

Madison School
District



Year Ended
June 30, 2015

Financial
Statements and
Single Audit Act
Compliance

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MADISON SCHOOL DISTRICT

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INDEPENDENT AUDITORS' REPORT

November 2, 2015

Board of Education
Madison School District
Adrian, Michigan**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of *Madison School District* (the "District"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the 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 financial statements that are free from material misstatement, whether due to fraud or error.

Independent Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 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 estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Madison School District as of June 30, 2015, and the changes in financial position thereof and the budgetary comparison for the general fund for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Implementation of GASB Statement No. 68

As described in Note 15, the District implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, in the current year. Accordingly, beginning net position of governmental activities was restated. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules for the pension plan, listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, 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 District's basic financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining fund financial statements 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 fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2015, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Lehmann Lobson LLC". The signature is written in a cursive, flowing style.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

MADISON SCHOOL DISTRICT

Management's Discussion and Analysis

As management of Madison School District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year that ended June 30, 2015.

Financial Highlights

- The District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, in the current year. In addition to expanded disclosure requirements, the District is required to report its proportionate share of the MPSERS net pension liability on the statement of net position. This change has resulted in a negative total net position of governmental activities of \$2,516,462.
- The District's total net position increased by \$531,644.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$4,286,903, of which \$362,638 was restricted for future use.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$3,914,858 or 25.5% of total general fund expenditures.
- Investments for the future were made by the spending of \$624,569 on school improvements and equipment.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components:

1. *Government-wide Financial Statements*
2. *Fund Financial Statements*
3. *Notes to the Financial Statements*

This report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to the private business sector.

The *statement of net position* presents information on all of the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the residual balance reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the District include instruction, support services, community services, athletics, and food service. The District has no business-type activities as of and for the year ending June 30, 2015.

MADISON SCHOOL DISTRICT

Management's Discussion and Analysis

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Like other state and local governments, the District uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All of the funds of the District can be divided into two categories: *governmental funds* and *fiduciary funds*.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. Readers may better understand the long-term impact of the government's near-term financing decisions by doing it this way. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provides a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains four individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of fund revenues, expenditures, and changes in fund balances for the general fund which is the District's major fund. Data from the three other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The District adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with the general fund budget.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the Financial Statements

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

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. This is limited to this management's discussion and analysis and the schedules for the MPSERS pension plan immediately following the notes to the financial statements. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements.

MADISON SCHOOL DISTRICT

Management's Discussion and Analysis

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$2,516,462 at the close of the most recent fiscal year.

A portion of the District's net position reflects its investment in capital assets (e.g. land, construction in progress, buildings and improvements, buses and other vehicles and equipment and furniture); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to the students it serves; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The negative unrestricted net position is primarily related to the implementation of GASB No. 68, *Accounting and Financial Reporting for Pensions*. More detailed information on pensions can be seen in Note 14.

	Net Position	
	2015	2014
Current and other assets	\$ 5,777,643	\$ 5,845,668
Capital assets, net	17,649,399	17,847,104
Total assets	23,427,042	23,692,772
Deferred outflows of resources	3,235,697	37,958
Long-term liabilities	3,322,795	3,495,780
Current and other liabilities	23,432,652	1,812,954
Total liabilities	26,755,447	5,308,734
Deferred inflows of resources	2,423,754	-
Net position		
Net investment in capital assets	14,350,124	14,377,104
Restricted	356,247	463,513
Unrestricted (deficit)	(17,222,833)	3,581,379
Total net position	\$ (2,516,462)	\$ 18,421,996

The results of this year's operations for the District as a whole are reported in the statement of activities, which shows the change in net position for the fiscal year 2015.

Governmental Activities

Net position increased \$531,644. The key elements of this increase included: An increase in revenues primarily operating grants and contributions. Expenses for in instruction and unallocated depreciation increased but not at a pace similar to revenues. Some revenue and expense functions have been reclassified from the function in the prior year.

MADISON SCHOOL DISTRICT

Management's Discussion and Analysis

	Change in Net Position	
	2015	2014
Revenues		
Charges for services	\$ 140,094	\$ 182,653
Operating grants and contributions	3,639,341	3,071,134
Property taxes	2,366,380	2,410,093
Unrestricted state aid	10,756,479	10,333,136
Grants and contributions not restricted to specific programs	82,646	186,635
Unrestricted investment earnings	5,888	10,994
Total revenues	<u>16,990,828</u>	<u>16,194,645</u>
Expenses		
Instruction	10,829,202	9,927,422
Supporting services	3,976,692	4,010,459
Community services	112,878	115,350
Athletics	102,776	358,044
Food service	478,268	809,052
Interest on long-term debt	137,094	139,891
Unallocated depreciation	822,274	567,666
Total expenses	<u>16,459,184</u>	<u>15,927,884</u>
Change in net position	531,644	266,761
Net position		
Beginning of year	18,421,996	18,155,235
Restatement for implementation of GASB 68	(21,470,102)	-
End of year	<u>\$ (2,516,462)</u>	<u>\$ 18,421,996</u>

Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental funds. The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the District's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$4,286,903. Approximately 91% of this total amount (\$3,914,858) constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance is nonspendable or restricted to indicate that it is not available for new spending because the underlying assets are included in inventory and not available for current expenditure, or it is constrained by externally imposed restrictions.

MADISON SCHOOL DISTRICT

Management's Discussion and Analysis

The general fund is the chief operating fund of the District. At the end of the current fiscal year, total fund balance (entirely unassigned) of the general fund was \$3,914,858. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Fund balance represents approximately 25.5% of total general fund expenditures.

The fund balance of the District's general fund increased \$323,169 during the current fiscal year. This is attributable to an increase in state aid revenue and a decrease in instruction expenditures related to a one time buy out incentive program in 2013.

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was actually adopted at year end. A statement showing the District's original and final budget amounts compared with actual expenditures paid is provided with the governmental fund section in these financial statements.

The original budget is adopted by the District Board before the start of the District's fiscal year and the final amended budget is adopted at the end of the fiscal year. The difference between the two relates to adjustments made in salaries, benefits, and general expenditures throughout the course of the year. Once the adjustments are known, the budget is adjusted accordingly.

