taxes, levied for debt service					494,655
Investment earnings					9,243
Intermediate Sources					902,208
State sources					11,660,537
Other					160,654
Total general revenues					<u>15,198,701</u>
Change in net position					(156,078)
Net position, beginning of year					(2,516,462)
Net position, end of year					<u>\$ (2,672,540)</u>

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

**MADISON SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016**

		Other Nonmajor	Total
	General Fund	Governmental Funds	Governmental Funds 2016
ASSETS:			
Cash and cash equivalents	\$ 1,059,533	\$ 488,108	\$ 1,547,641
Investments	1,836,207		1,836,207
Accounts receivable	225,343	1,449	226,792
Due from other funds	4,053	2,869	6,922
Due from other governments	2,848,956		2,848,956
Due from other fiduciary funds	22,000	-	22,000
Inventory	-	13,410	13,410
Total assets	<u>\$ 5,996,092</u>	<u>\$ 505,836</u>	<u>\$ 6,501,928</u>
LIABILITIES:			
Accounts payable	\$ 14,766	\$ 30,680	\$ 45,446
Due to other funds	2,869	4,053	6,922
Due to other governmental units	-		-
Due to other fiduciary funds	-		-
Interest payable	-	-	-
Accrued salaries and related items	1,752,883	-	1,752,883
Unearned revenue	-		
Total liabilities	<u>1,770,518</u>	<u>34,733</u>	<u>1,805,251</u>
Deferred inflows of resources:			
Unearned revenue	48,709	779	49,488
FUND BALANCES:			
Nonspendable			
Inventory	-	13,410	13,410
Restricted			
School lunch program	-	212,400	212,400
Capital projects	-	230,556	230,556
Debt service	-	13,958	13,958
Unrestricted	<u>4,176,865</u>	<u>-</u>	<u>4,176,865</u>
Total fund balance	<u>4,176,865</u>	<u>470,324</u>	<u>4,647,189</u>
Total liabilities, deferred inflows of resources and fund balance	<u>\$ 5,996,092</u>	<u>\$ 505,836</u>	<u>\$ 6,501,928</u>

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

**MADISON SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016**

	2016
Total governmental fund balances	\$ 4,647,189
Amount reported for governmental activities in the statement of net position are different because:	
Capital assets used in the governmental activities are not financial resources and are not reported in the funds:	
The cost of the capital asset is	27,299,392
The accumulated depreciation is	(10,179,294)
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:	
Bonds payable	(3,195,000)
Unamortized bond discount	33,492
Accrued interest on bonds payable	(21,346)
Compensated absences	(23,155)
Due from other governmental units expected after September 1, 2016	94,086
Certain pension-related amounts, such as the net pension liability and deferred amounts are not due and payable in the current period or do not represent current financial resources and therefore are not reported in the funds.	
Net pension liability	(24,912,006)
Deferred outflows related to the net pension liability	3,666,981
Deferred inflows related to the net pension liability	(82,879)
	-
Net position of governmental activities	\$ (2,672,540)

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

**MADISON SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016**

	General Fund	Other Nonmajor Governmental Funds	Total Governmental Funds 2016
REVENUES:			
Local sources			
Property taxes	\$ 1,971,404	\$ 494,655	\$ 2,466,059
Tuition	14,356		14,356
Interest	9,096	147	9,243
Community service activities	45,078		45,078
Athletics	44,280		44,280
Food service		129,429	129,429
Other local revenues	92,798	13,019	105,817
Total local revenue	2,177,012	637,250	2,814,262
State sources	12,207,448	30,403	12,237,851
Federal sources	346,355	687,497	1,033,852
Intermediate sources	1,250,569		1,250,569
Other	13,956	-	13,956
Total revenues	15,995,340	1,355,150	17,350,490
EXPENDITURES:			
Current:			
Instruction	11,286,036		11,286,036
Support services	3,898,529		3,898,529
Food service activities		765,965	765,965
Athletics	361,527		361,527
Community services	130,219		130,219
Capital outlay	125,956	190,878	316,834
Debt service:			
Interest		131,975	131,975
Total expenditures	15,802,267	1,088,818	16,891,085
Excess (deficiency) of revenues over (under) expenditures	193,073	266,332	459,405
Other financing sources (uses):			
Prior period revenue	40,881		40,881
Redemption of principal		(140,000)	(140,000)
Indirect Cost reimbursement	28,053	(28,053)	-
Total other financing uses	68,934	(168,053)	(99,119)
Change in fund balances	262,007	98,279	360,286
Fund balances:			
Beginning of year	3,914,858	372,045	4,286,903
End of year	\$ 4,176,865	\$ 470,324	\$ 4,647,189

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

**MADISON SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016**

	2016
Change in fund balances total governmental funds	\$ 360,286
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures in the statement of revenues, expenditures and changes in fund balances. These costs are allocated over their estimated useful lives as depreciation in the statement of activities:	
Capital assets purchased	370,262
Depreciation expense	(899,563)
Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	
Principal payments on long-term liabilities	140,000
Amortization of bond discount	(2,233)
Revenue is recorded on the accrual method in the statement of activities. In the governmental funds, it is recorded on the modified accrual method, and are not considered available.	
Accrued revenue	94,086
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and in the statement of activities when interest accrues.	
Change in accrued interest payable on bonds.	583
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditure in the funds when it is due, and in the statement of activities when interest accrues.	
Change in the net pension liability and related deferred amounts	(219,864)
Change in the accrual for compensated absences	365
Change in net position of governmental activities	<u>\$ (156,078)</u>

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

**MADISON SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016**

	Agency Fund
ASSETS:	
Cash and cash equivalents	\$ 289,354
Total assets	<u>\$ 289,354</u>
LIABILITIES:	
Due to student groups	\$ 289,354
Total liabilities	<u>\$ 289,354</u>

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

**MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of Madison School District (the "District") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Reporting Entity

The District is governed by the Board of Education (the "Board") of Madison School District, which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by generally accepted accounting principles. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14.

