

MADISON SCHOOL DISTRICT
Report on Financial Statements
(With required supplementary and other supplemental
Information and Single Audit Supplement
Required by the Uniform Guidance)

Year Ended June 30, 2022

**Madison School District
Financial Report
For the Fiscal Year Ended
June 30, 2022**

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June 30, 2022**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Madison School District
Adrian, Michigan

Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Madison School District (the School District) as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Schools District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the School District, as of June 30, 2022, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the School District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Management's Responsibility for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the School District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the School District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the major fund budgetary comparison, the schedules of the School District's share of the net pension liability and pension contributions, the schedules of the School District's share of the net postemployment benefit other than pensions (OPEB) liability and OPEB contributions and the notes to required supplemental information, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the

Governmental Accounting Standards Board, 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 School District's basic financial statements. The other supplemental information, as identified in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 other supplemental information is 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 October 3, 2022 on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School District's 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 School District's internal control over financial reporting and compliance.

Haven Group CPAs & Advisors

Haven Group CPAs & Advisors
Taylor, Michigan
October 3, 2022

**MADISON SCHOOL DISTRICT - ADRIAN, MICHIGAN
MANAGEMENT AND DISCUSSION LETTER
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

Our discussion and analysis of Madison School District's (the School District) financial performance provides an overview of the School District's financial activities in the fiscal year ended June 30, 2022. The School District implemented GASB requirements in the June 30, 2022 audit as required by the Governmental Accounting Standards Board (GASB). Please read it in conjunction with the School District's financial statements, which immediately follow this section.

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

USING THIS ANNUAL REPORT

The School District's Annual Report consists of a series of financial statements that show information for the School District as a whole, its funds, and its fiduciary responsibilities. The *Government Wide Financial Statements*, which include the **Statement of Net Position** and the **Statement of Activities** provide information about the district as a whole and present a longer-term view of the School District's finances. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The *Fund Financial Statements* provide detailed information about the School District's most significant funds not the School District as a whole.

Reporting the School District as a whole

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

**MADISON SCHOOL DISTRICT - ADRIAN, MICHIGAN
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FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

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

The **Statement of Net Position** and **Statement of Activities** report the governmental activities and business-type activities. These statements for the School District will include only governmental activities, which encompass all of the School District's services including instruction, supporting services, athletics, and food service. Property taxes, unrestricted State Aid (foundation allowance revenue) and State and Federal grants finance most of these activities.

Reporting the School District's most significant funds

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

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

Fund types include the General Fund, Special Revenue Fund, Debt Retirement Fund, and Capital Projects Fund. The General Fund is used primarily to account for the general education requirements of the School District. Its revenues are derived from property taxes, state and federal distributions and grants and other intergovernmental revenues. The Debt Fund is used to record the funding and payment of principal and interest on Bonded Debt. The Special Revenue Fund is used to record the funding and expenditures of monies specified for a specific purpose (Food Service). The Capital Project Fund is used to record the funding and expenditures related to capital outlay.

**MADISON SCHOOL DISTRICT - ADRIAN, MICHIGAN
MANAGEMENT AND DISCUSSION LETTER
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

The School District as a Whole

The School District's net position was \$(13,782,568) at the end of June 30, 2022 and (\$17,024,694) as of June 30, 2021, representing a decrease in net deficits of \$3,242,126. Of the total amount (\$29,449,104) was unrestricted. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those funds for day-to-day operations. Our analysis below focuses on the **Net Position** (Table 1) and **Change in Net Position** (Table 2) of the School District's governmental activities.

Net Position (Table 1)		
	2022	2021
Assets:		
Current assets	\$ 10,066,139	\$ 8,955,264
Noncurrent assets	17,634,094	17,774,226
Total assets	27,700,233	26,729,490
Deferred Outflows of Resources		
Deferred pension amounts	5,155,503	7,811,278
Deferred OPEB amounts	2,129,279	2,696,917
	7,284,782	10,508,195
Total assets and deferred outflows of resources	34,985,015	37,237,685
Liabilities:		
Current liabilities	2,320,121	2,296,554
Noncurrent liabilities	30,052,739	45,670,933
Total liabilities	32,372,860	47,967,487
Deferred Inflows of Resources related to pension		
Deferred pension amounts	8,549,895	1,866,298
Deferred OPEB amounts	7,844,828	4,428,594
	16,394,723	6,294,892
Total liabilities and deferred inflows of resources	48,767,583	54,262,379
Net position:		
Net investment in capital assets	14,109,148	13,962,513
Restricted for School Lunch program	1,389,430	784,516
Restricted for Debt Service	1,990	58,226
Restricted for Capital Projects	165,968	272,406
Unrestricted	(29,449,104)	(32,102,355)
Total net position (deficit)	\$ (13,782,568)	\$ (17,024,694)

**MADISON SCHOOL DISTRICT - ADRIAN, MICHIGAN
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The Statement of Activities presented later in the government-wide financial statement, provides greater detail on the School District's annual activity. The Statement of Activities (Table 2) shown below details the cost of the School District's governmental activities and how those activities were financed.

Table 2		
Changes in Madison School District's Net Position		
	2022	2021
Revenues:		
Program revenues:		
Operating and grants contribution	\$ 7,468,010	\$ 6,841,485
Charges for services	893,814	391,947
General revenues:		
Property taxes	2,568,288	2,552,270
State aid - unrestricted	11,606,647	11,168,858
Investment income	26,667	16,858
Total revenues	<u>22,563,426</u>	<u>20,971,418</u>
Expenses:		
Instruction	11,546,916	13,037,624
Support services	4,388,634	4,189,707
Community services	98,783	37,396
COVID	736,468	1,309,130
Food services	727,284	388,500
Athletics	559,869	926,212
Interest expense	154,127	165,806
Other	8,451	-
Unallocated depreciation	1,100,768	1,042,035
Total expenses	<u>19,321,300</u>	<u>21,096,410</u>
Change in net position	<u>\$ 3,242,126</u>	<u>\$ (124,992)</u>
Net position, beginning of year	<u>\$ (17,024,694)</u>	<u>\$ (16,899,702)</u>
Net position (deficit), end of year	<u>\$ (13,782,568)</u>	<u>\$ (17,024,694)</u>

Financial Analysis of the School District's Funds

The financial performance of the district as a whole is reflected in its governmental funds as well.

**MADISON SCHOOL DISTRICT - ADRIAN, MICHIGAN
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GENERAL FUND

Factors affecting Revenue

State Aid funding -The State of Michigan provides a \$8,700 per pupil foundation allowance that provides a substantial portion of our district's revenue, 75%. In addition, we also receive various grants from the state. This means that the financial stability of the School District rests primarily with the economic health of the State of Michigan. State aid payments are made with the first payment of the school year beginning in October, and the last payment being made in August. Therefore, at the end of the School District's fiscal year end, there is an adjustment made that includes 2 months of state aid payments into revenue that has not yet been made.

Sinking Fund Millage – Revenues are generated by taxes going toward building improvements.

Schools of Choice – The School District has an agreement with the other public schools in Lenawee County to implement Lenawee County Schools of Choice (Open Enrollment) program.

Factors affecting Expenses

- *Salaries and Benefits* - A significant portion of the School District's expenses are related to compensation, 86% in 2021-22.
- *Instructional purchases* - Another part of each year's budgetary expenditure includes textbooks and supplemental learning materials, supplies, and purchased services.
- *Operation and Maintenance* - Each year's budgetary expenditures also include the general operation and maintenance of our school buildings.

General Fund Budgetary Highlights

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

**MADISON SCHOOL DISTRICT - ADRIAN, MICHIGAN
MANAGEMENT AND DISCUSSION LETTER
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Original Budget versus Final Budget

- *Revenues*-Original estimated budgets for revenues were \$18,154,102 versus the final budget of \$20,052,827.
 - Original budget did not account for the increased Federal covid revenue we received.
- *Expenditures* – The original budget for expenditures was \$18,420,503 versus the final budget of \$19,996,546.

Final Budget versus Actual Figures

- The majority (about 70%) of *Local Revenues* are property taxes received from three townships including Adrian, Madison and Palmyra and the City of Adrian.
- *State Revenues* were budgeted at \$14,562,042 versus actual of \$15,125,050. This was an increase of \$563,008.
- *Federal Revenues* were budgeted at \$1,207,533 versus actual of \$1,208,517. This was an increase of \$984.
- *Overall revenues* were over budget by \$567,249 from the final budget amounts. This was a favorable variance of 2.8% compared to the total revenue budget of \$20,052,827.
- *Expenses*- Final estimated budgets for expenses were \$19,996,546 versus an actual final amount of \$19,914,389. The overall variation from final budget to actual was \$82,157 favorable variance.

**MADISON SCHOOL DISTRICT - ADRIAN, MICHIGAN
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SPECIAL REVENUE FUND

School Lunch Fund-The School Lunch Fund receives its revenues from the sale of goods, State reimbursement and federal grants.

CAPITAL PROJECT FUND

This fund consisted of sinking fund and the capital project energy fund. The sinking fund is restricted for improvements to the School District. At the end of the fiscal year 2021-22 there was a fund balance of \$165,968.

On August 10, 2018, the School District entered into an equipment lease purchase agreement (Agreement) that was reported as capital lease obligation. For the fiscal year ended June 30, 2022 the School District adopted the provisions of GASB 87 and is now recording the equipment lease as a financing lease and the underlying asset as a right to use asset (see Note 1 for additional details related to adoption of GASB 87). The proceeds from the Agreement are restricted for the energy conservation improvement of the School District. At the end of the fiscal year 2021-2022, there was a fund balance of \$0 as the project has been completed and assets are placed in service (detailed information about the School District's Capital Project Energy Fund is presented in Note 7 of the financial statements).