Capital Assets and Debt Administration

Capital Assets. The District's investment in capital assets for its governmental activities as of June 30, 2015, amounted to \$17,649,399 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings and improvements, buses and other vehicles, and equipment and furniture.

	Capital Assets (Net of Depreciation)	
	2015	2014
Land	\$ 912,065	\$ 912,065
Construction in progress	5,264,786	4,851,311
Buildings and improvements	10,142,710	10,630,843
Buses and other vehicles	240,916	288,477
Equipment and furniture	1,088,922	1,164,408
Total capital assets, net	<u>\$ 17,649,399</u>	<u>\$ 17,847,104</u>

Additional information regarding the District's capital assets can be found in Note 7 to the financial statements.

MADISON SCHOOL DISTRICT

Management's Discussion and Analysis

Long-term Debt

At the end of the current fiscal year, the District had total long term debt outstanding of \$3,322,795.

	Long-term debt	
	2015	2014
General obligation bonds	\$ 3,335,000	\$ 3,470,000
Bond discount	(35,725)	(37,958)
Compensated absences	23,520	25,780
Total	<u>\$ 3,322,795</u>	<u>\$ 3,457,822</u>

The District's total installment debt decreased by \$135,000. The key factor in this decrease was the principal payment of general obligation bond debt during the year on the 2011 school building and site bonds.

Additional information regarding the District's long-term debt can be found in Note 10 to the financial statements.

Factors Bearing on the District's Future

The following factors were considered in preparing the District's budget for the 2015-2016 fiscal year:

- The foundation allowance is budgeted at \$7,942
- A MPSERs credit of \$118,000
- Student enrollment is anticipated to decrease by 9 students
- No step increases for fiscal year 2015-2016

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Superintendent, 3948 Treat Highway, Adrian, MI 49221.

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BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

MADISON SCHOOL DISTRICT

Statement of Net Position

June 30, 2015

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 3,331,679
Receivables	2,436,557
Inventory	9,407
Capital assets not being depreciated	6,176,851
Capital assets being depreciated, net	<u>11,472,548</u>
Total assets	<u>23,427,042</u>
Deferred outflows of resources	
Deferred pension amounts	<u>3,235,697</u>
Liabilities	
Accounts payable, accrued liabilities and notes payable	1,470,047
Unearned revenue	42,622
Long-term debt:	
Due within one year	141,427
Due in more than one year	3,181,368
Net pension liability	<u>21,919,983</u>
Total liabilities	<u>26,755,447</u>
Deferred outflows of resources	
Deferred pension amounts	<u>2,423,754</u>
Net position	
Net investment in capital assets	14,350,124
Restricted for:	
Food service	159,480
Capital projects	196,767
Unrestricted (deficit)	<u>(17,222,833)</u>
Total net position	<u>\$ (2,516,462)</u>

The accompanying notes are an integral part of these financial statements.

MADISON SCHOOL DISTRICT

Statement of Activities

For the Year Ended June 30, 2015

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
Instruction	\$ 10,829,202	\$ 14,935	\$ 2,641,384	\$ (8,172,883)
Supporting services	3,976,692	-	109,399	(3,867,293)
Community services	112,878	-	41,607	(71,271)
Athletics	102,776	-	136,015	33,239
Food service	478,268	125,159	710,936	357,827
Interest on long-term debt	137,094	-	-	(137,094)
Unallocated depreciation	822,274	-	-	(822,274)
Total governmental activities	\$ 16,459,184	\$ 140,094	\$ 3,639,341	(12,679,749)
General revenues				
Property taxes				2,366,380
Unrestricted state aid				10,756,479
Grants and contributions not restricted to specific programs				82,646
Unrestricted investment earnings				5,888
Total general revenues				13,211,393
Change in net position				531,644
Net position, beginning of year, as restated				(3,048,106)
Net position, end of year				\$ (2,516,462)

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

MADISON SCHOOL DISTRICT

Balance Sheet

Governmental Funds

June 30, 2015

	General Fund	Nonmajor Funds	Totals
Assets			
Cash and cash equivalents	\$ 2,961,502	\$ 370,177	\$ 3,331,679
Accounts receivable	45,000	1,450	46,450
Due from other funds	7,279	31	7,310
Due from other governments	2,390,107	-	2,390,107
Inventory	-	9,407	9,407
Total assets	\$ 5,403,888	\$ 381,065	\$ 5,784,953
Liabilities			
Accounts payable	\$ 10,163	\$ -	\$ 10,163
Salaries and retirement payable	1,437,955	-	1,437,955
Due to other funds	31	7,279	7,310
Unearned revenue	40,881	1,741	42,622
Total liabilities	1,489,030	9,020	1,498,050
Fund balances			
Nonspendable -			
Inventory	-	9,407	9,407
Restricted:			
Food service	-	150,073	150,073
Capital projects	-	196,767	196,767
Debt service	-	15,798	15,798
Unassigned	3,914,858	-	3,914,858
Total fund balances	3,914,858	372,045	4,286,903
Total liabilities and fund balances	\$ 5,403,888	\$ 381,065	\$ 5,784,953

The accompanying notes are an integral part of these financial statements.

MADISON SCHOOL DISTRICT

Reconciliation

Fund Balances of Governmental Funds
to Net Position of Governmental Activities
June 30, 2015

Fund balances - total governmental funds	\$ 4,286,903
Amounts reported for <i>governmental activities</i> in the statement of net position are because:	
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.	
Capital assets, net of accumulated depreciation	17,649,399
Certain liabilities, such as bonds payable, are not due and payable in the current period therefore are not reported in the funds.	
Bonds payable	(3,335,000)
Unamortized bond discount	35,725
Accrued interest on bonds payable	(21,929)
Compensated absences	(23,520)
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	(21,919,983)
Deferred outflows related to the net pension liability	3,235,697
Deferred inflows related to the net pension liability	<u>(2,423,754)</u>
Net position of governmental activities	<u>\$ (2,516,462)</u>

The accompanying notes are an integral part of these financial statements.