B. Government-Wide And Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the District. The government-wide financial statements categorize primary activities as either governmental or business-type. All of the District's activities are classified as governmental activities.

Amounts reported in the funds as interfund receivables and payables are eliminated in the governmental activities column of the statement of net position. Amounts reported in the funds as receivable from or payable to fiduciary funds are included in the statement of net position as receivable from or payable to external parties, rather than as internal balances. Therefore, all internal balances are eliminated in the total primary government column.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district, and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net position, the governmental activities column (a) is presented on a consolidated basis, and (b) is reported on a full accrual, economic resource basis which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net position are reported in three parts – invested in capital assets net of related debt; restricted net position; and unrestricted net position.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide and Fund Financial Statements (Continued)

The District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits, and charges, etc.). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income, and other revenues).

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

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

Governmental Funds – Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use, and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds. Effective July 1, 2010, the school district has implemented their Fund Balance Policy in Accordance with GASB Statement No. 54 as follows:

Purpose. The following policy has been adopted by the Board of Education in order to address the implications of Governmental Accounting Standards Board ("GASB") Statement No. 54, *Fund Balance Reporting and Governmental Fund Definitions*. The policy is created in consideration of unanticipated events that could adversely affect the financial condition of the District and jeopardize the continuation of necessary public services. This policy will ensure that the District maintains adequate fund balances and reserves in order to:

- a. Provide sufficient cash flow for daily financial needs,
- b. Secure and maintain investment grade bond ratings,
- c. Offset significant economic downturns or revenues shortfalls and,
- d. Provide funds for unforeseen expenditures related to emergencies.

This policy and the procedures promulgated under it supersede all previous regulations regarding the District's fund balance and reserve policies.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide and Fund Financial Statements (Continued)

Fund type definitions. The following definitions will be used in reporting activity in governmental funds across the District. The District may or may not report all fund types in any given reporting period, based on actual circumstances and activity.

- The general fund is used to account for all financial resources not accounted for and reported in another fund.
- Special revenue funds are used to account and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects.
- Debt service funds are used to account for all financial resources restricted, committed or assigned to expenditure for principal and interest.
- Capital projects funds are used to account for all financial resources restricted, committed or assigned to expenditure for the acquisition or construction of capital assets.
- Permanent funds are used to account for resources restricted to the extent that only earnings, and not principal, may be used for purposes that support the District's purposes.

Fund balance reporting in governmental funds. Fund balance will be reported in governmental funds under the following categories:

Nonspendable fund balance

Definition – includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained in-tact.

Classification – Nonspendable amounts will be determined before all other classifications and consist of the following items (as applicable in any given fiscal year):

- The District will maintain a fund balance equal to the balance of any long-term outstanding balances due from others (including other funds of the government).
- The District will maintain a fund balance equal to the value of inventory balances and prepaid items (to the extent that such balances are not offset with liabilities and actually result in fund balance).
- The District will maintain a fund balance equal to the corpus (principal) of any permanent funds that are legally or contractually required to be maintained in-tact.
- The District will maintain a fund balance equal to the balance of any land or other nonfinancial assets held for sale.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide and Fund Financial Statements (Continued)

Restricted fund balance

Definition – includes amounts that can be spent only for the specific purposes stipulated by the constitution, external resource providers; or through enabling legislation.

Committed fund balance

Definition – includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority (i.e., the Board of Education).

Authority to Commit – Commitments will only be used for specific purposes pursuant to a formal action of the Board of Education. A majority vote is required to approve a commitment and a two-thirds majority vote is required to remove a commitment.

Assigned fund balance

Definition – includes amounts intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.

Authority to Assign – The Board of Education delegates to the Superintendent or his/her/their designee the authority to assign amounts to be used for specific purposes. Such assignments cannot exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular fund.

Unassigned fund balance

Definition – includes the residual classification for the District's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

Operational guidelines. The following guidelines address the classification and use of fund balance in governmental funds:

Classifying fund balance amounts – Fund balance classifications depict the nature of the net resources that are reported in a governmental fund. An individual governmental fund may include nonspendable resources and amounts that are restricted, committed, or assigned, or any combination of those classifications. The general fund may also include an unassigned amount.

Encumbrance reporting – Encumbering amounts for specific purposes for which resources have already been restricted, committed or assigned should not result in separate display of encumbered amounts. Encumbered amounts for specific purposes for which amounts have not been previously restricted, committed or assigned, will be classified as committed or assigned, as appropriate.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide and Fund Financial Statements (Continued)

Prioritization of fund balance use – When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it shall be the policy of the District to consider restricted amounts to have been reduced first. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it shall be the policy of the District that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts.

The District reports the following major governmental fund:

The *General Fund*

Other Non-major Funds

The *Special Revenue Fund*

The *Debt Service Funds* and

The *Capital Projects Funds*

Fiduciary Funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust Funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary Funds are not included in the government-wide statements.

The *Private Purpose Trust Fund* is accounted for using the accrual method of accounting. Private Purpose Trust Funds account for assets where both the principal and interest may be spent. These funds are not reported on the District financial statements.