DEBT SERVICE FUND

This fund is directly funded through taxes. For fiscal year 2021-22 the collection of property taxes for the retirement of principal and interest relating to the School District was \$232,458. Principal and interest requirements for the 2021-22 retirement was \$291,575.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets- At June 30, 2022, the School District had \$17,634,094 invested in capital assets, net of accumulated depreciation. The School District had bonded debt outstanding of \$2,185,000, unamortized bond discount of \$20,094 and outstanding financing lease obligation of \$1,459,040. Net investments in capital assets as of June 30, 2022 were \$14,109,148. Assets, net of accumulated depreciation decreased in the current year and will continue to decrease as assets on the books depreciate.

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The School District's capital assets are as follows:

Table 3 Madison School District's Capital Assets				
	Cost	Accumulated Depreciation	2022 Net Book Value	2021 Net Book Value
Land	\$ 912,065	\$ -	\$ 912,065	\$ 912,065
Building and Improvements	26,214,458	11,117,079	15,097,379	15,916,565
Machinery and Equipment	4,544,981	3,968,347	576,634	639,424
Transportation Equipment	984,591	628,907	355,684	306,172
Construction in Progress	692,332	-	692,332	-
Total	<u>\$ 33,348,427</u>	<u>\$ 15,714,333</u>	<u>\$ 17,634,094</u>	<u>\$ 17,774,226</u>

Long-term debt Activity

At year-end, the School District had outstanding long-term debt obligations in the amount of \$2,602,665 (more detailed information about the School District's long-term liabilities is presented in Note 8 of the financial statements.)

Table 4 Madison School District's Outstanding Long-Term Debt		
	2022	2021
2011 Building and Site Bond	\$ 2,185,000	\$ 2,375,000
Unamortized bond discount	(20,094)	(22,327)
Compensated absences	437,759	437,759
Total	<u>\$ 2,602,665</u>	<u>\$ 2,790,432</u>

The School District's long-term debt decreased by \$187,767 the key factors in this decrease was the net effect of the principal payment on the 2011 building and site bond.

**MADISON SCHOOL DISTRICT - ADRIAN, MICHIGAN
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Economic Factors and Next Year's Budgets and Rates

The following factors will affect the School District in the future and were considered in preparing the School District's budget for the 2022-2023 fiscal year:

One of the most important factors affecting the budget is our student enrollment. The other is the state foundation revenue determined by multiplying the blended student count by the per pupil foundation allowance. The 2022-2023 budget was adopted in June 2022, based on the super blend formula. This formula is a blended count based on 3 actual counts (Spring 2021, Fall 2021, & Spring 2022) and 1 estimated (Fall 2022). At that time, we anticipated the fall 2022 student count would be consistent with the prior fall 2021 count.

In an effort to sustain student enrollment and maximize funding from the state, Madison School District continues to provide opportunities to students through Schools of Choice.

The State School Aid Act for 2021-2022 was \$8,700. The state aid budget for 2022-2023 has an estimated increase in our foundation allowance of \$450, which would bring our new foundation allowance to \$9,150. Under state law, the District cannot assess additional property tax revenue for general operations. As a result, District funding is heavily dependent on the State's ability to fund local school operations and on its total student enrollment. Since over 75% of the total General Fund revenues are from the foundation allowance, school districts are in a position to compete for its share of a dwindling enrollment base. Statewide there has been lower revenue from income, sales, and property taxes. Additionally, the School District has been challenged by increased fixed costs such as retirement and health care

Prudent fiscal responsibility and cost containment remain critical to the School District's ability to effectively operate in a difficult economic climate. Over the past few years, the School District has made a series of budget adjustments to protect its financial future. The School District continues to explore avenues that allow it to reduce costs by restructuring its delivery of services. The originally adopted 2022-2023 budget is projected with an excess of \$271,609. The budget was initially created with an increase in foundation allowance of \$400 per student to be conservative.

Contacting the District's Financial Management

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

Business Office Madison School District, 3498 Treat Highway, Adrian, MI 49221.

Madison School District
Statement of Net Position
June 30, 2022

	Governmental Activities
Assets	
Current Assets:	
Cash and equivalents	\$ 2,852,766
Investments	2,850,503
Receivables:	
Accounts receivable	47,071
Due from other governmental units	4,119,984
Inventory	4,739
Restricted assets	191,077
Total Current Assets	<u>10,066,139</u>
Noncurrent Assets:	
Capital assets	33,348,427
Less accumulated depreciation	(15,714,333)
Total Noncurrent Assets	<u>17,634,094</u>
Total Assets	<u>27,700,233</u>
Deferred outflows of resources	
Deferred pension amounts	5,155,503
Deferred OPEB amounts	2,129,279
Total Deferred Outflows of Resources	<u>7,284,782</u>
Total Assets and Deferred Outflows of Resources	<u><u>34,985,015</u></u>
Liabilities	
Current Liabilities:	
Accounts payable	31,568
Accrued interest	23,199
Accrued salary	1,761,974
Unearned revenue	128,592
Current portion of financing lease obligation	99,000
Current portion of compensated absences	78,020
Current portion of long term obligations	197,767
Total Current Liabilities	<u>2,320,121</u>
Noncurrent Liabilities:	
Noncurrent portion of long term obligations	1,967,139
Noncurrent portion of compensated absences	359,738
Noncurrent portion of financing lease obligation	1,360,040
Net Pension Liability	24,760,206
Net OPEB Liability	1,605,616
Total Noncurrent Liabilities	<u>30,052,739</u>
Total Liabilities	<u>32,372,860</u>
Deferred inflows of resources	
Revenue in support of pension contributions made subsequent to the measurement date	1,649,494
Deferred pension amounts	8,549,895
Deferred OPEB amounts	6,195,334
Total Deferred Inflows of Resources	<u>16,394,723</u>
Total liabilities and deferred inflows of resources	<u>48,767,583</u>
Net Position (Deficit):	
Net investment in capital assets	14,109,148
Restricted for student lunch and activities	1,389,430
Restricted for debt service	1,990
Restricted for capital project fund	165,968
Unrestricted (Deficit)	(29,449,104)
Total Net Position (Deficit)	<u><u>\$ (13,782,568)</u></u>

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

Madison School District
Statement of Activities
June 30, 2022

<u>Functions/programs</u>	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants & Contributions	Net (expense) Revenue and Changes in Net Position
Governmental activities:				
Instruction	\$ 11,546,916	\$ 159,910	\$ 3,539,611	\$ (7,847,396)
Support services	4,388,634	483,825	3,928,399	23,590
Community services	92,400	26,867	-	(65,533)
COVID	736,468	-	-	(736,468)
Food services	727,284	31,308	-	(695,976)
Athletics	559,869	185,522	-	(374,347)
Interest expense	154,127	-	-	(154,127)
Other expenses	8,451	-	-	(8,451)
Unallocated depreciation	1,100,768	-	-	(1,100,768)
Total governmental activities	<u>\$ 19,314,917</u>	<u>\$ 887,431</u>	<u>\$ 7,468,010</u>	<u>\$ (10,959,475)</u>
General revenues:				
Property taxes, levied for general purposes				2,057,148
Property taxes, levied for debt service				232,362
Property taxes, levied for capital project fund				278,777
Investment earnings				26,667
State of Michigan school aid unrestricted				11,606,647
Total general revenues				<u>14,201,601</u>
Change in net position (Decrease)				3,242,126
Net position, beginning of year (Deficit)				<u>(17,024,694)</u>
Net position, end of year (Deficit)				<u>\$ (13,782,568)</u>

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

**Madison School District
Balance Sheet
Governmental Funds
June 30, 2022**

	General Fund	Other Nonmajor Governmental Fund	Total Governmental Funds
Assets			
Assets:			
Cash and cash equivalents	\$ 1,801,270	\$ 1,051,496	\$ 2,852,766
Investments	2,850,503	-	2,850,503
Receivables			
Accounts	46,852	219	47,071
Other governmental units	4,101,640	18,344	4,119,984
Due from other funds	85	80	165
Inventory	-	4,739	4,739
Restricted assets	-	191,077	191,077
Total Assets	<u>\$ 8,800,350</u>	<u>\$ 1,265,954</u>	<u>\$ 10,066,304</u>
Liabilities, Deferred Inflows of Resources and Fund Balances			
Liabilities:			
Accounts payable	\$ 31,568	\$ -	\$ 31,568
Accrued salary	1,761,974	-	1,761,974
Due to other funds	80	85	165
Unearned revenue	122,278	6,315	128,592
Total Liabilities	<u>1,915,900</u>	<u>6,400</u>	<u>1,922,300</u>
Deferred Inflows of Resources:			
Unavailable revenue	115,485	-	115,485
Total Deferred Inflows of Resources	<u>115,485</u>	<u>-</u>	<u>115,485</u>
Fund Balances:			
Nonspendable inventory	-	4,739	4,739
Restricted for:			
Student lunch and activities	321,033	1,063,658	1,384,692
Debt service	-	25,189	25,189
Capital outlay	-	165,968	165,968
Unassigned reported in general fund	6,447,932	-	6,447,932
Total Fund Balances	<u>6,768,965</u>	<u>1,259,554</u>	<u>8,028,519</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 8,800,350</u>	<u>\$ 1,265,954</u>	<u>\$ 10,066,304</u>

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

Madison School District
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
June 30, 2022

Total governmental fund balances	\$ 8,028,519
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	
The cost of capital assets is:	\$ 33,348,427
Accumulated depreciation is:	<u>(15,714,333)</u> 17,634,094
Long term liabilities are not due and payable in the current period and are not reported in the funds	
Bonds payable	(2,185,000)
Unamortized bond discount	20,094
Compensated absences	(437,758)
Interest payable on long term debt	(23,199)
Capital lease obligation	(1,459,040)
Net pension liability	(24,760,206)
Net OPEB liability	(1,605,616)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.	
Deferred outflow of resources related to pension (see Note 9)	5,155,503
Deferred inflow of resources related to pension (see Note 9)	(8,549,895)
Deferred outflow of resources related to OPEB (see Note 10)	2,129,279
Deferred inflow of resources related to OPEB (see Note 10)	(6,195,334)
Revenue in support of pension contributions made subsequent to the measurement date is reported as a deferred inflow of resources in the statement of net position and is not reported in the funds	(1,649,494)
Receivables collected after 60 days are considered unavailable in the governmental funds.	115,485
Net position of governmental activities (deficit)	<u><u>\$ (13,782,568)</u></u>