MADISON SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2015

	General Fund	Nonmajor Funds	Totals
Revenues			
Local sources:			
Property taxes	\$ 1,893,354	\$ 473,026	\$ 2,366,380
Tuition	14,935	-	14,935
Interest	5,443	445	5,888
Community service activities	41,607	-	41,607
Athletics	136,015	-	136,015
Food sales	-	125,159	125,159
Other local revenues	31,698	-	31,698
Transfers from other governments	1,100,262	-	1,100,262
State sources	12,020,382	60,404	12,080,786
Federal sources	386,618	650,532	1,037,150
Total revenues	15,630,314	1,309,566	16,939,880
Expenditures			
Current:			
Instruction	11,152,109	-	11,152,109
Supporting services	3,668,229	-	3,668,229
Athletics	235,962	-	235,962
Food service	-	778,734	778,734
Community services	112,878	-	112,878
Debt service:			
Principal repayment	-	135,000	135,000
Interest and fiscal charges	-	135,420	135,420
Capital outlay	188,915	351,880	540,795
Total expenditures	15,358,093	1,401,034	16,759,127
Revenues over (under) expenditures	272,221	(91,468)	180,753
Other financing sources			
Insurance recovery	50,948	-	50,948
Net change in fund balances	323,169	(91,468)	231,701
Fund balances, beginning of year	3,591,689	463,513	4,055,202
Fund balances, end of year	\$ 3,914,858	\$ 372,045	\$ 4,286,903

The accompanying notes are an integral part of these financial statements.

MADISON SCHOOL DISTRICT

Reconciliation

Net Change in Fund Balances of Governmental Funds
to Change in Net Position of Governmental Activities
For the Year Ended June 30, 2015

Net change in fund balances - total governmental funds	\$ 231,701
Amounts reported for <i>governmental activities</i> in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement activities, the cost of those assets is allocated over their estimated useful lives and reported depreciation expense.	
Capital assets purchased	624,569
Depreciation expense	(822,274)
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	135,000
Amortization of bond discount	(2,233)
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	559
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Change in the net pension liability and related deferred amounts	362,062
Change in the accrual for compensated absences	2,260
	<hr/>
Change in net position of governmental activities	<u>\$ 531,644</u>

The accompanying notes are an integral part of these financial statements.

MADISON SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund

For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenues				
Local sources:				
Property taxes	\$ 1,926,725	\$ 1,883,411	\$ 1,893,354	\$ 9,943
Tuition	16,500	16,500	14,935	(1,565)
Interest	10,000	5,000	5,443	443
Community service activities	33,000	33,000	41,607	8,607
Athletics	103,500	123,875	136,015	12,140
Other local revenues	39,400	32,600	31,698	(902)
Transfers from other governments - Special education - ISD	1,124,797	1,060,334	1,100,262	39,928
Total revenues from local sources	3,253,922	3,154,720	3,223,314	68,594
State sources:				
State school aid - unrestricted	10,300,067	10,713,569	10,756,479	42,910
At risk	555,000	518,215	518,214	(1)
Other	659,880	739,754	745,689	5,935
Total revenues from state sources	11,514,947	11,971,538	12,020,382	48,844
Federal sources:				
Title I	270,000	278,321	277,219	(1,102)
Title II-A	43,682	48,655	50,565	1,910
Medicaid outreach	5,500	5,500	2,952	(2,548)
Other	26,000	55,882	55,882	-
Total revenues from federal sources	345,182	388,358	386,618	(1,740)
Total revenues	15,114,051	15,514,616	15,630,314	115,698
Expenditures				
Instruction:				
Basic programs:				
Elementary	4,213,649	4,336,296	4,433,590	97,294
Middle school	1,749,493	1,743,269	1,735,772	(7,497)
High school	2,582,628	2,576,708	2,579,066	2,358
Pre-Kindergarten	220,946	229,178	220,872	(8,306)
Added needs:				
Special education	1,425,639	1,400,726	1,386,108	(14,618)
At Risk	969,888	813,576	796,701	(16,875)
Total instruction	11,162,243	11,099,753	11,152,109	52,356

continued...

MADISON SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund

For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Expenditures (continued)				
Supporting Services:				
Guidance services	\$ 249,651	\$ 279,646	\$ 284,710	\$ 5,064
Other pupil support services	59,000	59,062	58,696	(366)
Instructional staff	58,805	62,498	77,396	14,898
Library	92,255	92,255	91,314	(941)
General administration:				
Board of education	17,900	17,970	17,970	-
Executive administration	360,778	462,928	385,453	(77,475)
School administration	1,012,436	1,018,441	1,024,395	5,954
Business services	244,698	235,475	270,519	35,044
Operations and maintenance	1,044,095	1,002,709	1,003,432	723
Pupil transportation	404,701	391,399	372,409	(18,990)
Technology	60,260	62,473	81,935	19,462
Total supporting services	<u>3,604,579</u>	<u>3,684,856</u>	<u>3,668,229</u>	<u>(16,627)</u>
Athletics	<u>358,189</u>	<u>353,785</u>	<u>235,962</u>	<u>(117,823)</u>
Community services:				
Child care	35,053	37,950	37,363	(587)
Other community services	69,419	76,292	75,515	(777)
Total community services	<u>104,472</u>	<u>114,242</u>	<u>112,878</u>	<u>(1,364)</u>
Capital outlay	<u>150,000</u>	<u>161,504</u>	<u>188,915</u>	<u>27,411</u>
Total expenditures	<u>15,379,483</u>	<u>15,414,140</u>	<u>15,358,093</u>	<u>(56,047)</u>
Revenues over (under) expenditures	(265,432)	100,476	272,221	171,745
Other financing sources				
Insurance recovery	<u>-</u>	<u>50,948</u>	<u>50,948</u>	<u>-</u>
Net change in fund balance	(265,432)	151,424	323,169	171,745
Fund balance, beginning of year	<u>3,591,689</u>	<u>3,591,689</u>	<u>3,591,689</u>	<u>-</u>
Fund balance, end of year	<u>\$ 3,326,257</u>	<u>\$ 3,743,113</u>	<u>\$ 3,914,858</u>	<u>\$ 171,745</u>

concluded.

The accompanying notes are an integral part of these financial statements.