The *Agency Fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency Funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

C. Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are 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 revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**C. Measurement Focus, Basis of Accounting and Basis of Presentation
(Continued)**

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2016, the foundation allowance was based on pupil membership counts taken in February and September of 2015.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period and is funded through payments from October 2015 to August 2016. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as unearned revenue. Other categorical funding is recognized when the appropriation is received.

**MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies

1. Cash and equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Codification I50 Para 105-119, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under these standards, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the District intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase.

The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The District has adopted a deposit and investment policy in accordance with GASB Codification I50 Para 105-119.

2. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2016, the District levied the following amounts per \$1,000 of assessed valuation.

Fund	Mills
General Fund - Non Personal Residence and commercial property	18.0
2011 Debt Issue	1.5
Sinking fund	1.25

**MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Inventories and Prepaid Expenditures

Inventories are valued at cost (first-in, first-out). Inventories in the Special Revenue Fund consisting of expendable supplies held for consumption, are recorded as expenditures when consumed or used rather than when purchased. Inventories for commodities are recorded as revenue when utilized. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

4. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	50 years
Furniture and equipment	5 – 20 years
Transportation equipment	3 – 7 years

The District's capitalization policy is to capitalize individual amounts exceeding \$5,000.

5. Use of Estimates

The process of preparing basic financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

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

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expenses/expenditure) until then.

**MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues primarily from one source; receipts that exceeded 60 days of year end. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

7. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public School Employees Retirement System (MPERS) and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund.

The District maintains a formalized encumbrance system. Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting - under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation - is utilized in the General Fund. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.

4. The Superintendent and Business Manager are authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund.
6. The budget was amended during the year with supplemental appropriation, the last one approved prior to June 30, 2016. The District does not consider these amendments to be significant.
7. On the Budgetary Comparison Schedule, seven expenditure functions exceeded budgeted amounts. They are listed below:

General Fund	Appropriations	Actual	Budget Variance
Basic programs	\$ 9,057,824	\$ 9,069,001	\$ (11,177)
Pupil	344,199	356,286	(12,087)
Instructional staff	126,037	214,601	(88,564)
Business	193,797	242,664	(48,867)
Operation & maintenance	1,005,621	1,008,225	(2,604)
Central	68,386	88,135	(19,749)
Capital outlay	125,500	125,956	(456)

NOTE 3. DEPOSITS AND INVESTMENTS – CREDIT RISK

Deposits

Custodial Credit Risk-Deposits. Custodial credit risk is the risk that in the event of a bank failure, the deposits may not be returned to the District. The District does not have a deposit policy for custodial credit risk. As of June 30, 2016, \$ 3,568,816 of the District's bank balance of \$3,867,368 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	<u>\$ 3,568,816</u>
--------------------------------	---------------------

Investments

The District's sole investment is in the Michigan Liquid Asset Fund (MILAF) through PFM Asset Management, LLC. This investment is not exposed to any risks subject to disclosure as required by GASB Statement No. 40. MILAF is a local government investment pool. MILAF may only invest in instruments as authorized by Sections 622, 1221 and 1223 of the Michigan school code.

Credit Risk: The risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District does not have a credit risk policy. The MILAF investment is rated AAAM by Standard & Poor's Ratings Services.

Interest Rate Risk: The risk that changes in the interest rates will adversely affect the fair value of an investment. The District does not have an interest rate risk policy. The weighted average maturity of the MILAF portfolio at June 30, 2016 is less than 60 days.

**MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 4. INTERGOVERNMENTAL RECEIVABLES

Due from governmental units June 30, 2016 consist of the following:

Intergovernmental:	
State Aid	\$ 2,239,772
Federal Revenue	343,320
Lenawee Intermediate School District	265,864
	<u>\$ 2,848,956</u>

No allowance for doubtful accounts is considered necessary.

NOTE 5. CAPITAL ASSETS

A summary of changes in the District's capital assets follows:

	Primary Government			Ending Balance
	Beginning Balance	Additions	Retirements	
Governmental activities:				
Assets not being depreciated:				
Land	\$ 912,065	\$ -	\$ -	\$ 912,065
Construction in progress	5,264,786	-	(5,264,786)	-
Total assets not being depreciated	6,176,851	-	(5,264,786)	912,065
Buildings and improvements	16,048,638	5,859,839	-	21,908,477
Machinery and equipment	3,998,377	190,261	(415,052)	3,773,586
Transportation equipment	705,264	-	-	705,264
Depreciable capital assets	20,752,279	6,050,100	(415,052)	26,387,327
Less accumulated depreciation for:				
Land improvements	-		-	-
Buildings and improvements	(5,905,928)	(666,575)	-	(6,572,503)
Machinery and equipment	(2,909,455)	(191,523)	-	(3,100,978)
Transportation equipment	(464,348)	(41,465)	-	(505,813)
Total accumulated depreciation	(9,279,731)	(899,563)	-	(10,179,294)
Total Capital assets being depreciated, net	11,472,548	5,150,537	(415,052)	17,038,137
Governmental activities capital assets, net	<u>\$ 17,649,399</u>	<u>\$5,150,537</u>	<u>\$ (5,679,838)</u>	<u>\$ 17,120,098</u>

Depreciation is computed by the straight line method for all classes of assets. Depreciation for the fiscal year ended June 30, 2016 amounted to \$899,563. The District determined that it was impractical to allocate depreciation and amortization to the various governmental activities as the assets serve multiple functions.

**MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 6. LONG-TERM DEBT

Bonds Payable – At the end of the current fiscal year, the District had total bonded debt outstanding of \$3,195,000. Remaining payments for all bonded indebtedness vary from \$150,000 to \$285,000 through 2031, and include interest at 2.5-4.5%.