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

Madison School District
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
June 30, 2022

	General Fund	Other Nonmajor Governmental Fund	Total Governmental Funds
Revenues:			
Local sources			
Property taxes	\$ 2,057,148	\$ 511,139	\$ 2,568,287
Investment earnings	26,316	351	26,667
Food service	-	31,308	31,308
Athletics	185,522	-	185,522
Charges for services	643,734	-	643,734
Other	15,496	11,371	26,867
Total local sources	2,928,216	554,169	3,482,385
Intermediate sources	1,358,293	-	1,358,293
State sources	15,125,050	21,208	15,146,258
Federal sources	1,208,517	1,356,652	2,565,169
Total revenues	20,620,076	1,932,030	22,552,105
Expenditures:			
Current:			
Instruction	12,873,274	-	12,873,274
Support	5,021,792	-	5,021,792
Community service	92,400	-	92,400
Food service activities	-	874,564	874,564
Athletic activities	624,180	-	624,180
Capital Outlay	410,392	385,472	795,864
Other	736,468	-	736,468
Debt service:			
Principal repayment	96,000	190,300	286,300
Interest & fiscal charges	53,500	101,275	154,775
Total expenditures	19,908,006	1,551,610	21,459,616
Excess (deficiency) of revenues over expenditures:	712,070	380,419	1,092,490
Other financing sources (uses):			
Indirect cost transfer	24,000	(24,000)	-
Total other financing sources (uses):	24,000	(24,000)	-
Net change in fund balance	736,070	356,419	1,092,490
Fund balances:			
Beginning of year	6,032,895	903,135	6,936,029
End of year	\$ 6,768,965	\$ 1,259,554	\$ 8,028,519

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

Madison School District
Reconciliation of the Statement of Revenues,
Expenditures and Changes in Fund Balance of Governmental Fund
To the Statement of Activities
June 30, 2022

Net change in fund balance total governmental fund increase \$ 1,092,490

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures.

In the statement of activities, these costs are allocated over their estimated useful lives as depreciation.

Capital outlay	960,636
Depreciation expense	(1,100,768)

Repayments of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it is a reduction of liabilities).

Current year's amortization of bond discount	(2,233)
Principal repayment on long-term obligations from bonds payable	190,000
Principal repayment on capital lease obligations	96,000

Accrued interest on long-term debt is recorded in the statement of activities when incurred, it is not recorded in the governmental funds until it is paid.

Accrued interest payable beginning of the year	26,080
Accrued interest payable end of the year	(23,199)

Compensated absences are reported on the accrual method in the statement of activities, and recorded as expenditures when financial resources are used in the governmental funds:

Compensated payable beginning of the year	437,758
Compensated payable end of the year	(437,758)

Revenue in support of pension contributions made subsequent to measurement date	(1,649,494)
---	-------------

Change in deferred outflows of resources related to pension	(2,655,775)
---	-------------

Change in deferred inflows of resources related to pension	(6,683,597)
--	-------------

Change in net proportionate share of net pension liability	11,335,646
--	------------

Change in deferred outflows of resources related to OPEB	(567,638)
--	-----------

Change in deferred inflows of resources related to OPEB	(1,766,740)
---	-------------

Change in net proportionate share of net OPEB liability	3,985,781
---	-----------

Governmental funds report revenues when they are collected within 60 days after the year end.

Revenues are recorded in the statement of activities when earned.	4,937
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Change in net position of governmental activities (Decrease)	<u>\$ 3,242,126</u>
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MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

B. Government-Wide and Fund Financial Statements

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

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

**MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

The School District first utilizes restricted resources to finance qualifying activities.

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

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

The School District does not allocate indirect costs.

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

MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

- General fund is the primary operating fund because it accounts for all financial resources used to provide government services other than those specifically assigned to another fund.

**MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Nonspendable fund balance

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

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

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

**MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

- The School District will maintain a fund balance equal to the balance of any land or other nonfinancial assets held for sale.

Restricted fund balance

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

Committed fund balance

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

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

Assigned fund balance

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

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

Unassigned fund balance

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

**MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

The School District reports the following major governmental fund:

The General Fund

Other Non-major Funds

The Special Revenue Fund

The Debt Service Fund

The Capital Project Fund

**MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

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

Accrual Method

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

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Revenue not meeting this definition is classified as deferred inflow of resources. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, pensions and claims and judgments, are recorded only when payment is due.

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

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan.

The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the School Districts. For the year ended June 30, 2022, the foundation allowance was based on pupil membership counts taken in February and October of 2021.

**MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period and is funded through payments from October 2021 to August 2022. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

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

Coronavirus Relief Funds

In August 2020 State School Aid payments, districts received a new allowance line item called "llp - CORONAVIRUS RELIEF FUNDS" equating to \$350 per pupil. Although these funds are coming through State Aid, they are restricted federal funds (making up a portion of Federal Coronavirus Relief Fund (CRF) (CFDA 21.019) usage authorized by Public Act 146 of 2020 signed into law on July 31, 2020). Districts must comply with the federal requirements, including that CRF may only be used to cover costs that were not accounted for in the most recently approved budget as of March 27, 2020. The expenditure period of CRF funds is March 1, 2020 - December 30, 2020. However, since the legislation establishing this funding was not signed into law during districts' 2019-20 fiscal year, these revenues were recognized in 2020-21 financial statements.

D. Other Accounting Policies

1. Cash and Investments.

The School District reports its investments in accordance with GASB 79 *Certain External Investment Pools and Pool Participants*, GASB 40 *Deposit and Investment Risk Disclosures* and GASB 72 *Fair Value Measurements*. Under these standards, certain investments are valued at fair value as

**MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the School District intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

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

The School District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. At June 30, 2022, the School District had total investments of \$2,850,503 in investment accounts, external investment pools, federated government obligation fund and money market deposit account.

2. Property Taxes

Property taxes levied by the School District are collected by various municipalities and periodically remitted to the School District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer. The actual due dates are September 14 and February 28, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2022, the School District levied the following amounts per \$1,000 of assessed valuation.

**MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

<u>Fund</u>	<u>Mills</u>
General Fund -Non Personal Residence and commercial property	18.00
2011 Debt - total taxable value	1.25
Sinking Fund - total taxable value	1.50

3. Inventories and Prepaid Expenditures

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

4. Restricted Assets

The unspent property taxes levied and mandatory deposits held in the debt service funds are required to be set aside for future bond principal and interest payments. Unspent bond proceeds and related interest of the bonded capital projects funds are required to be set aside for allowable bond purchases. Unspent capital lease obligation proceeds and related interest of the capital lease funds are required to be set aside for the energy conservation projects. These amounts have been classified as restricted assets.

5. Capital Assets

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

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

**MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Other Accounting Policies (Continued)

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

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

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

6. Deferred Outflows/Inflows

In addition to assets, the statement of net position and/or balance sheet 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. At June 30, 2022, the School District's statement of net position had deferred outflows of resources related to deferred pension plan expenses and deferred post-employment benefits other than pension expenses (OPEB), totaling \$5,155,503 and \$2,129,279, respectively.

In addition to liabilities, the statement of net position and/or 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 then. At June 30, 2022, the School District's statement of net position had deferred inflows of resources related to its pension plan, revenue in support of pension payments made subsequent to the measurement date and deferred inflows of resources related to its OPEB plan totaling \$8,549,895, \$1,649,494 and \$6,195,334, respectively. Furthermore, at June 30, 2022, the School District's balance sheet had deferred inflows of resources related to unavailable revenue totaling \$115,485.

7. Compensated absences

The liability for compensated absences reported in the government wide statement consists of earned and unused sick days. A liability for this amount is reported in the governmental funds as it comes due for payment. The

MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

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.

8. Long term obligations

In the government-wide financial statements, long-term debt obligations are reported as liabilities on the statement of net position. Bond premiums and discounts, as well as deferred charges on refunding, are deferred and amortized over the life of the debt using the straight-line method over the term of related debt. The difference between the reacquisition price and the net carrying amount of the old debt are reported as a deferred outflow of resources or deferred inflow of resources. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance cost is reported as debt expenditures at the time they are incurred.

In the fund financial statements, governmental fund types recognize debt premiums and discounts, as well as debt issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on 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 debt proceeds received, are reported as debt service expenditures.

9. 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 Michigan Public School Employees Retirement System (MPERS), and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

10. Fair Value Measurements

The School District is required to disclose amounts within a framework established for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1: Quoted prices in active markets for identical securities.

Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include prices for similar securities, interest rates, prepayment speeds, credit risk and others.

Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant, unobservable inputs may be used. Unobservable inputs reflect the Academy's own assumptions about the factors market participants would use in pricing an investment and would be based on the best information available.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The School District's investment from the money market deposit account and federated government obligation fund is valued as Level 2 inputs and Level 1 inputs, respectively. However, the School District's investment from Michigan CLASS and Michigan Liquid Asset Fund that are classified as external investment pool and measured at fair value and amortized cost, respectively, are not required to be categorized within the fair value hierarchy for purposes of paragraph 81a(2) of GASB Statement 72.

**MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

11. Use of Estimates

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

12. Postemployment Benefits Other Than Pensions

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

13. New and Upcoming Accounting Pronouncements

In June 2017, the Governmental Accounting Standards Board issued GASB Statement No. 87 ("GASB 87"), *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. For the fiscal year ended June 30, 2022 the School District adopted the provisions of GASB 87. An existing equipment lease previously recorded as a capital lease is now reported as a financing lease on the School District's statement of net position (See Note 7).

**MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

In May 2020, the Governmental Accounting Standards Board issued GASB Statement No. 96 (“GASB 96”), *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. A SBITA is defined as a contract that conveys control of the right to use another party’s (a SBITA vendor’s) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022. The School District is currently evaluating the impact this Statement will have on the School District’s financial statements when adopted.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund. See “Budgetary Comparison Schedule” in Required Supplementary Information section for details.

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

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

MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

(Continued)

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. The Superintendent and Business Manager are authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund.
6. The budget was amended during the year with supplemental appropriation, the last one approved prior to June 30, 2022. The School District does not consider these amendments to be significant.

Sinking Fund Compliance

Sinking Fund – The Sinking Fund records capital project activities funded with Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of Section 1212 of the Revised School Code.

MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 3 - DEPOSITS AND INVESTMENTS

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the deposits may not be returned to the School District. The School District does not have a deposit policy for custodial credit risk. As of June 30, 2022, \$2,921,855 of the School District's bank balance of \$3,171,855 (money market deposit account, savings and checking accounts) that were uninsured and uncollateralized. The School District believes due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits.

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

As of June 30, 2022, the School District's investments balance from external investment pool amounting to \$2,850,503 were uninsured and uncollateralized.

Interest rate risk – Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The School District Policy minimizes interest rate risk by requiring the School District to structure the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools, and limiting the average maturity in accordance with the School District's cash requirements.

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 School District's investment policy does not have specific limits in excess of state law on investment credit risk. The rating is identified below for investments held at year end.

At June 30, 2022, the maturities of investments and the credit quality ratings of investment securities held by the School District are as follows:

**MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Organization</u>
Michigan Liquid Asset Fund*	n/a	\$ 2,849,686	AAAm	Standard & Poor's
Michigan CLASS	n/a	817	AAAm	Standard & Poor's
Total External Investment Pool		<u>2,850,503</u>		
Total Investments		<u><u>\$ 2,850,503</u></u>		

*Investment fair value reported at amortized cost.

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 School District's policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.

NOTE 4 - INTERGOVERNMENTAL RECEIVABLES

Due from governmental units June 30, 2022 consist of the following:

	<u>General</u>
State	\$ 2,727,342
Federal	1,016,578
Other Governmental Entity	376,064
Net Total Due from Governmental Units	<u><u>\$ 4,119,984</u></u>

No allowance for doubtful accounts is considered necessary.

NOTE 5 – RESTRICTED ASSETS

At June 30, 2022, restricted assets are composed of the following:

<u>Description</u>	<u>Governmental Activities</u>
Unspent property taxes levied for debt service	\$ 25,151
Unspent property taxes levied for sinking funds	165,926
Total	<u><u>\$ 191,077</u></u>

MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 6 - CAPITAL ASSETS

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

	Balance July 1, 2021	Additions	Deletions	Transfers	Balance June 30, 2022
Governmental Activities					
Capital assets not being depreciated					
Land	\$ 912,065	\$ -	\$ -	\$ -	\$ 912,065
Construction in progress	-	692,332	-	-	692,332
Subtotal	912,065	692,332	-	-	1,604,397
Capital assets being depreciated					
Building and Improvements	26,145,553	68,905	-	-	26,214,458
Machinery & Equipment	4,447,582	97,399	-	-	4,544,981
Transportation Equipment	882,591	102,000	-	-	984,591
Total Depreciable Assets	31,475,726	268,304	-	-	31,744,030
Less: Accumulated depreciation for:					
Building and Improvements	10,228,988	888,091	-	-	11,117,079
Machinery & Equipment	3,808,158	160,189	-	-	3,968,347
Transportation Equipment	576,419	52,488	-	-	628,907
Subtotal	14,613,565	1,100,768	-	-	15,714,333
Net Depreciable Capital Assets	16,862,161	-	-	-	16,029,697
Governmental Activities Capital Assets, net	\$ 17,774,226	\$ -	\$ -	\$ -	\$ 17,634,094

Depreciation is computed by the straight-line method for all classes of assets. Depreciation for the fiscal year ended June 30, 2022 amounted to \$1,100,768. The School District determined that it was impractical to allocate depreciation and amortization to the various governmental activities as the assets serve multiple functions.

NOTE 7 – FINANCING LEASE OBLIGATION

On August 10, 2018, the School District (lessee) entered into an equipment lease purchase agreement (the Agreement) as outlined in Act 451 of 1976, specifically as set forth in MCL 380.1274a and a Finance Lease as set forth in Act 174 of 1962, specifically MCL 440.2803(1)(g) with First Internet Public Finance Corp. (lessor). The Agreement contemplates that certain equipment is to be acquired for energy conservation improvement of the School District. In addition, on the same date the

MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 7 – FINANCING LEASE OBLIGATION (Continued)

School District and the lessor entered into an escrow agreement of which the lessor will deposit with the escrow agent cash in the amount of \$1,838,540 to be held in escrow. Such deposit, together with all interest and additions received is to be applied from time to time to pay certain costs of acquiring the equipment. To secure payment of the School District obligation under the agreement the lessor retains and the School District pledges and grants the lessor a security interest constituting a first lien on the equipment and all additions, attachments and accessions thereto. As further security therefor, the School District pledges and grant the lessor a first priority security interest in (1) the cash and negotiable instruments from time to time comprising the escrow fund established under the escrow agreement mentioned above, and (2) any payments received or to be received from Energy Systems Group, LLC (ESG) by the School District pursuant to the terms of the Guaranteed Energy Savings Performance Contract.

In conjunction with the agreements mentioned above the School District also entered into a Guaranteed Energy Savings Performance Contract (the Contract) with ESG on June 29, 2018. ESG will design and manage the implementation of the energy conservation capital improvement projects in accordance with MCL 380.1274a. ESG guarantees that the project will result in guaranteed energy savings in the total amount of \$1,175,638 and guaranteed operating maintenance cost savings in the total amount of \$1,607,746. Under the contract ESG for a term of 15 years guarantees the School District that the facilities will realize in each guarantee year savings in energy and operational savings collectively equal to the amounts indicated in the contract. In addition, under the contract if there is a shortfall of the energy savings in any guarantee year, ESG shall provide settlement in cash.

During the term of the lease agreement title to the equipment and any and all additions, repairs, replacements, or modifications will vest in School District. The agreement mentioned above was classified as a capital lease from lease inception till June 30, 2021. For the fiscal year ended June 30, 2022 the School District adopted the provisions of GASB 87 and is now recording the equipment lease as a financing lease and the underlying asset as a right to use asset. The leased equipment recorded as a right of use asset is amortized on a straight-line basis over the remaining life of the lease.

The following is a schedule showing the future minimum lease payments under financing leases by years as of June 30, 2022. The interest rate related to the financing lease obligation is 3.55% and the maturity date is on November 1, 2034.

**MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 7 – FINANCING LEASE OBLIGATION (Continued)

Fiscal Year Ending,	Principal	Interest	Total Due
2023	\$ 99,000	\$ 50,039	\$ 149,039
2024	103,000	46,453	149,453
2025	106,500	42,735	149,235
2026	110,500	38,883	149,383
2027	114,500	34,889	149,389
2028-2032	637,500	109,302	746,802
2033-2034	288,040	10,315	298,355
	<u>\$ 1,459,040</u>	<u>\$ 332,616</u>	<u>\$ 1,791,656</u>

June 30, 2022

Cost of Asset	\$ 1,819,249
Accumulated depreciation*	\$ 181,924

*Assets started being depreciated beginning fiscal year 2021

NOTE 8 - LONG-TERM DEBT

The School District issue bond to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. The School District had total bonded debt outstanding of \$ 2,185,000. Remaining payments for all bonded indebtedness vary from \$200,000 to \$285,000 through 2031, and include interest at 4.0% – 4.5%.

A schedule of the 2011 Building and Site bond issued is as follows:

Year Ending June 30	Principal	Interest	Total Due
2023	\$ 200,000	\$ 93,674	\$ 293,674
2024	210,000	85,674	295,674
2025	220,000	77,064	297,064
2026	230,000	68,046	298,046
2027	240,000	58,386	298,386
2028	255,000	48,304	303,304
2029	265,000	36,906	301,906
2030	280,000	25,424	305,424
2031	285,000	12,826	297,826
	<u>\$ 2,185,000</u>	<u>\$ 506,304</u>	<u>\$ 2,691,304</u>

MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 8 - LONG-TERM DEBT (Continued)

The following is a schedule of the governmental long-term obligations for the School District for the year ended June 30, 2022:

	2011 Building and Site Bond	Unamortized Bond Discount	Compensated Absences	Total
Balance July 1, 2021	\$ 2,375,000	\$ (22,327)	\$ 437,759	\$ 2,790,432
Additions	-	-	-	-
Deletions	190,000	2,233	-	187,767
Balance June 30, 2022	2,185,000	(20,094)	437,759	2,602,665
Less: current portion	200,000	2,233	78,020	275,787
Total due after one year	<u>\$ 1,985,000</u>	<u>\$ (17,861)</u>	<u>\$ 359,739</u>	<u>\$ 2,326,878</u>

The debt service requirements of governmental activities at June 30, 2022 were as follows:

Fiscal Year Ending,	Governmental Activities		
	Principal	Interest	Total
2023	\$ 200,000	\$ 93,674	\$ 293,674
2024	210,000	85,674	295,674
2025	220,000	77,064	297,064
2026	230,000	68,046	298,046
2027	240,000	58,386	298,386
2028-2031	1,085,000	123,460	1,208,460
Total	<u>\$ 2,185,000</u>	<u>\$ 506,304</u>	<u>\$ 2,691,304</u>

Interest expense for the year amounted to \$154,127.

**MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 9 - EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN

Plan Description

The Michigan Public School Employees' Retirement System (System or MPSERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. The board consists of twelve members-eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

The System's pension plan was established by the State to provide retirement, survivor and disability benefits to public school employees. In addition, the System's health plan provides all retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act (1980 PA 300 as amended).