MADISON SCHOOL DISTRICT

Statement of Fiduciary Assets and Liabilities - Agency Fund

June 30, 2015

	Student Activities Fund
Assets	
Cash and cash equivalents	\$ 265,596
Liabilities	
Due to student groups and activities	\$ 265,596

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

MADISON SCHOOL DISTRICT

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Madison School District (the “District”) has followed the guidelines of the Governmental Accounting Standards Board has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the District.

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 primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The District had no business-type activities during the year.

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 to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided 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. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements, proprietary fund and fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. 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.

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 government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or within one year for expenditure-driven grants. 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.

MADISON SCHOOL DISTRICT

Notes to Financial Statements

Property taxes, intergovernmental revenue, 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 government.

The District reports the following major governmental funds -

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those accounted for and reported in another fund.

The District reports the following fund types -

The *special revenue fund* is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects.

The *debt service fund* is used to account for and report financial resources that are restricted, committed or assigned to expenditure for principal and interest.

The *capital projects funds* is used to account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

The *agency fund* is used to account for and report assets held for other groups and organizations and is custodial in nature.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Equity

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds". These interfund balances, as applicable, result primarily 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.

Inventory

Inventory is valued at the lower of cost (first in, first out) or market. Inventory in the food service fund consists of expendable supplies held for consumption. The cost is recorded as an expenditure when consumed rather than when purchased. Reported inventories are equally offset by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current position.

MADISON SCHOOL DISTRICT

Notes to Financial Statements

Capital Assets

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the District are depreciated using the straight-line method over the following estimated useful lives:

Asset	Years
Buildings and improvements	20-50
Buses and other vehicles	8
Equipment and furniture	5-20

Deferred Outflows of Resources

In addition to assets, the statement of net 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 (expense/expenditure) until then. The District reports deferred outflows of resources related to the net pension liability. A portion of these costs represent contributions to the plan subsequent to the plan measurement date. More detailed information can be found in Note 14.

Compensated Absences

It is the District's policy to permit employees to accumulate earned but unused sick days. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Long-term Obligations

In the government-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net position. Where applicable, bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received in debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual proceeds received, are reported as debt service expenditures.

MADISON SCHOOL DISTRICT

Notes to Financial Statements

Deferred Inflows of Resources

In addition to liabilities, the balance sheet 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 reports deferred inflows of resources related to pension costs. More detailed information can be found in Note 14.

Fund Equity

Governmental funds report nonspendable fund balance for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Restricted fund balance is reported when externally imposed constraints are placed on the use of the resources by grantors, contributors, or laws or regulations of other governments. Committed fund balance is reported for amounts that can be used for specific purposes pursuant to constraints imposed by formal action if the government's highest level of decision making authority, the Board of Education. A formal resolution of the Board of Education is required to establish, modify or rescind a fund balance commitment. The District reports assigned fund balance for amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. Unassigned fund balance is the residual classification for the general fund.

When the District incurs an expenditure for purposes for which various fund balance classification can be used, it is the District's policy to use restricted fund balance first, then committed fund balance, assigned fund balance, and finally unassigned fund balance.

Pensions

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 Plan and additions to/deductions from the plan fiduciary net position have been determined on the same basis as they are reported by the plan. 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.

2. BUDGETARY INFORMATION

The general and special revenue fund are under formal budgetary control. Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted or as amended by the Board of Education. The budgets for the general and special revenue fund are adopted on a functional basis.

All annual appropriations lapse at fiscal year end.

MADISON SCHOOL DISTRICT

Notes to Financial Statements

3. EXCESS OF EXPENDITURES OVER BUDGET

During the year ended June 30, 2015, the District incurred certain expenditures in excess of the amounts appropriated as follows:

	Final Budget	Actual	Over Budget
General fund			
Basic programs:			
Elementary	\$ 4,336,296	\$ 4,433,590	\$ 97,294
High school	2,576,708	2,579,066	2,358
Supporting services:			
Guidance services	279,646	284,710	5,064
Instructional staff	62,498	77,396	14,898
General administration -			
School administration	1,018,441	1,024,395	5,954
Business services	235,475	270,519	35,044
Operations and maintenance	1,002,709	1,003,432	723
Technology	62,473	81,935	19,462
Capital outlay	161,504	188,915	27,411

4. BONDED CONSTRUCTION COSTS

The capital project bond sinking fund records activities funded with bonds issued after May 1, 1994. For these capital projects, the District has complied with the applicable provisions of §1351a of the Michigan Revised School Code.

5. DEPOSITS AND INVESTMENTS

A reconciliation of cash and investments as shown on the Statement of Net Position and Statement of Fiduciary Assets and Liabilities follows:

Statement of Net Position	
Cash and cash equivalents	\$ 3,331,679
Statement of Fiduciary Assets and Liabilities	
Cash and cash equivalents	<u>265,596</u>
Total	<u>\$ 3,597,275</u>
Deposits and investments	
Checking/savings accounts	\$ 968,399
Investments	<u>2,628,876</u>
	<u>\$ 3,597,275</u>

MADISON SCHOOL DISTRICT

Notes to Financial Statements

Statutory Authority

State statutes authorize the District to invest in:

- (a) Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- (b) Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
- (c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- (d) Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- (e) Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- (f) Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

The District's investment policy allows for all of these types of investments.

Deposits and Investments

The District chooses to disclose its investments by specifically identifying each. As of year end, the District had the following deposits and investments.

Investments	Maturity	Fair Value	Rating
MBIA MI CLASS	n/a	\$ 763	S&P-AAAm
Michigan Liquid Assets Fund	n/a	<u>2,628,113</u>	S&P-AAAm
		<u>\$ 2,628,876</u>	

Investment and Deposit Risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the listing of authorized investments above. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

MADISON SCHOOL DISTRICT

Notes to Financial Statements

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The District’s investment policy does not have specific limits in excess of state law on investment credit risk.

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District’s deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year end, \$782,009 of the District’s bank balance of \$1,042,686 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk - Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the District does not have a policy for investment custodial credit risk.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The District’s investment policy does not have specific limits in excess of state law on concentration of credit risk. The District has no investments at June 30, 2015.