A schedule of the 2011 Building and Site bond issue for Madison is as follows:

Year Ended June 30,	Interest Rate	Principal Due May 1	Interest Due May 1	Interest Due November 1	Total
2016	2.50			64,037	64,037
2017	2.75	150,000	64,037	61,975	276,012
2018	3.00	155,000	61,975	59,650	276,625
2019	3.50	165,000	59,650	56,762	281,412
2020	3.50	170,000	56,762	53,787	280,549
2021	3.50	180,000	53,787	50,637	284,424
2022	4.00	190,000	50,637	46,837	287,474
2023	4.00	200,000	46,837	42,837	289,674
2024	4.10	210,000	42,837	38,532	291,369
2025	4.10	220,000	38,532	34,023	292,555
2026	4.20	230,000	34,023	29,193	293,216
2027	4.20	240,000	29,193	24,152	293,345
2028	4.40	255,000	24,152	18,453	297,605
2029	4.40	265,000	18,453	12,712	296,165
2030	4.50	280,000	12,712	6,413	299,125
2031	4.50	285,000	6,413	-	291,413
		<u>\$ 3,195,000</u>	<u>\$ 600,000</u>	<u>\$ 600,000</u>	<u>\$ 4,395,000</u>

The following is a schedule of the governmental long term obligations for the District for the year ended June 30, 2016:

	2011 Bond	Bond Discount	Compensated Absences	Total
Balance July 1, 2015	\$ 3,335,000	\$ (35,725)	\$ 23,520	\$ 3,322,795
Additions			-	\$ -
Deletions	(140,000)	2,233	-	\$ (137,767)
Balance June 30, 2016	3,195,000	(33,492)	23,520	\$ 3,185,028
Less: current portion	150,000	(2,233)	3,660	\$ 151,427
Total due after one year	<u>\$ 3,045,000</u>	<u>\$ (31,259)</u>	<u>\$ 19,860</u>	<u>\$ 3,033,601</u>

**MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 6. LONG-TERM DEBT (Continued)

The debt service requirements of governmental activities at June 30, 2016 were as follows:

Year Ended June 30,	Principal	Interest	Total
2017	150,000	128,074	278,074
2018	155,000	123,950	278,950
2019	165,000	119,300	284,300
2020	170,000	113,524	283,524
2021	180,000	107,574	287,574
2022-2026	1,050,000	425,732	1,475,732
2027-2031	1,325,000	181,846	1,506,846
	<u>\$ 3,195,000</u>	<u>\$ 1,200,000</u>	<u>\$ 4,395,000</u>

NOTE 7. EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN

ORGANIZATION

The Michigan Public School Employees' Retirement System (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, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. The board consists of twelve members - eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

The System is administered by the Office of Retirement Services within the Michigan Department of Technology, Management & Budget. The Department Director appoints the Office Director, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System. The systems' financial statements are available at www.michigan.gov/MPERS_caf

Benefits Provided

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Depending on the plan option selected, member retirement benefits for are determined by final average compensation, years of service, and a pension factor ranging from 1.25 percent to 1.5 percent. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

**MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016**

NOTE 7. EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN (Continued)

ORGANIZATION (Continued)

Benefits Provided (Continued)

A DB member plan member who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system account if applicable. A refund cancels a former member's rights to future benefits. However, returning members who previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

Member Contributions

Mandatory member contributions were phased out between 1974 and 1977, with the plan remaining noncontributory until January 1, 1987, when the Member Investment Plan (MIP) was enacted. MIP members enrolled prior to January 1, 1990, contribute at a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990, when it was reduced to 3.9%. Members first hired between January 1, 1990 and June 30, 2008, and returning members who did not work between January 1, 1987, through December 31, 1989, contribute at the following graduated permanently fixed contribution rates: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Members first hired July 1, 2008, or later including Pension Plus Plan members, contribute at the following graduated permanently fixed contribution rates: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 6.4% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987, or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate of interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves public school service and no pension is payable, the member's accumulated contributions plus interest, if any, are refundable.

Under Public Act 300 of 2012, eligible members voluntarily chose between increasing, maintaining, or stopping their contributions to the pension fund as of the transition date. Their options are described in detail under Pension Reform 2012 beginning on page 23. Members who elected to increase their level of contribution contribute 4% (Basic Plan) or 7% (MIP); by doing so they maintain a 1.5% pension factor in their pension formula. Members who elected to maintain their level of contribution will receive a 1.25% pension factor in their pension formula for their years of service as of their transition date. Their contribution rates are described above. Members who elected to stop their contributions became participants in the Defined Contribution plan as of their transition date.

Employee Contributions

Each school district or reporting entity is required to contribute the full actuarial funding contribution amount to fund pension benefits.

NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 7. EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN (Continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Presentation

The System's financial statements are prepared using the accrual basis of accounting. Contributions from the employers are recognized as revenue when due and payable. Benefits and refunds are recognized when due and payable in accordance with the terms of the System. The reserves are described below and details are provided in the supporting schedules.

GASB Statement No. 67, which was adopted during the year ended September 30, 2015, addresses accounting and financial reporting requirements for pension plans. The requirements for GASB Statement No. 67 require changes in presentation of the financial statements, notes to the financial statements, and required supplementary information.

Significant changes include an actuarial calculation of total and net pension liability. It also includes comprehensive footnote disclosure regarding the pension liability, the sensitivity of the net pension liability to the discount rate, and increased investment activity disclosures. The implementation of GASB Statement No. 67 did not significantly impact the accounting for accounts receivable and investment balances.