The System is administered by the Office of Retirement Services (ORS) within the Michigan Department of Technology, Management & Budget. The Department Director appoints the Office Director, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System.

The System's financial statements are available on the ORS website at www.michigan.gov/orsschools.

Benefits Provided

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Depending on the plan option selected, member retirement benefits are determined by final average compensation, years of service, and a pension factor ranging from 1.25 percent to 1.50 percent. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

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

**MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 9 - EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN

(Continued)

reinstate their service through repayment of the refund upon satisfaction of certain requirements.

Contribution

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

Employer contributions to MPSERS are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2020 valuation will be amortized over a 18 year period beginning October 1, 2020 and ending September 30, 2038.

The School District's required and actual contributions to the plan for the year ended June 30, 2022 were \$3,129,744, which includes the School District contribution required for those members with a defined contribution benefit. The School District's required and actual contributions include an allocation of \$1,649,494 in revenue received from the State of Michigan, and remitted to MPSERS to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate for the year ended June 30, 2022.

The schedule below summarizes pension contribution rates in effect for fiscal year ended September 30, 2021.

**MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 9 - EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN
(Continued)

Pension Contribution Rates

Benefit Structure	Member	Employer
Basic	0.0 - 4.0 %	19.78%
Member Investment Plan	3.0 - 7.0 %	19.78%
Pension Plus	3.0 - 6.4 %	16.82%
Pension Plus 2	6.2 %	19.59%
Defined Contribution	0.0 %	13.39%

Required contributions from School District were \$3,140,200 for the year ended September 30, 2021.

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

At June 30, 2022, the School District's reported a liability of \$24,760,206 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2020. The School District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2021, School District's proportion was 0.10458 percent, which was a decrease of 0.00050 percent from its proportion measured as of September 30, 2020.

For the year ended June 30, 2022 the School District recognized total pension expense of \$2,859,248. At June 30, 2022 the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 9 - EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN
(Continued)

	Deferred Outflows of Resources	Deferered Inflows of Resources
Difference between actual and expected experience	\$383,546	\$145,808
Changes of assumptions	1,560,795	-
Net difference between projected and actual earnings on pension plan investments	-	7,960,327
Changes in proportion and differences between School District contributions and proportionate share of contributions	81,418	443,760
School District contributions subsequent to the measurement date	<u>3,129,744</u>	<u>-</u>
Total	<u><u>\$ 5,155,503</u></u>	<u><u>\$ 8,549,895</u></u>

Contributions subsequent to measurement date reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Plan Year Ending September 30

2022	\$ (778,472)
2023	\$ (1,551,665)
2024	\$ (2,026,593)
2025	\$ (2,167,406)

**MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 9 - EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN
(Continued)

In addition, the School District had deferred inflows of revenues related to revenue in support of pension payments made subsequent to the measurement date totaling \$1,649,494 at June 30, 2022.

Actuarial Assumptions

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

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Valuation Date:	September 30, 2020
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	2.75%
Investment Rate of Return	
MIP and Basic Plans (Non-Hybrid):	6.80%
Pension Plus Plan	6.80%
Pension Plus 2 Plan	6.00%
Projected Salary Increases:	2.75% to 11.55% Including wage inflation at 2.75%
Cost-of-Living Pension Adjustments:	3% Annual Non-Compounded for MIP Members

**MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 9 - EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN
(Continued)

Mortality: Retirees: RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.

Active

Members: RP-2014 Male and Female Employee Annuitant Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

Notes

- Assumption changes as a result of an experience study for the period 2012 through 2017 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2018 valuation. The total pension liability as of September 30, 2021, is based on the results of an actuarial valuation date of September 30, 2020, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: (4.4367 for non-university employers).
- Recognition period for assets in years is 5.0000.
- Full actuarial assumptions are available in the 2021 MPSERS Comprehensive Annual financial Report found on the ORS website at www.michigan.gov/orsschools.

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2021, are summarized in the following table:

**MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 9 - EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN
(Continued)

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Domestic Equity Pools	25.0%	5.4%
Private Equity Pools	16.0%	9.1%
International Equity	15.0%	7.5%
Fixed Income Pools	10.5%	-0.7%
Real Estate and Infrastructure Pools	10.0%	5.4%
Absolute Return Pools	9.0%	2.6%
Real Return/Opportunistic Pools	12.5%	6.1%
Short Term Investment Pools	2.0%	-1.3%
Total	<u>100.0%</u>	

*Long term rate of return are net of administrative expenses and 2.0% inflation.

Rate of Return

For the fiscal year ended September 30, 2021, the annual money-weighted rate of return on pension plan investment, net of pension plan investment expense, was 27.3%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

A discount rate of 6.8% was used to measure the total pension liability (6.8% for the Pension Plus plan, 6.0% for the Pension Plus 2 plan provided through non-university employers only). This discount rate was based on the long term expected rate of return on pension plan investments of 6.8% (6.8% for the Pension Plus plan, 6.0% for the Pension Plus 2 plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

**MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 9 - EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN
(Continued)

The following presents the School District's proportionate share of the net pension liability, calculated using the discount rate of 6.80% (6.80% for t for the Pension Plus plan, 6.0% for the Pension Plus 2 plan), as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher:

Current Single Discount Rate		
1% Decrease	Assumption	1% Increase
5.80% / 5.80%/5.0%	6.80% / 6.80%/6.0%	7.80% / 7.80%/7.0%
<u>\$35,400,379</u>	<u>\$24,760,206</u>	<u>\$15,938,804</u>

*Discount rates listed in the following order: Basic and Member Investment Plan (MIP), Pension Plus, and Pension Plus 2. Non-university employers provide Basic, MIP, Pension Plus and Pension Plus 2 plans.

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPSERS CAFR, available on the ORS website at www.michigan.gov/orsschools.

Payable to the Pension Plan

At June 30, 2022, the School District reported a payable of approximately \$300,043 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2022.

**NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS
(OPEB)**

Plan Description

The Michigan Public School Employees' Retirement System (System or MPSERS) is a cost-sharing, multiple employer, state wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. The board consists of twelve members-eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS
(OPEB) (Continued)

The System's health plan provides all eligible retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act (1980 PA 300 as amended).

The System is administered by the Office of Retirement Services (ORS) within the Michigan Department of Technology, Management & Budget. The Department Director appoints the Office Director, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System.

The System's financial statements are available on the ORS website at www.michigan.gov/orsschools.

Benefits Provided

Benefit provisions of the postemployment healthcare plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions. Retirees have the option of health coverage, which, through 2012, was funded on a cash disbursement basis. Beginning fiscal year 2013, it is funded on a prefunded basis. The System has contracted to provide the comprehensive group medical, prescription drug, dental and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by the System with the balance deducted from the monthly pension of each retiree healthcare recipient. For members who first worked before July 1, 2008, (Basic, MIP-Fixed, and MIP Graded plan members) the subsidy is the maximum allowed by statute. To limit future liabilities of Other Postemployment Benefits, members who first worked on or after July 1, 2008 (MIP-Plus plan members) have a graded premium subsidy based on career length where they accrue credit towards their insurance premiums in retirement, not to exceed the maximum allowable by statute. Public Act 300 of 2012 sets the maximum subsidy at 80% beginning January 1, 2013, 90% for those Medicare eligible and enrolled in the insurance as of that date. Dependents are eligible for healthcare coverage if they meet the dependency requirements set forth in Public Act 300 of 1980, as amended.

Public act 300 of 2012 granted all active members of the Michigan Public School Employees Retirement System, who earned service credit in the 12 months ending September 3, 2012 or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their retirement healthcare. Any changes to a member's healthcare benefit are effective as of the member's transition date, which is defined as the first day of the pay period that begins on or after February 1, 2013.

**MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

**NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS
(OPEB) (Continued)**

Under Public Act 300 of 2012, members were given the choice between continuing the 3% contribution to retiree healthcare and keeping the premium subsidy benefit described above or choosing not to pay the 3% contribution and instead opting out of the subsidy benefit and becoming a participant in the Personal Healthcare Fund (PHF), a portable, tax-deferred fund that can be used to pay healthcare expenses in retirement. Participants in the PHF are automatically enrolled in a 2% employee contribution into their 457 account as of their transition date, earning them a 2% employer match into a 401(k) account. Members who selected this option stop paying the 3% contribution to retiree healthcare as of the day before their transition date, and their prior contributions were deposited into their 401(k) account.

Contributions

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

Employer OPEB contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2020 valuation will be amortized over a 18-year period beginning October 1, 2020 and ending September 30, 2038.

The School District's required and actual contributions to the plan for the year ended June 30, 2022 were \$612,364.

The schedule below summarized OPEB contribution rates in effect for fiscal year 2021.

OPEB Contribution Rates

Benefit Structure	<u>Member</u>	<u>Employer</u>
Premium Subsidy	3.00 %	8.43 %
Personal Healthcare Fund (PHF)	0.00 %	7.57 %

**MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

**NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS
(OPEB) (Continued)**

Required contributions to the OPEB plan from the School District were \$780,882 for the year ended September 30, 2021.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2022, the School District reported liability of \$1,605,616 for its proportionate share of all MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2020. The School District's proportion of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the system during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2021, the School District's proportion was 0.10519 percent, which was an increase of 0.00082 percent from its proportion measured as of October 1, 2020.