6. RECEIVABLES

Receivables as of year-end for the District’s individual major funds and nonmajor funds in the aggregate, are as follows:

	General Fund	Nonmajor Funds	Total
Accounts receivable	\$ 45,000	\$ 1,450	\$ 46,450
Due from other governments	2,390,107	-	2,390,107
	<u>\$ 2,435,107</u>	<u>\$ 1,450</u>	<u>\$ 2,436,557</u>

MADISON SCHOOL DISTRICT

Notes to Financial Statements

7. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 912,065	\$ -	\$ -	\$ 912,065
Construction in progress	4,851,311	413,475	-	5,264,786
	<u>5,763,376</u>	<u>413,475</u>	<u>-</u>	<u>6,176,851</u>
Capital assets being depreciated:				
Buildings and improvements	15,911,438	137,200	-	16,048,638
Buses and other vehicles	705,264	-	-	705,264
Equipment and furniture	3,924,483	73,894	-	3,998,377
Total capital assets being depreciated	<u>20,541,185</u>	<u>211,094</u>	<u>-</u>	<u>20,752,279</u>
Less accumulated depreciation for:				
Buildings and improvements	(5,280,595)	(625,333)	-	(5,905,928)
Buses and other vehicles	(416,787)	(47,561)	-	(464,348)
Equipment and furniture	(2,760,075)	(149,380)	-	(2,909,455)
Total accumulated depreciation	<u>(8,457,457)</u>	<u>(822,274)</u>	<u>-</u>	<u>(9,279,731)</u>
Total capital assets being depreciated, net	<u>12,083,728</u>	<u>(611,180)</u>	<u>-</u>	<u>11,472,548</u>
Governmental activities capital assets, net	<u>\$ 17,847,104</u>	<u>\$ (197,705)</u>	<u>\$ -</u>	<u>\$ 17,649,399</u>

Depreciation expense of \$822,274 was charged to the function "unallocated depreciation", and was not allocated to other functions.

MADISON SCHOOL DISTRICT

Notes to Financial Statements

8. PAYABLES

Accounts payable and accrued liabilities as of year end for the District's general fund are as follows:

	General Fund
Fund Financial Statements:	
Accounts payable	\$ 10,163
Salaries and retirement payable	1,437,955
	<u>1,448,118</u>
Government-wide Financial Statements:	
Accrued interest on bonds payable	21,929
	<u>\$ 1,470,047</u>

9. INTERFUND RECEIVABLES AND PAYABLES

At June 30, 2015, interfund receivables and payables consisted of the following:

	Due From	Due To
General fund	\$ 7,279	\$ 31
Nonmajor governmental funds	31	7,279
	<u>\$ 7,310</u>	<u>\$ 7,310</u>

The District often reports interfund balances between certain funds. These interfund balances result primarily 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.

10. LONG-TERM DEBT

Bonds Payable. At the end of the current fiscal year, the District had total bonded debt outstanding of \$3,335,000. Remaining payments for all bonded indebtedness vary from \$140,000 to \$285,000 through 2031, and include interest at 2.5-4.5%.

Changes in Long-term Debt. Long-term liability activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
2011 school building and site bonds	\$ 3,470,000	\$ -	\$ (135,000)	\$ 3,335,000	\$ 140,000
Bond discount	(37,958)	-	2,233	(35,725)	(2,233)
Compensated absences	25,780	4,360	(6,620)	23,520	3,660
Total	<u>\$ 3,457,822</u>	<u>\$ 4,360</u>	<u>\$ (139,387)</u>	<u>\$ 3,322,795</u>	<u>\$ 141,427</u>

Compensated absences are generally liquidated by the general fund.

MADISON SCHOOL DISTRICT

Notes to Financial Statements

Annual debt service requirements to maturity for bonds payable are as follows:

Year Ended June 30,	Principal	Interest	Total
2016	\$ 140,000	\$ 131,575	\$ 271,575
2017	150,000	128,075	278,075
2018	155,000	123,950	278,950
2019	165,000	119,300	284,300
2020	170,000	113,525	283,525
2021-2025	1,000,000	465,265	1,465,265
2026-2030	1,270,000	237,245	1,507,245
2031	285,000	12,825	297,825
	<u>\$ 3,335,000</u>	<u>\$ 1,331,760</u>	<u>\$ 4,666,760</u>

11. NET INVESTMENT IN CAPITAL ASSETS

As of June 30, 2015, the composition of net investment in capital assets was comprised of the following:

	Governmental Activities
Capital assets:	
Capital assets not being depreciated	\$ 6,176,851
Capital assets being depreciated, net	<u>11,472,548</u>
	17,649,399
Less related debt -	
Bonds payable, net of deferred costs	<u>3,299,275</u>
Net Investment in capital assets	<u>\$ 14,350,124</u>

12. RISK MANAGEMENT

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The District has purchased commercial insurance for general liability, property and casualty and health claims and participates in the MASB/SET-SEG (risk pool) for claims relating to employee injuries/workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

13. PROPERTY TAXES

Property taxes are assessed as of December 31, and attach as an enforceable lien on property as of December 1 of the following year. Taxes are levied on December 1 by township governments whose boundaries include property within the District and are due on February 14. Delinquent real taxes are advanced to the District by the Revolving Tax Funds of the counties involved.

MADISON SCHOOL DISTRICT

Notes to Financial Statements

14. RETIREMENT PLAN

General Information about the Pension Plan

Plan Description. The District contributes to the Michigan Public School Employees Retirement System (“MPSERS”), a cost-sharing multiple-employer pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems with oversight from a 12-member board. Benefit provisions are established and may be amended by state statute. The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report can be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling (517) 322-5103.

Participants are enrolled in one of multiple plans based on date of hire and certain voluntary elections. A summary of the pension plans offered by MPSERS is as follows:

Plan Name	Plan Type	Plan Status
Member Investment Plan (MIP)	Defined Benefit	Closed
Basic	Defined Benefit	Closed
Pension Plus	Hybrid	Open
Defined Contribution	Defined Contribution	Open

The *Member Investment Plan* (MIP) includes additional subgroups based on hire date. The *MIP Fixed* plan includes members hired prior to January 1, 1990. The *MIP Graded* plan includes members first hired from January 1, 1990 through June 30, 2008. The *MIP Plus* plan includes members first hired from July 1, 2008 through June 30, 2010. Members who initially enrolled in the MIP plan and made a voluntary election to contribute a higher rate are participants in the *MIP 7%* plan.