Property and Equipment

Office space is leased from the State on a year to year basis. Office equipment is capitalized if the value exceeds \$5,000. These assets are recorded at cost and are reported net of depreciation in the Statement of Pension Plan and Other Postemployment Benefit Plan Fiduciary Net Position. Such assets are depreciated on a straight-line basis over 10 years. As of September 30, 1998, all capitalized equipment was fully depreciated. No additional equipment has been capitalized for the System since that date.

Related Party Transactions

Leases and Services - The System leases operating space and purchases certain administrative, data processing, legal and investment services from the State. The space and services are not otherwise available by competitive bid. The schedule below summarizes costs incurred by the System for such services.

CONTRIBUTIONS AND FUNDING STATUS

Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2015 valuation will be amortized over a 21 year period for the 2015 fiscal year.

NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 7. EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN (Continued)

CONTRIBUTIONS AND FUNDING STATUS (Continued)

The schedule below summarizes pension contribution rates in effect for fiscal year 2015.

Pension Contribution Rates			
Benefit Structure	Member		Employer
Basic	0.0 - 4.0	%	22.52 - 23.07 %
Member Investment Plan	3.0 - 7.0		22.52 - 23.07
Pension Plus	3.0 - 6.4		21.99
Defined Contribution	0.0		17.72 - 18.76

Required contributions from Madison School District were \$1,967,592 for the year ended September 30, 2015.

PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS

At June 30, 2015, the Madison School District reported a liability of \$24,912,006 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2014. The Madison School District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2015, Madison School District's proportion was .10199 percent, which was an increase of .002470 percent from its proportion measured as of September 30, 2014.

PENSION EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS

For the year ended June 30, 2016 the Reporting Unit recognized total pension expense of \$2,243,005. At June 30, 2016 the Reporting Unit reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 7. EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 82,516
Changes of assumptions	613,386	-
Net difference between projected and actual earnings on pension plan investments	127,156	-
Changes in proportion and differences between Reporting Unit contributions and proportionate share of contributions	511,050	363
Reporting Unit contributions subsequent to the measurement date	2,415,389	-
Total	\$ 3,666,981	\$ 82,879

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows

Deferred (Inflows) and Deferred Outflows of Resources by Year (to be recognized in future pension expenses):

Plan Year ended September 30	
2016	\$ 207,312
2017	207,312
2018	174,074
2019	580,015

NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 7. EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN (Continued)

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2015, are summarized in the following table:

Asset Class	Long Term	
	Target	Expected Real
	Allocation	Rate of Return*
Domestic Equity Pools	28.0 %	5.9 %
% Alternative Investment Pools	18.0	9.2
International Equity	16.0	7.2
Fixed Income Pools	10.5	0.9
Real Estate and Infrastructure Pools	10.0	4.3
Absolute Return Pools	15.5	6.0
Short Term Investment Pools	2.0	-
TOTAL	100.00 %	
* Long term rate of return does not include 2.1% inflation		

Discount Rate

A discount rate of 8.0% was used to measure the total pension liability (7.0% for the Pension Plus plan, a hybrid plan). This discount rate was based on the long term expected rate of return on pension plan investments of 8.0% (7.0% for the Pension Plus plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the reporting unit's proportionate share of the net pension liability, calculated using a discount rate of 8.0% (7.0% for the Pension Plus Plan), as well as what the reporting unit's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher:

NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 7. EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN (Continued)

		Current Single Discount		
1% Decrease		Rate Assumption		1% Increase
(Non-Hybrid/Hybrid)*		(Non-Hybrid/Hybrid)*		(Non-Hybrid/Hybrid)*
7.0%/ 6.0%		8.0%/ 7.0%		9.0%/ 8.0%
\$	32,117,961	\$	24,912,006	\$ 18,837,090

Actuarial Assumptions

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

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Actuarial Assumptions

Wage Inflation Rate:	3.50%
Investment Rate of Return	
- MIP and Basic Plans (Non-Hybrid):	8.00%
- Pension Plus Plan (Hybrid):	7.00%
Projected Salary Increases:	3.5 - 12.3%, including wage inflation at 3.5%
Cost-of-Living Pension Adjustments:	3% Annual Non-Compounded for MIP Members
Healthcare Cost Trend Rate:	8.5% Year 1 graded to 3.5% Year 12

Mortality: RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Notes

- Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2015 valuation. The total pension liability as of September 30, 2015, is based on the results of an actuarial valuation date of September 30, 2014, and rolled forward using generally accepted actuarial procedures, including the experience study.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 8. INTERFUND BALANCES AND TRANSFERS

Interfund balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system and (3) payments between funds are made. All balances at June 30, 2016 are expected to be repaid within the next fiscal year.

A schedule of interfund balances follows:

Fund	Due To	Fund	Due From
General	\$ 4,053	Nonmajor	\$ 4,053
Nonmajor	2,869	General	2,869
Totals	<u>\$ 6,922</u>		<u>\$ 6,922</u>

Interfund transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the Debt Service Fund as debt service payments become due and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

There were no interfund transfers for fiscal year ended June 30, 2016.

NOTE 9. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. The premiums are based on the ultimate cost of the experience to date of the participating members of the risk pool. The District cannot estimate losses from reported and unreported claims at June 30, 2015. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2016 or any of the prior three years.

NOTE 10. CONTINGENCIES

The District had no contingencies at June 30, 2016.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 11. AT RISK

During the year, the School District received State categorical aid for at risk students, which amounted to \$118,929. The School District split all of these funds for at risk students

NOTE 12. NET POSITION RESTRICTED BY ENABLING LEGISLATION:

The government-wide statement of net position reports \$239,768 of restricted net position at June 30, 2016, all of which is restricted by enabling legislation.