For the year ended June 30, 2022, the School District recognized OPEB expense of \$(875,969). At June 30, 2022 the School District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between actual and expected experience	\$ -	\$4,583,118
Changes of assumptions	\$1,342,216	200,846
Net difference between projected and actual earnings on OPEB plan investments	-	1,210,182
Changes in proportion and differences between School District contributions and proportionate share of contributions	\$174,699	\$201,188
School District contributions subsequent to the measurement date	\$612,364	-
Total	<u>\$ 2,129,279</u>	<u>\$ 6,195,334</u>

**MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

**NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS
(OPEB) (Continued)**

Contributions subsequent to the measurement date reported as deferred outflows of resources related to OPEB resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

of Resources by Year (To Be Recognized in Future OPEB Expenses)	
2022	\$ (1,188,594)
2023	\$ (1,114,473)
2024	\$ (1,055,148)
2025	\$ (961,884)
2026	\$ (316,762)
Thereafter	\$ (41,558)

Actuarial Assumptions

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

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Valuation Date:	September 30, 2020
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	2.75%
Investment Rate of Return	6.95%
Projected Salary Increases:	2.75% to 11.55% Including wage inflation at 2.75%

**MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

**NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS
(OPEB) (Continued)**

Healthcare Cost Trend Rate:	Pre-65 7.75% Year 1 graded to 3.5% Year 15; 3.0% Year 120 Post-65 5.25% Year 1 graded to 3.5% Year 15; 3.0% Year 120
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Mortality:	Retirees:	RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.
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Active

Members:	RP-2014 Male and Female Employee Annuitant Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.
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Other Assumptions:

Opt Out Assumptions	21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan.
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Survivor Coverage	80% of male retirees and 67% of female retirees are assumed to have coverages continuing after the retiree's death.
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Coverage Election at Retirement	75% of male and 60% of female future retirees are assumed to elect coverage for one or more dependents.
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Notes:

- Assumption changes as a result of an experience study for the period 2012 through 2017 have been adopted by the System for use in the annual OPEB valuations beginning with the September 30, 2018 valuation. The total OPEB liability as of September 30, 2021, is based on the results of an actuarial valuation date of September 30, 2020, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: (6.1312 for non-university employers).
- Recognition period for assets in years is 5.000.

**MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

**NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS
(OPEB) (Continued)**

- Full actuarial assumptions are available in the 2021 MPSERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the OPEB plan's target asset allocation as of September 30, 2021, are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	25.0%	5.4%
Private Equity Pools	16.0%	9.1%
International Equity	15.0%	7.5%
Fixed Income Pools	10.5%	-0.7%
Real Estate and Infrastructure Pools	10.0%	5.4%
Absolute Return Pools	9.0%	2.6%
Real Return/Opportunistic Fund	12.5%	6.1%
Short term Investment Pools	2.0%	-1.3%
Total	100.0%	

*Long-term rates of return are net of administrative expenses and 2.0% inflation.

Rate of Return

For the fiscal year ended September 30, 2021, the annual money-weighted rate of return on OPEB plan investment, net of OPEB plan investment expense, was 27.14%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

**NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS
(OPEB) (Continued)**

Discount Rate

A discount rate of 6.95% was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on OPEB plan investments of 6.95%. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the School District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the School District's proportionate share of the net OPEB liability calculated using the discount rate of 6.95%, as well as what the School District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage higher:

1% Decrease	Current Discount Rate	1% Increase
5.95%	6.95%	7.95%
\$2,983,525	\$1,605,616	\$436,264

Sensitivity of the School District's Proportionate Share of the Net OPEB Liability to Healthcare Cost Trend Rate

The following presents the School District's proportionate share of the net OEB liability calculated using assumed trend rates, as well as what the School District's proportionate share of net OPEB liability would be if it were calculated using a trend rate that is 1-percentage-point lower or 1-percentage-point higher:

1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
\$390,794	\$1,605,616	\$2,972,438

**MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

**NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS
(OPEB) (Continued)**

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued 2021 MPSERS CAFR, available on the ors website at www.michigan.gov/orsschools.

NOTE 11 - INTERFUND BALANCES AND TRANSFERS

Interfund balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system and (3) payments between funds are made. All balances at June 30, 2022 are expected to be repaid within the next fiscal year.

A schedule of interfund balances follows:

Fund	Interfund Receivable	Fund	Interfund Payable
General	\$ 85	General	\$ 80
Debt Service	38	Special Revenue	85
Capital Projects	42		
	<u>\$ 165</u>		<u>\$ 165</u>

Interfund transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them.

A schedule of interfund transfers follows:

Fund	Transfers In	Fund	Transfer Out
General Fund	<u>\$ 24,000</u>	Special Revenue	<u>\$ 24,000</u>

**MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 12 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The School District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The School District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. The premiums are based on the ultimate cost of the experience to date of the participating members of the risk pool. The School District cannot estimate losses from reported and unreported claims at June 30, 2022. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency.

The School District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2022 or any of the prior three years.

NOTE 13- CONTINGENCIES

The School District had no contingencies at June 30, 2022.

NOTE 14 – TAX ABATEMENTS

The School District receives reduced property tax revenue as a result of Payment in Lieu of Taxes granted by cities, villages, and townships within the boundaries of the School District. Payment in Lieu of Taxes (PILOTS) encourage the development for housing for citizens of low and moderate income. The citizens must meet certain criteria set by the State of Michigan and the Local municipality. The authorization for PILOTS is allowed under the Michigan State Housing Development Authority Act of 1966, as amended. The City of Adrian currently has six PILOT agreements, and each is approved by City Ordinance. The PILOT program exempts the recipients of all property taxes. In lieu of property taxes, the housing facility pays an annual fee based on a fixed percentage of gross rent less utilities (water, sewer, electricity, and gas). The value of the tax abatement is the total amount of taxes which should have been paid less the PILOT fee actually paid.

**MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 15 - NET POSITION RESTRICTED BY ENABLING LEGISLATION

The government-wide statement of net position reports \$1,557,388 of restricted net position at June 30, 2022, all of which is restricted by enabling legislation.

NOTE 16 – PRIOR PERIOD ADJUSTMENT

Indirect cost transfers from Special Revenue Fund to General Fund reported on the 2021 financial statements were adjusted on the Financial Information Database (the FID) in November of 2021. The impact of the adjustment was a reduction in revenue and fund equity for the General Fund and a reduction in expense and increase in fund equity for the Special Revenue Fund. Impact of adjustment to indirect cost transfers to beginning fund equity are as follows:

	<u>General Fund</u>	<u>Special Revenue Fund</u>
Fund balance per prior year statements	\$ 6,039,278	\$ 540,039
Prior period adjustment	(6,383)	6,383
Adjusted beginning fund balance	<u>\$ 6,032,895</u>	<u>\$ 546,422</u>

NOTE 17 – SUBSEQUENT EVENTS

Evaluation of Events and Transactions

The District's management has evaluated subsequent events through October 03, 2022, the date which the financial statements were available to be issued. District's management has concluded that no other subsequent events have occurred that would require recognition or disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

Madison School District
Budgetary Comparison Schedule
General Fund
June 30, 2022

	Original Budget	Final Budget	Actual	Variance with final budget Favorable (Unfavorable)
Revenues:				
Local sources	\$ 2,329,730	\$ 2,900,970	\$ 2,928,216	\$ 27,246
Intermediate sources	1,276,550	1,382,282	1,358,293	(23,989)
State sources	13,794,549	14,562,042	15,125,050	563,008
Federal sources	753,273	1,207,533	1,208,517	984
Total revenues	18,154,102	20,052,827	20,620,076	567,249
Expenditures:				
Current:				
Instruction:				
Basic programs	10,106,925	10,145,105	10,101,679	43,426
Added needs	2,833,984	2,803,958	2,771,595	32,363
Total instruction	12,940,909	12,949,063	12,873,274	75,789
Support services:				
Pupil	329,293	350,634	349,303	1,331
Instructional staff	154,044	173,286	211,311	(38,026)
General administration	638,767	567,724	555,673	12,051
School administration	1,101,653	1,265,029	1,259,977	5,052
Business and fiscal services	265,871	273,460	269,772	3,689
Operation & maintenance	1,150,647	1,274,504	1,262,408	12,095
Transportation	459,171	508,222	515,762	(7,540)
Technology	147,656	186,975	190,317	(3,341)
COVID	460,588	735,484	736,468	(984)
Capital outlay	200,000	410,192	410,392	(200)
Athletics	379,875	1,046,691	1,031,449	15,242
Total support services	5,287,565	6,792,201	6,792,832	(631)
Community service:	42,682	105,782	92,400	13,382
Total community service	42,682	105,782	92,400	13,382
Debt service:				
Principal repayment	92,500	96,000	96,000	-
Interest and fees	56,846	53,500	53,500	-
	149,346	149,500	149,500	-
Total expenditures	18,420,503	19,996,546	19,908,006	88,541
Excess (deficiency) of revenues over expenditures	(266,401)	56,281	712,070	655,790
Other financing sources (uses):				
Indirect cost transfer	30,210	24,000	24,000	-
Total other financing sources (uses)	30,210	24,000	24,000	-
Net change in fund balance	(236,191)	80,281	736,070	655,790
Fund balance:				
Beginning of year - Restated	6,032,895	6,032,895	6,032,895	-
End of year	\$ 5,796,704	\$ 6,113,176	\$ 6,768,965	\$ 655,790

Madison School District
Required Supplemental Information
Schedule of Madison School District's Pension Contributions to
Michigan Public Schools Employees Retirement Plan
Determined as of the Year Ended June 30

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018*</u>
Statutorily required contributions	\$ 3,510,256	\$ 3,119,404	\$ 2,867,206	\$ 2,849,119	\$ 2,733,590
Contribution in relation to statutorily required contribution	<u>3,510,256</u>	<u>3,119,404</u>	<u>2,867,206</u>	<u>2,849,119</u>	<u>2,733,590</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District's covered-employee payroll	\$ 9,766,032	\$ 9,356,240	\$ 9,183,280	\$ 9,313,095	\$ 9,191,025
Contribution as a percentage of covered-employee payroll	35.94%	33.34%	31.22%	30.59%	29.74%
	<u>2017</u>	<u>2016</u>			
Statutorily required contributions	\$ 2,471,567	\$ 2,418,503			
Contribution in relation to statutorily required contribution	<u>2,471,567</u>	<u>2,418,503</u>			
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>			
School District's covered-employee payroll	\$ 9,097,276	\$ 8,478,286			
Contribution as a percentage of covered-employee payroll	27.17%	28.53%			

*Adjustment has been made to remove the MPSERS 147 c(2) previously included.