Members hired between July 1, 2010 and September 3, 2012 were enrolled in the *Pension Plus* plan. Members hired on or after September 4, 2012 are automatically enrolled in this plan unless an election is made to participate in the defined contribution plan. The plan includes a pension component as well as a savings component. Member contributions to the savings component are matched at a rate of 50% by the employer (up to a maximum of 1%) and invested in a 401(k) plan.

Effective February 1, 2013, members that initially enrolled in MIP were provided the option to convert to a defined contribution plan (*Basic 4%*). In these instances, any service credit accumulated under the defined benefit plan before February 1, 2013 is retained. For service performed after this date, the converted plan member receives 4% employer contributions to a personal 401(k) account.

A member first enrolling in MPSERS on or after September 4, 2012 may elect to enroll in the *defined contribution* plan. Employer and employee contribution rates and vesting requirements are consistent with the defined contribution component of the Pension Plus plan as described above.

MADISON SCHOOL DISTRICT

Notes to Financial Statements

Benefits Provided. MPSERS provides retirement, death, disability and postemployment benefits to eligible participants. Retirement benefits are calculated as a percentage of the employee's final average compensation times the employee's years of service. All participants qualify for a benefit multiplier of 1.5% for the first 30 years of service. Certain benefit groups receive a reduced rate of 1.25% for service above 30 years. Disability benefits are calculated the same as regular service retirement. Participants are eligible to receive full retirement benefits upon reaching the age and years of service requirements below. Most plans offer additional options for early retirement if certain stipulations have been met. Voluntary contributions vest immediately.

Plan	Eligibility Based on Years of Service	Vesting
Member Investment Plan (MIP)	Age 46 with 30 years or age 60 with 10 years	10 years
Basic	Age 55 with 30 years or Age 60 with 10 years	10 years
Pension Plus	Age 60 with 10 years	4 years
Defined Contribution	Age 46 with 30 years or age 60 with 10 years	4 years

Contributions. Employer contributions to the plans are based on a percentage of covered payroll that has been actuarially determined as an amount that, when combined with employee contributions, is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Member contributions are determined based on date of hire and the plan selected. In addition, the District is invoiced monthly an amount that approximates 7.63% of covered payroll for "MPSERS UAAL Stabilization." This additional contribution is offset by monthly State aid payments equal to the amounts actually billed by the Office of Retirement Services. For the plan year ended September 30, 2015, an additional 1.13% MPSERS liability prepayment was invoiced as a one-time cost. Employer contribution requirements for pension, inclusive of the MPSERS UAAL Stabilization and one-time prepayment rates, ranged from 27.52% to 31.83% of covered payroll. Plan member contributions range from 0.0% to 7.0% of covered payroll.

The District's contribution to MPSERS under all pension plans for the year ended June 30, 2015, inclusive of the MPSERS UAAL Stabilization and one-time prepayment rates, was \$2,648,947.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the District reported a liability of \$21,919,983 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2013. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At September 30, 2014, the District's proportion (as calculated by MPSERS) was 0.09952%.

MADISON SCHOOL DISTRICT

Notes to Financial Statements

For the year ended June 30, 2015, the District recognized pension expense of \$1,775,452. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Changes in assumptions	\$ 808,800	\$ -	\$ 808,800
Net difference between projected and actual earnings on pension plan investments	-	2,423,263	(2,423,263)
Changes in proportionate share	-	491	(491)
	<u>808,800</u>	<u>2,423,754</u>	<u>(1,614,954)</u>
District contributions subsequent to the measurement date	<u>2,426,897</u>	<u>-</u>	<u>2,426,897</u>
Total	<u><u>\$ 3,235,697</u></u>	<u><u>\$ 2,423,754</u></u>	<u><u>\$ 811,943</u></u>

The amount of deferred outflows of resources related to District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ended June 30,	Amount
2016	\$ (395,631)
2017	(395,631)
2018	(395,631)
2019	<u>(428,061)</u>
Total	<u><u>\$ (1,614,954)</u></u>

Actuarial Assumptions. The total pension liability in the September 30, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage inflation	3.5%
Salary increases	3.5% to 12.3%, including wage inflation at 3.5%
Investment rate of return	8.0% (7.0% for the Pension Plus plan)
Cost of living adjustments	3.0% annual, non-compounded for MIP members
Healthcare cost trend rate	8.5% year 1 graded to 3.5% year 12

The mortality table used in this valuation was the 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.

MADISON SCHOOL DISTRICT

Notes to Financial Statements

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, 2014 valuation.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each 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. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Domestic equity pools	28.00%	4.80%	1.34%
Private equity pools	18.00%	8.50%	1.53%
International equity pools	16.00%	6.10%	0.98%
Fixed income pools	10.50%	1.50%	0.16%
Real estate and infrastructure pools	10.00%	5.30%	0.53%
Real return, opportunistic, and absolute pools	15.50%	6.30%	0.98%
Short-term investment pools	<u>2.00%</u>	-0.20%	<u>-0.02%</u>
	<u>100.00%</u>		5.50%
Inflation			<u>2.50%</u>
Investment rate of return			<u>8.00%</u>

Discount Rate. The discount rate used to measure the total pension liability was 8.0%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that District contributions will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. 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.

MADISON SCHOOL DISTRICT

Notes to Financial Statements

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The following presents the net pension liability of the District, calculated using the discount rate of 8.0%, as well as what the District’s net pension liability would be if it were calculated using a discount rate that is 1% lower (7.0%) or 1% higher (9.0%) than the current rate:

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
District's proportionate share of the net pension liability	\$ 28,899,589	\$ 21,919,983	\$ 16,039,562

Pension Plan Fiduciary Net Position. Detailed information about the pension plan’s fiduciary net position is available in the separately issued MPERS financial statements available on the State of Michigan Office of Retirement Services website at www.michigan.gov/orsschools.