NOTE 13. SUBSEQUENT EVENTS

The School District has reviewed subsequent events from June 30, 2016 to the date that the financial statements were available on October 20, 2016, and determined that no additional disclosures need be made.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2016

NOTE 1: CHANGES OF BENEFIT TERMS

There were no changes of benefit terms in 2015.

NOTE 2: CHANGES OF ASSUMPTIONS

There were no changes of benefit assumptions in 2015.

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES:				
Local sources:				
Property taxes	\$ 1,789,841	\$ 1,956,048	\$ 1,971,404	\$ 15,356
Tuition	16,500	12,380	14,356	1,976
Interest	5,000	8,500	9,096	596
Community service activities	33,000	43,400	45,078	1,678
Athletic	115,000	101,080	44,280	(56,800)
Other local revenues	49,275	36,256	92,798	56,542
Total local revenue	2,008,616	2,157,664	2,177,012	19,348
State sources				
State sources	11,602,923	12,160,841	12,207,448	46,607
Federal sources	331,542	351,319	346,355	(4,964)
Intermediate sources	610,569	1,157,246	1,250,569	93,323
Other		13,956	13,956	-
Total revenues	14,553,650	15,841,026	15,995,340	154,314
EXPENDITURES:				
Instruction:				
Basic programs	8,755,957	9,057,824	9,069,001	(11,177)
Added needs	2,435,197	2,344,209	2,217,035	127,174
Total instruction	11,191,154	11,402,033	11,286,036	115,997
Support services:				
Pupil	248,694	344,199	356,286	(12,087)
Instructional staff	96,431	126,037	214,601	(88,564)
General administration	679,759	486,191	410,060	76,131
School administration	1,025,487	1,083,059	1,081,043	2,016
Business	102,200	193,797	242,664	(48,867)
Operation & maintenance	1,049,177	1,005,621	1,008,225	(2,604)
Pupil transportation	462,790	499,991	497,515	2,476
Central		68,386	88,135	(19,749)
Total support services	3,664,538	3,807,281	3,898,529	(91,248)
Athletics	355,885	366,877	361,527	5,350
Community services:				
Child care	38,694	37,041	36,245	796
Other community services	74,356	94,738	93,974	764
Total community services	113,050	131,779	130,219	1,560
Capital outlay		125,500	125,956	(456)
Total expenditures	15,324,627	15,833,470	15,802,267	31,203
Excess of revenues over expenditures	(770,977)	7,556	193,073	185,517
Other financing sources (uses):				
Incoming transfers	474,689	-	-	-
Indirect cost reimbursement		24,000	28,053	4,053
Prior period adjustments	-		40,881	40,881
Sale of school property	-	200	-	(200)
Total other financing uses	474,689	24,200	68,934	44,734
Change in fund balance	(296,288)	31,756	262,007	230,251
Fund balance:				
Beginning of year			3,914,858	
End of year			<u>\$ 4,176,865</u>	

See notes to financial statements.

**MADISON SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE REPORTING UNIT'S CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOLS EMPLOYEES RETIREMENT PLAN
LAST 10 REPORTING UNIT FISCAL YEARS (AMOUNT DETERMINED AS OF 6/30 OF EACH YEAR)**

		2016	2015
A. Statutorily required contributions		\$ 2,418,503	\$ 2,648,947
B. Contribution in relations to statutorily required contributions		2,418,503	2,648,947
C. Contribution deficiency (excess)		<u>\$ -</u>	<u>\$ -</u>
D. Reporting unit's covered-employee payroll		\$ 8,478,286	\$ 8,611,789
E. Contributions as a percentage of covered- employee payroll		<u>28.52585%</u>	<u>30.75954%</u>
<p>Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presewnted</p>			

**MADISON SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REPORTING UNIT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
MICHIGAN PUBLIC SCHOOLS EMPLOYEES RETIREMENT PLAN
LAST 10 FISCAL YEARS (AMOUNT DETERMINED AS OF 9/30 OF EACH YEAR)**

				<u>2015</u>	<u>2014</u>
A. Reporting unit's proportion of net pension liability (%)				0.10199%	0.09952%
B. Reporting unit's proportionate share of net pension liability				24,912,006	21,919,983
C. Reporting unit's covered employee payroll				8,916,870	8,576,648
D. Reporting unit's proportionate share of net pension liability as a percentage of its covered employee payroll (%)				279.38%	255.58%
E. Plan fiduciary net position as a percentage of total pension liability				63.17000%	66.20000%
Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.					



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

To the Board of Education
Madison School District
Adrian, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Madison School District (the "School District") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued our report thereon dated October 20, 2016.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the School District's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charge with governance.

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

Page 2

To the Board of Education
Madison School District
Adrian, Michigan

2016 - 1 Segregation of Duties

Criteria: Adequate segregation of duties for the School District is necessary to minimize the likelihood that fraud or errors could occur and not be detected.

Condition: The School District has not achieved a complete segregation of duties among employees who have both access to assets and accounting responsibilities

Cause: The small size of the business office staff creates an inherent lack of segregation of duties.

Identification of repeat finding. This is a repeat finding from the immediate previous audit 2015-2

Effect: As a result of this condition, the School District lacks proper segregation of duties and is exposed to an increased risk of misstatement of its financial statements.

Recommendation: The duties should be separated as much as possible and alternate controls should be used to compensate for lack of separation. The governing board should provide some of these controls.