Madison School District
Required Supplemental Information
Schedule of Madison School District's Proportionate Share of the Net Pension Liability
Michigan Public Schools Employees Retirement Plan
Determined as of the Plan Year Ended September 30

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
School District's proportion of the net pension liability	0.10458%	0.10508%	0.10700%	0.10698%	0.10419%
School District's proportionate share of the net pension liability	\$ 24,760,206	\$ 36,095,852	\$ 35,436,177	\$ 32,158,791	\$ 26,999,670
School District's covered-employee payroll	\$ 9,453,592	\$ 9,223,088	\$ 9,276,942	\$ 9,217,780	\$ 8,938,298
School District's proportionate share of net pension liability as a percentage of its covered-employee payroll	261.91%	391.36%	381.98%	348.88%	302.07%
Plan fiduciary net position as a percentage of total pension liability	72.60%	59.72%	60.31%	62.36%	64.21%
	<u>2016</u>	<u>2015</u>			
School District's proportion of the net pension liability	0.10006%	0.10199%			
School District's proportionate share of the net pension liability	\$ 24,963,465	\$ 24,912,006			
School District's covered-employee payroll	\$ 8,387,800	\$ 8,916,870			
School District's proportionate share of net pension liability as a percentage of its covered-employee payroll	297.62%	279.38%			
Plan fiduciary net position as a percentage of total pension liability	63.27%	63.17%			

See notes to required supplemental information.

Madison School District
Required Supplemental Information
Schedule of Madison School District's OPEB Contributions to
Michigan Public Schools Employees Retirement Plan
Determined as of the Year Ended June 30

	2022	2021	2020	2019	2018
Statutorily required contributions	\$ 777,858	\$ 767,602	\$ 731,804	\$ 728,470	\$ 668,513
Contribution in relation to statutorily required contribution	777,858	767,602	731,804	728,470	668,513
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District's covered-employee payroll	\$ 9,766,032	\$ 9,356,240	\$ 9,183,280	\$ 9,313,095	\$ 9,191,025
Contribution as a percentage of covered-employee payroll	7.96%	8.20%	7.97%	7.82%	7.27%

See notes to required supplemental information.

Madison School District
Required Supplemental Information
Schedule of Madison School District's Proportionate Share of the Net OPEB Liability
Michigan Public Schools Employees Retirement Plan
Determined as of the Plan Year Ended September 30

	2021	2020	2019	2018	2017
School District's proportion of the net OPEB liability	0.10519%	0.10437%	0.10636%	0.10837%	0.10411%
School District's proportionate share of the net OPEB liability	\$ 1,605,616	\$ 5,591,397	\$ 7,634,058	\$ 8,614,406	\$ 9,219,179
School District's covered-employee payroll	9,453,592	9,223,088	9,276,942	9,217,780	8,938,298
School District's proportionate share of net OPEB liability as a percentage of its covered-employee payroll	16.98%	60.62%	82.29%	93.45%	103.14%
Plan fiduciary net position as a percentage of total OPEB liability	87.33%	59.44%	48.46%	42.95%	36.39%

See notes to required supplemental information.

MADISON SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2022

Pension Information

Ultimately, 10 years of data will be presented in both of the pension-related schedules. The number of years currently presented represents the number of years since the accounting standard requiring these schedules first became applicable.

Benefit Changes

There were no changes of benefit terms in 2021.

Changes in Assumptions

There were no changes of benefit assumptions in 2021.

Covered Payroll

The employer's covered payroll to be reported in the required supplemental information is defined by GASB Statement No. 82, Pension Issues – *An Amendment to GASB Statements No. 67, No. 68, and No. 73*, as payroll on which contributions to a pension plan are based and by GASB Statement No. 85, *Omnibus 2017*, as payroll on which contributions to the OPEB plan are based. For the School District, covered payroll represents payroll on which contributions to both plans are based.

OPEB Information

Ultimately, 10 years of data will be presented in both of the OPEB-related schedules. The number of years currently presented represents the number of years since the accounting standard requiring these schedules first became applicable.

Benefit Changes

There were no changes of benefit terms in 2021.

Changes in Assumptions

There were no changes of benefit assumptions in 2021.

MADISON SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2022

Covered Payroll

The employer's covered payroll to be reported in the required supplemental information is defined by GASB Statement No. 82, *Pension Issues – An Amendment to GASB Statements No. 67, No. 68, and No. 73*, as payroll on which contributions to a pension plan are based and by GASB Statement No. 85, *Omnibus 2017*, as payroll on which contributions to the OPEB plan are based. For the School District, covered payroll represents payroll on which contributions to both plans are based.

OTHER SUPPLEMENTAL INFORMATION

**Madison School District
Combining Balance Sheet
Nonmajor Governmental Fund
June 30, 2022**

	Special Revenue	Debt Service	Capital Project	Total Nonmajor Governmental Funds
Assets				
Assets:				
Cash and equivalents	\$ 1,051,496	\$ -	\$ -	\$ 1,051,496
Receivables				
Accounts	219	-	-	219
Other governmental units	18,344	-	-	18,344
Due from other funds	-	38	42	80
Inventory	4,739	-	-	4,739
Restricted assets	-	25,151	165,926	191,077
Total Assets	<u>\$ 1,074,797</u>	<u>\$ 25,189</u>	<u>\$ 165,968</u>	<u>\$ 1,265,954</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Due to other funds	85	-	-	85
Unearned revenue	6,315	-	-	6,315
Total Liabilities	<u>6,400</u>	<u>-</u>	<u>-</u>	<u>6,400</u>
Fund Balances:				
Nonspendable - inventory	4,739	-	-	4,739
Restricted				
School lunch program	1,063,658	-	-	1,063,658
Debt service	-	25,189	-	25,189
Capital outlay	-	-	165,968	165,968
Total Fund Balances	<u>1,068,397</u>	<u>25,189</u>	<u>165,968</u>	<u>1,259,554</u>
Total Liabilities and Fund Balances	<u>\$ 1,074,797</u>	<u>\$ 25,189</u>	<u>\$ 165,968</u>	<u>\$ 1,265,954</u>

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

Madison School District
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Nonmajor Governmental Funds
June 30, 2022

	Special Revenue	Debt Service	Capital Project Fund	Total Nonmajor Governmental Funds
Revenues:				
Local sources:				
Property taxes	\$ -	\$ 232,362	\$ 278,777	\$ 511,139
Investment earnings	-	96	256	351
Food sales	31,308	-	-	31,308
Other	11,371	-	-	11,371
	<u>42,678</u>	<u>232,458</u>	<u>279,033</u>	<u>554,169</u>
Total local sources	42,678	232,458	279,033	554,169
State sources	21,208	-	-	21,208
Federal sources	1,356,652	-	-	1,356,652
	<u>1,420,539</u>	<u>232,458</u>	<u>279,033</u>	<u>1,932,030</u>
Total revenues	1,420,539	232,458	279,033	1,932,030
Expenditures:				
Food service/activities	874,564	-	-	874,564
Capital outlay	-	-	385,472	385,472
Debt service				
Principal repayment	-	190,300	-	190,300
Interest payment	-	101,275	-	101,275
Total expenditures	874,564	291,575	385,472	1,551,610
	<u>874,564</u>	<u>291,575</u>	<u>385,472</u>	<u>1,551,610</u>
Excess (deficiency) of revenues over expenditures	545,975	(59,117)	(106,438)	380,419
	<u>545,975</u>	<u>(59,117)</u>	<u>(106,438)</u>	<u>380,419</u>
Other Financing Sources (Uses):				
Indirect cost transfer	(24,000)	-	-	(24,000)
Total other financing sources (uses)	(24,000)	-	-	(24,000)
	<u>(24,000)</u>	<u>-</u>	<u>-</u>	<u>(24,000)</u>
Net change in fund balance	521,975	(59,117)	(106,438)	356,419
Fund balance:				
Beginning of year	546,422	84,306	272,407	903,135
End of year	<u>\$ 1,068,397</u>	<u>\$ 25,189</u>	<u>\$ 165,968</u>	<u>\$ 1,259,554</u>

**Madison School District
Single Audit
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For the Year Ended June 30, 2022**

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

To the Board of Education
Madison School District
Adrian, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Madison School District (the School District) as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued our report thereon dated October 3, 2022.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the School 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 School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the School District's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those 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. Given these limitations, during our audit we did not identify any deficiency in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

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

Haven Group CPAs & Advisors

Haven Group CPAs & Advisors
Taylor, Michigan
October 3, 2022



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

To the Board of Education
Madison School District
Adrian, Michigan

Opinion on Compliance for Each Major Federal Program

We have audited Madison School District's (the School District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the School District's major federal programs for the year ended June 30, 2022. The School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the School District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Compliance for Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the School District and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance on each of the School District's major federal programs. Our audit does not provide a legal determination of the School District's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the

requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to its federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the School District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the School District's compliance with the requirements of the federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the School District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the School District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Haven Group CPAs & Advisors