Payable to the Pension Plan. At June 30, 2015, the District reported a payable of \$339,171 for the outstanding amount of pension contributions to the Plan required for the year ended June 30, 2015.

Other Postemployment Benefits

Retirees enrolled in MPERS before September 4, 2012 have the option of participating in the *Premium Subsidy* plan, a defined benefit postemployment healthcare plan, which is funded by employers on a cash disbursement basis. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPERS with the balance deducted from the monthly pension. Employer contributions range from 2.20% to 2.71% of covered payroll. Plan participants contribute 3% of covered payroll to the Retiree Healthcare Fund. At retirement, these individuals receive a subsidy for healthcare premiums that covers up to 80% of cost.

Plan members enrolled on or after September 4, 2012 participate in the *Personal Healthcare Fund*. This defined contribution other postemployment benefits plan includes a required 2% employee contribution into a personal tax-deferred account, which is matched by an additional 2% employer contribution. Employees are fully vested in these contributions which can be used, along with earnings thereon, to pay for postemployment healthcare expenses. Plan members working prior to September 4, 2012 were given the option to convert from the Premium Subsidy plan to the Personal Healthcare Fund option. Effective February 1, 2013, these members are no longer required to make the 3% employee contribution. Amounts paid into the Retiree Healthcare Fund between September 4, 2012 and February 1, 2013 were credited to each individual’s Personal Healthcare Fund account. Any contributions made prior to September 4, 2012 are pending a Supreme Court resolution.

The District’s contributions to MPERS for other postemployment benefits amounted to \$272,930 for the year ended June 30, 2015.

15. RESTATEMENT

The District adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, in the current year. As a result of this change, beginning net position of governmental activities was decreased by \$21,470,102.



REQUIRED SUPPLEMENTARY INFORMATION

MADISON SCHOOL DISTRICT

Required Supplementary Information MPERS Cost-Sharing Multiple-Employer Plan

Schedule of the District's Proportionate Share of the Net Pension Liability

	Year Ended June 30, 2015
District's proportion of the net pension liability	0.09952%
District's proportionate share of the net pension liability	\$ 21,919,983
District's covered-employee payroll	8,576,648
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	255.58%
Plan fiduciary net position as a percentage of the total pension liability	66.20%

The amounts presented for each fiscal year were determined as of September 30 of the preceding year.

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

MADISON SCHOOL DISTRICT

Required Supplementary Information MPSERS Cost-Sharing Multiple-Employer Plan

Schedule of District Contributions

	Year Ended June 30, 2015
Contractually required contribution	\$ 2,648,947
Contributions in relation to the contractually required contribution	<u>(2,648,947)</u>
Contribution deficiency (excess)	<u>\$ -</u>
District's covered-employee payroll	\$ 8,611,789
Contributions as a percentage of covered employee payroll	30.76%

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

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COMBINING FUND FINANCIAL STATEMENTS

MADISON SCHOOL DISTRICT

Combining Balance Sheet Nonmajor Governmental Funds June 30, 2015

	Special Revenue	Debt Service	Capital Project	
	School Lunch Fund	2011 Issue Fund	Bond Sinking Fund	Totals
Assets				
Cash and cash equivalents	\$ 157,643	\$ 15,767	\$ 196,767	\$ 370,177
Receivables	1,450	-	-	1,450
Due from other funds	-	31	-	31
Inventory	9,407	-	-	9,407
Total assets	\$ 168,500	\$ 15,798	\$ 196,767	\$ 381,065
Liabilities				
Due to other funds	\$ 7,279	\$ -	\$ -	\$ 7,279
Unearned revenue	1,741	-	-	1,741
Total liabilities	9,020	-	-	9,020
Fund balances				
Nonspendable	9,407	-	-	9,407
Restricted	150,073	15,798	196,767	362,638
Total fund balances	159,480	15,798	196,767	372,045
Total liabilities and fund balances	\$ 168,500	\$ 15,798	\$ 196,767	\$ 381,065

MADISON SCHOOL DISTRICT

Combining Statement of Revenues, Expenditures and Changes in Fund Balances Nonmajor Governmental Funds For the Year Ended June 30, 2015

	Special Revenue	Debt Service	Capital Project	
	School Lunch Fund	2011 Issue Fund	Bond Sinking Fund	Totals
Revenues				
Local sources:				
Property taxes	\$ -	\$ 258,194	\$ 214,832	\$ 473,026
Interest	208	3	234	445
Food sales	125,159	-	-	125,159
State sources	60,404	-	-	60,404
Federal sources	650,532	-	-	650,532
Total revenues	<u>836,303</u>	<u>258,197</u>	<u>215,066</u>	<u>1,309,566</u>
Expenditures				
Current -				
Food service	778,734	-	-	778,734
Debt service:				
Principal	-	135,000	-	135,000
Interest and fiscal charges	-	135,420	-	135,420
Capital outlay	207,340	-	144,540	351,880
Total expenditures	<u>986,074</u>	<u>270,420</u>	<u>144,540</u>	<u>1,401,034</u>
Net change in fund balances	(149,771)	(12,223)	70,526	(91,468)
Fund balances, beginning of year	<u>309,251</u>	<u>28,021</u>	<u>126,241</u>	<u>463,513</u>
Fund balances, end of year	<u>\$ 159,480</u>	<u>\$ 15,798</u>	<u>\$ 196,767</u>	<u>\$ 372,045</u>

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SINGLE AUDIT ACT COMPLIANCE

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INDEPENDENT AUDITORS' REPORT ON THE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY OMB CIRCULAR A-133

November 2, 2015

Board of Education
Madison School District
Adrian, Michigan

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of *Madison School District* (the "District") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated November 2, 2015, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



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MADISON SCHOOL DISTRICT

Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2015

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Approved Awards Amount
U.S. Department of Agriculture				
Child Nutrition Cluster:				
Non-Cash Assistance:				
Commodities	10.555	MDE	-n/a-	\$ 49,045
Cash Assistance:				
National School Lunch Breakfast	10.553	MDE	151970	164,471
National School Lunch Program	10.555	MDE	141980/151980	426,763
Child Care Food Program - Cash in lieu	10.558	MDE	151920/152010	10,253
Total U.S. Department of Agriculture				
U.S. Department of Education				
Title I, Part A:				
Regular 14/15	84.010	MDE	151530-1415	301,381
Title VI, Part B:				
Regular 14/15	84.358	MDE	150660-1415	55,882
Title II, Part A:				
Regular 14/15	84.367	MDE	150520-1415	50,565
Total U.S. Department of Education				
U.S. Department of Health and Human Services				
Medicaid Outreach	93.778	LISD	-n/a-	2,952
Total Federal Financial Assistance				

See notes to schedule of expenditures of federal awards.