Management's Response: The School District has evaluated the manner in which they segregate duties and has implemented certain measures. However, the cost associated with adding additional staff to achieve a complete segregation is not justified by the expected benefits.

2016 – 2 Preparation of Financial Statements and Footnotes in accordance with GAAP

Criteria: Adequate design of internal control over the complete preparation of the financial statements and footnotes being audited.

Cause: The District does not have personnel with level of knowledge to prepare financial statements and to update the footnotes completely.

Identification of repeat finding. This is a repeat finding from the immediate previous audit 2015-1

Effect: The District's design uses a template to prepare the financial statements, and prepares the footnotes with the best available information, however, may not be able to detect and correct misstatements timely.

Recommendation: From information gleaned from various seminars attended, consider gathering information on footnotes that will fit the School's needs, and apply appropriately.

Management's Response: The School District has evaluated the manner in which they prepare the financial statements and footnotes to those financial statements and will attempt to follow the recommendation made. However, the cost associated with this is not justified by the expected benefits.

Page 3

To the Board of Education
Madison School District
Adrian, Michigan

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the School District's financial statements are free from 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.

PURPOSE OF THIS REPORT

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

Baker, Eaton & Owen
Adrian, Michigan

October 20, 2016

**MADISON SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2016**

	Special Revenue	Debt Service	Capital Project Service	Total Nonmajor
	School Lunch Fund	2011 issue Fund	Bond Sinking Fund	Governmental Funds 2016
ASSETS:				
Cash	\$ 215,783	\$ 12,382	\$ 259,943	\$ 488,108
Accounts receivable	1,449			1,449
Due from other funds		1,576	1,293	2,869
Inventory	13,410			13,410
Total assets	<u>\$ 230,642</u>	<u>\$ 13,958</u>	<u>\$ 261,236</u>	<u>\$ 505,836</u>
LIABILITIES AND FUND BALANCES:				
LIABILITIES:				
Accounts payable			\$ 30,680	\$ 30,680
Due to other funds	4,053			4,053
Total liabilities	4,053	-	30,680	34,733
Deferred inflows of resources:				
Unearned income	779			779
FUND BALANCES:				
Nonspendable				
Inventory	13,410			13,410
Restricted				
School lunch program	212,400			212,400
Capital projects			230,556	230,556
Debt service		13,958		13,958
Total fund balances	225,810	13,958	230,556	470,324
Total liabilities, deferred inflows & fund balance	<u>\$ 230,642</u>	<u>\$ 13,958</u>	<u>\$ 261,236</u>	<u>\$ 505,836</u>

See notes to financial statements.

**MADISON SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES
NONMAJOR GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2016**

	Special Revenue School Lunch Fund	Debt Service 2011 issue Fund	Capital Project Bond Sinking Fund	Total Nonmajor Governmental Funds 2016
REVENUES:				
Local sources:				
Property taxes		\$ 269,988	\$ 224,667	\$ 494,655
Investment earnings		147		147
Contributions				-
Food servic	129,429			129,429
Other	13,019			13,019
Total local sources	142,448	270,135	224,667	637,250
State sources	30,403			30,403
Federal sources	687,497			687,497
Total revenues	860,348	270,135	224,667	1,355,150
EXPENDITURES:				
Current:				
Food service activities	765,965			765,965
Capital outlay			190,878	190,878
Principal		140,000		140,000
Interest		131,975		131,975
Total expenditures	765,965	271,975	190,878	1,228,818
Excess (deficiency) of revenues over (under) expenditures	94,383	(1,840)	33,789	126,332
Other financing sources (uses):				
Indirect cost	(28,053)			(28,053)
Total other financing sources (uses)	(28,053)	-	-	(28,053)
Change in fund balances	66,330	(1,840)	33,789	98,279
Fund balances:				
Beginning of year	159,480	15,798	196,767	372,045
End of year	\$ 225,810	\$ 13,958	\$ 230,556	\$ 470,324

See notes to financial statements.

**MADISON SCHOOL DISTRICT
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND LIABILITIES
AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016**

	Balance			Balance
	July 1, 2015	Additions	Deletions	June 30, 2016
ASSETS:				
Cash and cash equivalents	\$ 265,596	\$ 562,071	\$ 538,313	\$ 289,354
Total assets	<u>\$ 265,596</u>	<u>\$ 562,071</u>	<u>\$ 538,313</u>	<u>\$ 289,354</u>
LIABILITIES:				
Due to student groups	\$ 265,596	\$ 562,071	\$ 538,313	\$ 289,354
Total liabilities	<u>\$ 265,596</u>	<u>\$ 562,071</u>	<u>\$ 538,313</u>	<u>\$ 289,354</u>

See notes to financial statements.



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
THE UNIFORM GUIDANCE**

To the Board of Education
Madison Schools
Adrian, Michigan

Report on Compliance for Each Major Federal Program

We have audited Madison School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have direct and material effect on each of Madison School District's major federal programs for the year ended June 30, 2016. Madison School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Madison School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Madison School District's compliance.

Opinion on Each Major Program

In our opinion, Madison School District, complied in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Page 2

To the Board of Education
Madison School District
Adrian, Michigan

Report on Internal Control over Compliance

Management of Madison School District, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Madison School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or 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.