Haven Group CPAs & Advisors
Taylor, Michigan
October 3, 2022

**MADISON SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2022**

Federal Grantor Pass through Grantor Program Title	Federal CFDA Number	Approved Grant Award	Accrued (Deferred) Revenue July 1, 2021	Memo Only Prior Year Expenditures	Current Years Expenditures	Current Years Receipts	Accrued (Deferred) Revenue June 30, 2022
U.S. Department of Agriculture Passed Through Michigan Department of Education							
Child Nutrition Cluster							
National School Lunch Program - Non Cash Assistance							
Entitlement Commodities	10.555	\$ 47,796	\$ -	\$ 29,789	\$ 47,796	\$ 47,796	\$ -
National School Lunch Program - Cash Assistance							
SSO - Breakfast - 211971	10.553	205,483	-	-	205,483	205,483	-
SSO - Breakfast - 221971	10.553	31,173	-	-	31,173	31,173	-
School Breakfast Program - 221970	10.553	3,756	-	-	3,756	-	3,756
SSO - Lunch - 221961	10.555	803,581	-	-	803,581	803,581	-
SSO - Lunch - 211961	10.555	119,815	-	-	119,815	119,815	-
SSO - Lunch - Emergency Operations - 211965	10.555	47,859	-	-	47,859	47,859	-
SSO - Lunch - Supply Chain Grant - 220910	10.555	46,826	-	-	46,826	46,826	-
National School Lunch Program - 221960	10.555	11,656	-	-	11,656	-	11,656
NSLP - After School Snack - 221980	10.555	2,870	-	-	2,870	2,870	-
SFSP COVID19 - 200902	10.555	-	-	14,458	-	-	-
SFSP COVID19 - 211980	10.555	-	-	1,569	-	-	-
SFSP Operating - 200900	10.559	-	-	93,555	-	-	-
SFSP Operating - 210904	10.559	-	-	758,142	-	-	-
Extended SFSP - 210904	10.559	45,267	30,705	30,705	14,562	45,267	-
National School Lunch Program - Cash subtotal		1,318,285	30,705	898,429	1,287,580	1,302,873	15,412
Total Child Nutrition Cluster		1,366,081	30,705	928,219	1,335,376	1,350,669	15,412
Child and Adult Care Food Program (CACFP)							
CACFP Meals - 201920	10.558	-	-	601	-	-	-
CACFP Meals - 211920	10.558	-	-	12,088	-	-	-
CACFP Meals - 221920	10.558	13,808	-	-	13,808	13,808	-
CACFP Meals - Emergency Operations - 211925	10.558	3,649	-	-	3,649	3,649	-
CACFP Meals - Cash in Lieu - 202010	10.558	-	-	33	-	-	-
CACFP Meals - Cash in Lieu - 212010	10.558	-	-	767	-	-	-
CACFP Meals - Cash in Lieu - 222010	10.558	756	-	-	756	756	-
CACFP subtotal		18,213	-	13,489	18,213	18,213	-
Pandemic EBT Local Level Funds	10.649	3,063	-	-	3,063	3,063	-
Total U.S. Department of Agriculture		1,387,357	30,705	941,708	1,356,652	1,371,945	15,412

**MADISON SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2022**

Federal Grantor Pass through Grantor Program Title	Federal CFDA Number	Approved Grant Award	Accrued (Deferred) Revenue July 1, 2021	Memo Only Prior Year Expenditures	Current Years Expenditures	Current Years Receipts	Accrued (Deferred) Revenue June 30, 2022
U.S. Department of Education							
Passed through Michigan Department of Education							
Title I, Part A - Improving Basic Programs							
211530/2021	84.010	257,568	257,568	257,568	-	257,568	-
221530/2122	84.010	-	-	-	254,807	-	254,807
Total Title I, Part A		257,568	257,568	257,568	254,807	257,568	254,807
Title II, Part A - Teacher/Principal Training & Recruiting							
210520/2021	84.367	40,949	40,949	40,949	-	40,949	-
220520/2122	84.367	-	-	-	41,999	-	41,999
Total Title II, Part A		40,949	40,949	40,949	41,999	40,949	41,999
Title Title IV, Part A - Student Support & Academic Enrichment Income Grant							
210750/2021	84.424	18,823	18,823	18,823	-	18,823	-
220750/2122	84.424	-	-	-	18,751	-	18,751
Total Title IV Part A		18,823	18,823	18,823	18,751	18,823	18,751
Title Title V, Part B, Subpart 2 - Rural & Low Income Grant							
210660/2021	84.358	30,821	30,821	30,821	-	30,821	-
220660/2122	84.358	-	-	-	36,191	-	36,191
Total Title IV Part A		30,821	30,821	30,821	36,191	30,821	36,191
ESSER Fund & Equipment K-12 Cluster							
GEER Funds - K-12 - 201200	84.425	-	-	105,153	-	-	-
GEER Funds - K-12 - 203710	84.425	-	-	212,611	-	-	-
GEER Funds - K-12 - 203720	84.425	-	-	34,017	-	-	-
GEER Funds - K-12 - 213712	84.425	-	-	356,059	-	-	-
GEER II - Teacher & Support Staff Payments - 211202	84.425C	16,000	-	-	16,000	16,000	-
ESSER II - Summer Programming - 213722	84.425D	72,600	-	-	54,041	54,041	-
ESSER II - Credit Recovery - 213742	84.425D	24,200	-	-	17,009	17,009	-
ESSER II - Formula - 213712	84.425D	-	-	-	173,170	-	173,170
ESSER III - Formula - 213713	84.425U	-	-	-	476,248	-	476,248
Total ESSER Funds Cluster		112,800	-	707,840	736,468	87,050	649,418
Coronavirus Relief Funds							
Coronavirus Relief Grants 11p	21.019	-	-	568,684	-	-	-
District Covid Costs 103(2)	21.019	-	-	20,017	-	-	-
Total Coronavirus Relief Fund Cluster		-	-	588,701	-	-	-
Total U.S. Department of Education		460,961	348,161	1,644,702	1,088,216	435,211	1,001,166
Other Federal Awards Pass through Lenawee Intermediate School Districts (LISD)							
Medicaid Outreach	93.778	3,671	-	6,495	3,671	3,671	-
MiConnect Connectivity Grant	21.019	-	-	24,375	-	-	-
Total LISD		3,671	-	30,870	3,671	3,671	-
Total All Funds		\$ 1,851,989	\$ 378,866	\$ 2,617,280	\$ 2,448,539	\$ 1,810,827	\$ 1,016,578

**MADISON SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2022**

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of Madison School District (the School District) under programs of the federal government for the year ended June 30, 2022. The information in this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the School District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the School District.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Pass-through entities, where applicable, have been identified in the Schedule.

Expenditures are in agreement with amounts reported in the financial statements and the financial reports. See below for reconciliation of Grant Auditor Report and the Schedule.

Revenue reported on financial reports	\$ 2,565,169
Less: Child Care Sustainability Grants not included on the Schedule - as not subject to Single Audit	(116,630)
Expenditures reported on the Schedule	<u><u>\$ 2,448,539</u></u>

NOTE C – GRANT AUDITOR REPORT

Management has utilized the Cash Management System (CMS) Grant Auditor Report in preparing the schedule of expenditures of federal awards. Unreconciled differences, if any, have been disclosed to the auditor.

NOTE D – NONCASH ASSISTANCE

The value of the noncash assistance received was determined in accordance with the provisions of the Uniform Guidance.

**MADISON SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2022**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Type of Auditors' Report Issued: Unmodified

Internal Control over Financial Reporting:

* Material weakness(es) identified? ☐ Yes ☒ No

* Significant deficiency (ies) identified that are
not considered to be material weaknesses? ☐ Yes ☒ No

Noncompliance material to financial statements
noted? ☐ Yes ☒ No

FEDERAL AWARDS

Internal Control Over Major Programs:

* Material weakness(es) identified? ☐ Yes ☒ No

* Significant deficiency(ies) identified that are
not considered to be material weaknesses? ☐ Yes ☒ None reported

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

Any audit findings disclosed that are required to
be reported in accordance with 2 CFR 200.516(a) ☐ Yes ☒ No

Identification of Major Programs

CFDA Number

10.553/10.555/10.559

**Name of Federal
Program/Cluster**

Child Nutrition Cluster
Including commodities

**MADISON SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2022**

SECTION I - SUMMARY OF AUDITORS' RESULTS (Continued)

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

\$ 750,000

Auditee qualified as low-risk
auditee?

 X Yes No

**MADISON SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2022
(Continued)**

GOVERNMENT AUDITING STANDARDS FINDINGS

None.

FEDERAL PROGRAM AUDIT FINDINGS

None.

**MADISON SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2022**

GOVERNMENT AUDITING STANDARDS FINDINGS

None.

FEDERAL PROGRAM AUDIT FINDINGS

None.



October 3, 2022

Board of Education
Madison School District
Adrian, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Madison School District (the School District) for the year ended June 30, 2022. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and, Government Auditing Standards and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 16, 2022. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated June 16, 2022, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Generally accepted accounting principles provide for certain required supplementary information (RSI) to supplement the basic financial statements. Our responsibility with respect to management discussion analysis, budgetary comparison schedule of major fund, schedule of pension contributions, schedule of the School District's proportionate share of the net pension liability, schedule of other postemployment benefit (OPEB) contributions, and schedule of the School District's proportionate of the net OPEB liability, which supplements the basic financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI will not be audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we will not express an opinion or provide any assurance on the RSI.

We have been engaged to report on other supplementary information such as the nonmajor combining statements which accompany the financial statements but are not RSI. Our responsibility for these supplementary information, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Planned Scope, Timing of the Audit, and Other

We performed our audit according to the planned scope and timing previously communicated in our discussion with the Board of Education President and in our engagement letter about the audit scope and timing.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School District are described in Note 1 to the financial statements.

We noted no transactions entered into by the School District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the School District's financial statements relate to the School District's share of the MPSERS pension plan net pension liability and net OPEB liability recorded on the government-wide statements for the implementation of GASB 68 and GASB 75, respectively.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

The disclosure of net pension liability, net OPEB liability and disclosure related to prior period adjustment.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Uncorrected Misstatements and Corrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management.

Management has corrected all misstatements noted during the audit. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 3, 2022.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the School District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to Management's Discussion & Analysis, Budgetary Comparison Schedule (General Fund), Schedule of The School District' Pension Contributions, Schedule of The School District' Proportionate Share of Net Pension Liability, Schedule of The School District OPEB contributions, Schedule of The School District' Proportionate Share of Net OPEB Liability and notes to required supplementary information which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

With respect to the other supplemental information accompanying the financial statements that are not RSI, as shown in the table of contents, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the use of Board of Education and management of the School District and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Haven Group CPAs & Advisors

Haven Group CPAs & Advisors
Taylor, Michigan
October 3, 2022