Accrued (Unearned) Revenue at July 1, 2014	Federal Funds / Payments In-Kind Received	Expenditures (Memo Only) Prior Year(s)	Expenditures	Accrued (Unearned) Revenue at June 30, 2015
\$ -	\$ 49,045	\$ 48,842	\$ 49,045	\$ -
-	164,471	-	164,471	-
-	426,763	-	426,763	-
-	640,279	48,842	640,279	-
-	10,253	-	10,253	-
-	699,577	97,684	699,577	-
-	261,153	-	277,219	16,066
-	55,882	-	55,882	-
-	42,055	-	50,565	8,510
-	359,090	-	383,666	24,576
-	2,952	8,808	2,952	-
<u>\$ -</u>	<u>\$ 1,061,619</u>	<u>\$ 106,492</u>	<u>\$ 1,086,195</u>	<u>\$ 24,576</u>

MADISON SCHOOL DISTRICT

Notes to Schedule of Expenditures of Federal Awards

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Madison School District (the "District") under programs of the federal government for the year ended June 30, 2015. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

2. 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 OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

Cash received is recorded on the cash basis; expenditures are recorded on the modified accrual basis of accounting. Revenues are recognized when the qualifying expenditures have been included and all grant requirements have been met.

The Schedule has been arranged to provide information on both the actual cash received and the revenue recognized. Accordingly, the effects of accruals of accounts receivable, unearned revenue and accounts payable items at both the beginning and the end of the fiscal year have been reported.

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

3. PASS-THROUGH AGENCIES

The District receives certain federal grant as subawards from non-federal entities. Pass-through entities, where applicable, have been identified in the Schedule with an abbreviation, defined as follows:

Pass-through Agency Abbreviation	Pass-through Agency Name
MDE	Michigan Department of Education
LISD	Lenawee Intermediate School District



INDEPENDENT AUDITORS' 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*

November 2, 2015

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, the major fund, and the aggregate remaining fund information of *Madison School District* (the "District"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 2, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 entity'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 charged 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as items 2015-001 and 2015-002 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

Madison School District’s Responses to Findings

The District’s responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District’s responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 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 entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

November 2, 2015

Board of Education
Madison School District
Adrian, Michigan

Report on Compliance for the Major Federal Program

We have audited the compliance of *Madison School District* (the "District") with the types of compliance requirements described in the *2 CFR 200 Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended June 30, 2015. The District's major federal program is identified in the summary of auditors' 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.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance of the District's major federal program 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 its major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on the Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of the 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 the 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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



MADISON SCHOOL DISTRICT

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2015

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? _____ yes X no

Significant deficiency(ies) identified? X yes _____ none reported

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? _____ yes X none reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)? _____ yes X no

Identification of major programs:

CFDA Number

10.553 & 10.555

Name of Federal Program or Cluster

Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

X yes _____ no

MADISON SCHOOL DISTRICT

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2015

SECTION II - FINANCIAL STATEMENT FINDINGS

2015-001 - Preparation of Financial Statements in Accordance with GAAP

Finding Type. Significant deficiency in internal controls over financial reporting.

Criteria. Management is required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the District's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting in the form of financial statements, including the related footnotes and other disclosures (i.e., external financial reporting.)

Condition. As is the case with many Districts, the District has historically relied on its independent external auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process. Accordingly, the District's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the District's internal controls.

Cause. This condition was caused by the District's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the District to perform this task internally.

Effect. As a result of this condition, the District lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

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

MADISON SCHOOL DISTRICT

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2015

SECTION II - FINANCIAL STATEMENT FINDINGS

2015-002 - Segregation of Duties

Finding Type. Significant deficiency in internal controls over financial reporting.

Criteria. Management is responsible for establishing and maintaining effective internal controls in order to safeguard the assets of the District. A key element of internal control is the segregation of incompatible duties within the accounting function.

Condition. Journal entries (a transaction type that has additional risk as it bypasses the established control over receipts, disbursements, and payroll) are not subjected to review and approval by an independent employee or administrator.

Cause. This condition is the result of the assignment of staff responsibilities and staffing constraints typical of smaller governments.

Effect. As a result of this condition, the District is exposed to increased risk that misstatements, whether caused by error or fraud, could occur and not be detected by management on a timely basis.

Recommendation. We recommend that the District implement a procedure whereby journal entries are independently reviewed and approval by an individual other than the preparer. In order to demonstrate that this review process has occurred, the documentation should be signed/initialed and dated by both the preparer and reviewer.

View of Responsible Officials. The District currently has a staff of three individual in the Business office making it difficult to achieve an ideal segregation of duties. The District has considered the need to separate the various accounting and recordkeeping functions. Where possible, the District has cross-trained employees to reconcile the accounts that different people have responsibility for. The District has established guidelines for supervisory approval of all invoices. In addition, the payments receive a review and approval by the Board prior to the issuance of all checks. The District will continue to pursue other measures that may be taken to strengthen internal controls.

MADISON SCHOOL DISTRICT

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2015

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.



MADISON SCHOOL DISTRICT

■ Summary Schedule of Prior Audit Findings For the Year Ended June 30, 2015

2014-001 - Segregation of Duties

The District has an inadequate number of personnel to accomplish a proper segregation of duties. This finding has been repeated as item 2015-002.

2014-002 - Preparation of Financial Statements in Accordance with GAAP

The District does not currently have personnel with a level of knowledge or expertise to prepare the District's external financial statements. This finding has been repeated as item 2015-001.



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