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

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

Baker, Eaton, & Owen

Adrian, Michigan

October 20, 2016

**MADISON SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016**

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award	(Memo Only) Prior Years Expenditures	Current Years Expenditures	Accrued (Deferred) Revenue June 30, 2015	Adjustments Note
U.S. Department of Education Passed through M.D.E.						
Title I, Part A Grants ** 151530/1415	84.010	\$ 277,219	\$ 277,219	\$ -	\$ -	
16530/1516		309,118	-	289,065	267,695	C 21,370
Total Title I, Part A		586,337	277,219	289,065	267,695	21,370
Title II, Part A 160520/1516	84.367	46,016	-	46,016	46,016	
150520/1415		42,055	42,055	-	-	
Total Title II, Part A		88,071	42,055	46,016	46,016	
Title Title VI B 160666/1516	84.358	29,609	-	29,609	29,609	
Total Title VI Part B		29,609	-	29,609	29,609	
Total U.S. Department of Education		704,017	319,274	364,690	343,320	21,370
See independent auditor's report.			** - Designates Major Program			

**MADISON SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30,2016**

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award	(Memo Only) Prior Years Expenditures	Current Years Expenditures	Accrued (Deferred) Revenue June 30, 2016	Adjustments
U.S. Department of Agriculture Passed Through MDE Child Nutrition Cluster						
National School Lunch Program						
Free and Reduced Lunches	10.555	447,059	-	447,059	-	
Non cash assistance Commodities		55,638	-	55,638	-	
Subtotal		502,697	-	502,697	-	
School Breakfast Program	10.553	167,244	-	167,244	-	
CACFP	10.558	17,555	-	17,555	-	
Total U.S. Department of Agriculture		687,496	-	687,496	-	
Total Passed Through MDE		1,391,513	319,274	1,052,186	343,320	21,370
Federal Grantor Pass Through Other Pass through - Lenawee Intermediate School Districts (LISD)						
Medicaid Outreach	93.778	2,530	-	2,530	-	
Title II B	84.366B	506	-	506	-	
Total LISD		3,036	-	3,036	-	
Total Federal Financial Assistance		<u>\$ 1,394,549</u>	<u>\$ 319,274</u>	<u>\$ 1,055,222</u>	<u>\$ 343,320</u>	<u>\$ 21,370</u>
45	See independent auditor's report.					

**MADISON SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
UNIFORM GUIDANCE 2 CFR 200.510(b)(6)
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of Madison School District (the Government's) under programs of the federal government for the year ended June 30, 2016]. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Government, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the school district.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting, which is described in Note 1 to the District's financial statements. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The school district has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

The entity receives certain federal grants as sub-awards from non-federal entities. Pass-through entities, where applicable, have been identified in the Schedule.

Expenditures are in agreement with amounts reported in the financial statements and the financial reports. The amounts on the Grant Auditor Report reconcile to this Schedule.

NOTE C – TITLE I CFDA 84.010 ADJUSTMENTS

There is an adjustment of \$21,370 representing state aid payments for Section 147(c) UAAL monies spent on salaries, that was not used in the request for funds at year end.

MADISON SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

SECTION I - SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of Auditors' Report Issued on whether the audited financial statements were prepared in accordance with GAAP **Unqualified**

Internal Control over Financial Reporting:

* Material weakness(es) identified? ___yes x no

* Significant deficiency (ies) identified that are not considered to be material weaknesses? x yes ___no

Noncompliance material to financial statements noted? ___yes x no

FEDERAL AWARDS

Internal Control Over Major Programs:

* Material weakness(es) identified? ___yes x no

* Significant deficiency(ies) identified that are considered to be material weaknesses? ___yes x none

Type of Auditors' Report Issued on Compliance for Major Program: **Unqualified**

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) ___yes x no

Identification of Major Programs

CFDA Number

Name of Federal Program/Cluster

84.010

Title I Grants to local Education Agencies

MADISON SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

SECTION I - SUMMARY OF AUDITORS' RESULTS (Continued)

Dollar Threshold Used to Distinguish Between Type A and Type B Programs:

\$ 750,000

Auditee qualified as low-risk auditee?

yes no

SECTION II - FINANCIAL STATEMENT FINDINGS

2016 - 1 Segregation of Duties

Criteria: Adequate segregation of duties for the School District is necessary to minimize the likelihood that fraud or errors could occur and not be detected.

Condition: The School District has not achieved a complete segregation of duties among employees who have both access to assets and accounting responsibilities

Cause: The small size of the business office staff creates an inherent lack of segregation of duties.

Identification of repeat finding. This is a repeat finding from the immediate previous audit 2015-2

Effect: As a result of this condition, the School District lacks proper segregation of duties and is exposed to an increased risk of misstatement of its financial statements.

Recommendation: The duties should be separated as much as possible and alternate controls should be used to compensate for lack of separation. The governing board should provide some of these controls.

Management's Response: The School District has evaluated the manner in which they segregate duties and has implemented certain measures. However, the cost associated with adding additional staff to achieve a complete segregation is not justified by the expected benefits.

2016 – 2 Preparation of Financial Statements and Footnotes in accordance with GAAP

Criteria: Adequate design of internal control over the complete preparation of the financial statements and footnotes being audited.

Cause: The District does not have personnel with level of knowledge to prepare financial statements and to update the footnotes completely.

Identification of repeat finding. This is a repeat finding from the immediate previous audit 2015-1

Effect: The District's design uses a template to prepare the financial statements, and prepares the footnotes with the best available information, however, may not be able to detect and correct misstatements timely.

MADISON SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

Recommendation: From information gleaned from various seminars attended, consider gathering information on footnotes that will fit the School's needs, and apply appropriately.

Management's Response: The School District has evaluated the manner in which they prepare the financial statements and footnotes to those financial statements and will attempt to follow the recommendation made. However, the cost associated with this is not justified by the expected benefits.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported

SECTION IV – PRIOR YEAR FINDINGS AND QUESTIONED COSTS

None reported