

MADISON DISTRICT PUBLIC SCHOOLS

REPORT ON FINANCIAL STATEMENTS
(with required supplementary and additional
supplementary information)

YEAR ENDED JUNE 30, 2012

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November 1, 2012

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
Madison District Public Schools

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Madison District Public Schools, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Madison District Public Schools' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Madison District Public Schools as of June 30, 2012, and the respective changes in financial position, thereof and the respective budgetary comparison for the General Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report under separate cover dated November 1, 2012 on our consideration of the District's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages III through X 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Madison District Public School's basic financial statements. The supplementary information on page 18 is presented for purposes of additional analysis and are not a required part of the financial statements. This supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



LEWIS & KNOPF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

MADISON DISTRICT PUBLIC SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

The Administration's Discussion and Analysis, a requirement of GASB 34, is intended to be the Madison District Public Schools' Administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2012.

Generally Accepted Accounting Principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: District Wide Financial Statements and Fund Financial Statements.

Fund Financial Statements:

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

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

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

District Wide Financial Statements:

The District wide financial statements are full accrual basis statements. They report all of the District's assets and liabilities, both short and long term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Funds solely for the payment of long term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and obligations of the District are reported in the Statement of Net Assets of the District wide financial statements.

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

MADISON DISTRICT PUBLIC SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

District Wide Financial Statements: (Continued)

These two statements report the Madison District Public Schools net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the School District’s financial health or financial position. Over time, increases or decreases in the School District’s net assets – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District’s operating results. However, the School District’s goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and the statement of activities report the governmental activities for the School District, which encompasses all of the School District’s services, including instruction, support services, community services, athletics, and food services. Property taxes, unrestricted State aid (foundation allowance revenue), and State and federal grants finance most of these activities.

The School District as Trustee – Reporting the School District’s Fiduciary Responsibilities

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

SUMMARY OF NET ASSETS:

The following summarizes the net assets at the fiscal years ended June 30, 2012 and 2011.

	<u>2012</u>	<u>2011</u>
<u>NET ASSETS SUMMARY</u>		
ASSETS		
Current Assets	\$7,626,532	\$6,860,685
Non-Current Assets	<u>11,165,630</u>	<u>11,701,899</u>
<u>TOTAL ASSETS</u>	<u>\$18,792,162</u>	<u>\$18,562,584</u>
LIABILITIES		
Current Liabilities	\$5,842,795	\$5,958,088
Long-Term Liabilities	<u>7,408,778</u>	<u>8,796,216</u>
Total Liabilities	\$13,251,573	\$14,754,304
<u>NET ASSETS</u>		
Invested in Capital Assets - Net of Related Debt	2,702,981	1,832,956
Restricted - Debt Retirement	926,915	1,021,445
Restricted - Food Service	89,038	54,602
Unrestricted	<u>1,821,655</u>	<u>899,277</u>
Total Net Assets	<u>\$5,540,589</u>	<u>\$3,808,280</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$18,792,162</u>	<u>\$18,562,584</u>

MADISON DISTRICT PUBLIC SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

RESULTS OF OPERATIONS:

For the fiscal years ended June 30, 2012 and 2011, the District wide results of operations were:

	<u>2012</u>	<u>2011</u>
<u>REVENUES</u>		
General Revenues:		
Property Taxes Levied for General Operations	\$1,940,877	\$2,262,928
Property Taxes Levied for Debt Retirement	1,857,783	2,187,238
State Sources - Unrestricted	7,022,475	7,737,416
Federal Sources - Unrestricted	24,290	490,078
Other General Revenues	<u>124,683</u>	<u>133,070</u>
Total General Revenues	\$10,970,108	\$12,810,730
Operating Grants:		
Federal	1,608,674	1,826,553
State of Michigan	1,308,806	762,924
Other Grants	<u>1,241,476</u>	<u>1,007,247</u>
Total Operating Grants	\$4,158,956	\$3,596,724
<u>Charges for Services:</u>		
Food Service	107,139	94,884
Athletics	28,111	18,596
Other Charges for Services	<u>20,314</u>	<u>11,475</u>
Total Charges for Services	<u>\$155,564</u>	<u>\$124,955</u>
Total Revenues	\$15,284,628	\$16,532,409
EXPENSES		
Instruction	7,300,213	8,128,655
Support Services	5,162,037	5,338,519
Community Services	9,354	7,042
Food Service	623,873	540,287
Interest - Long-Term Obligations	<u>456,842</u>	<u>525,423</u>
Total Expenses	<u>\$13,552,319</u>	<u>\$14,539,926</u>
<u>INCREASE IN NET ASSETS</u>	\$1,732,309	\$1,992,483
BEGINNING NET ASSETS	<u>3,808,280</u>	<u>1,815,797</u>
<u>ENDING NET ASSETS</u>	<u><u>\$5,540,589</u></u>	<u><u>\$3,808,280</u></u>

MADISON DISTRICT PUBLIC SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

GOVERNMENT- WIDE FINANCIAL ANALYSIS

Analysis of Financial Position:

During the year ended June 30, 2012, the District's Total Net Assets increased by \$1,732,309 to a total of \$5,540,589. The largest portion of the net assets is the District's investment in capital assets. Net assets (invested in capital assets, net of related debt) increased by \$870,025 during the year due to purchases of new capital assets and principal payments on related debt exceeding depreciation. The district's Unrestricted Net Assets increased by \$922,378 during the year and the restricted portion of the net assets decreased by \$60,094. The unrestricted Net Assets may be used to fund the educational services provided to students. The restricted Net Assets consist of the restricted debt retirement funds that may only be used to pay bonded debt and restricted capital projects funds that may only be used to fund capital projects.

Analysis of Results of Operations

The district's overall revenues exceeded its expenditures for the year by \$1,732,309. The total current revenues decreased by \$1,247,781 from the prior year. Major changes were decreases in property taxes, state aid and federal grants. Current year expenditures decreased by \$987,607 over the prior year. Major changes were due to a decrease in instructional related expenses, mainly salary expenses. During the fiscal year, contract negotiations were ongoing with the MEA – Madison District Public Schools teacher union. A 10% salary reduction was imposed in April by the Board of Education, retroactive to the start of the fiscal year, which decreased the Districts salary cost by \$558,000. In addition, Michigan legislators had enacted several legislation changes that resulted in no increases in salary, such as step movements, or insurance cost increases if a contract was not settled. In the past, all such increased costs had been borne by the District's general fund. The District was also able to decrease the money that it borrowed from the State Aid Pool for cash flow purposes, resulting in a decrease in interest paid by the district. Also, due to the mild winter, the district was able to reduce the operation costs of the buildings.

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS

Analysis of Financial Position

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

General Fund

The district's general fund is the chief operating fund of the district. The general fund's unreserved fund balance increased by \$949,491 during the fiscal year. Revenues for the fiscal year decreased by \$1,075,062 due to decreases in property taxes, state aid and federal grants. Expenditures and other financing uses decreased by \$1,173,112, primarily due to significant decrease in instructional related expenses, mainly salary expenses. During the fiscal year, contract negotiations were ongoing with the MEA – Madison District Public Schools teacher union. A 10% salary reduction was imposed in April by the Board of Education, retroactive to the start of the fiscal year, which decreased the Districts salary cost by \$558,000. In addition, Michigan legislators had enacted several legislation changes that resulted in no increases in salary, such as step movements, or insurance cost increases if a contract was not settled. In the past, all such increased costs had been borne by the District's general fund. The District was also able to decrease the money that it borrowed from the State Aid Pool for cash flow purposes, resulting in a decrease in interest paid by the district. Also, due to the mild winter, the district was able to reduce the operation costs of the buildings. The major source of general fund revenues is state aid and taxes. An analysis of them is as follows:

MADISON DISTRICT PUBLIC SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS (Continued)

Analysis of Financial Position (Continued)

General Fund (Continued)

1. State of Michigan Unrestricted Aid (Net State Foundation Grant)
 The State of Michigan aid, unrestricted, is determined with the following variables:
 - a. State of Michigan State Aid Act per student foundation allowance
 - b. Student Enrollment - Blended at 90 percent of current year's fall count and 10 percent of prior year's winter count
 - c. The District's non-homestead property tax levy

2. Per Student Foundation Allowance:
 Annually, the State of Michigan establishes the per student foundation allowance. The Madison District Public Schools foundation allowance was \$6,873 per student for the 2011-2012 school year.

3. Student Enrollment:
 The District's student enrollment for the fall count of 2011-2012 was 1,354; a decrease of 65 students from the prior year.

4. Property Taxes Levied For General Operations (General Fund Non-Homestead Taxes)
 The District levies 18 mills of property taxes for operations (General Fund) on Non-Homestead Properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5 percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value.

The District's non-homestead property tax revenue for the 2011-2012 fiscal year was \$1,940,877, a decrease of \$322,051 from the prior year.

GENERAL FUND BUDGETARY HIGHLIGHTS:

GENERAL FUND BUDGET VS. ACTUAL

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Original & Final Budget %</u>	<u>Variance Actual & Final Budget %</u>
Revenue	\$10,770,949	\$12,625,288	\$12,796,791	17.2	1.4
Expenditures	10,859,628	11,817,772	11,847,300	8.8	0.2
<u>TOTAL</u>	<u>(\$88,679)</u>	<u>\$807,516</u>	<u>\$949,491</u>		

MADISON DISTRICT PUBLIC SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

ANALYSIS OF BUDGETS:

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, Madison District Public Schools amends its budget during the school year. The June 2012 budget amendment was the final budget for the fiscal year.

Original vs. Final Budgets

Revenues

Significant variances between original and final budget were due largely to the non-inclusion of federal and some state revenues not being accounted for in the original budget. This included all federal grants and IDEA – special education federal monies. The original budget also did not include the additional revenues that the state passed in the school aid act, such as the MPSERS offset nor, Headlee, nor the best practices revenue that the district did qualify for.

Expenditures

Significant variances between original and final budget were due largely to the non-inclusion of federal grant expenditures, Special Education IDEA expenditures and the original budget assumption of a 12% salary reduction in the MEA-Madison District Public Schools Teacher Association.

Actual Results vs. Final Budgets

Revenues

Variances between final budget and actual revenues were due largely to gate receipts of \$28,000 and PA 18, county special education tax, of \$84,000 above the budget.

Expenditures

There were no significant changes variances between final budget and actual results.

CAPITAL ASSET AND DEBT ADMINISTRATION

A. Debt, Principal Payments

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

	Principal Balance Beginning	Increases	Principal Payments	Principal Balance Ending
Bonds Payable	\$9,860,000	\$0	\$1,405,000	\$8,455,000
Bond Premium	413,684	0	59,810	353,874
Deferred Amount on Refunding	(404,741)	58,516	0	(346,225)
Compensated Absences	314,367	19,252	396	333,223
Self-Insurance	19,200	0	0	19,200
<u>Total Long-Term Obligations</u>	<u>\$10,202,510</u>	<u>\$77,768</u>	<u>\$1,465,206</u>	<u>\$8,815,072</u>

MADISON DISTRICT PUBLIC SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)

B. Net Investment in Capital Assets

The district's net investment in capital assets decreased by \$536,269 during the fiscal year. This can be summarized as follows:

	Balance Beginning	Additions	Deductions	Balance Ending
Capital Assets	\$23,962,528	\$28,587	\$0	\$23,991,115
Less: Accumulated Depreciation	(12,260,629)	(564,856)	0	(12,825,485)
<u>Net Investment Capital Outlay</u>	<u>\$11,701,899</u>	<u>(\$536,269)</u>	<u>\$0</u>	<u>\$11,165,630</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Two major factors determine the available operating funds to Madison District Public Schools: the Foundation Allowance and the number of student enrolled. The state legislature sets a specific dollar amount it will provide for every student enrolled in a Michigan public school district, known as the Foundation Allowance, this funding varies by school district and is calculated based on the total number of students enrolled statewide and the amount of money available from the State's School Aid Fund.

Because the school district is dependent on the Foundation Allowance for the majority of its revenues, student enrollment becomes critical to a school district's financial solvency. For the past five years, student enrollment in the district has declined. Demographic studies estimate that the School District's enrollment will continue to decline, resulting in reduced state funding. In its projected budget for FY 2012/13, it is anticipated that the Madison District will lose an additional 23 students for the next fiscal year. Madison District has sought to increase enrollment through its Schools of Choice program, targeting kindergarten through tenth grade students in Oakland County and contiguous counties. The desired outcome is to sustain—or increase—student enrollment in order to maximize funding from the State.

Looking to fiscal year 2012-13, prudent financial management and cost containment remain critical to the School District's ability to remain fiscally solvent in this volatile and difficult economic climate. It is also imperative that the district stops the decline in student enrollment. To achieve this, for FY 2012/13, a marketing campaign is being initiated to bring students back from the community, new students from surrounding cities as well as students from contiguous counties.

After the close of the fiscal year, the District did settle the MEA-Madison School District Teachers contract. This resulted in a 2% salary cut in FY 2011/2012, and an 8% salary cut in FY 2012/2013. The contract also states that there will be no movement on steps, as well as a cap on health care costs that the District will incur. At the end of this contract, August 25, 2013, 3% will be added back to the salary scale for the start of the next fiscal year, still resulting in a 5% cost reduction from the 2010/11 FY.

Despite the ongoing challenge of securing sufficient operating dollars, the School District remains committed to its vision:

The vision of Madison District Public Schools is to be a high achieving, premier, small public school system recognized for providing a rigorously challenging and culturally diverse education and meeting each student's learning needs.

MADISON DISTRICT PUBLIC SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET (Continued)

We remain committed that every child will be proficient in the core curriculum and have the opportunity to become college and career ready upon graduation from high school. The District is accomplishing this in several ways, one being the partnership with the United Way and GM, in the "School of Excellence" grant for the High school. The District is entering into the second year with this partnership and has completely revamped the high school scheduling and curriculum. It has added additional minutes of instruction for students and given the teachers more time to collaborate with each other and administration to improve the overall instructional delivery for the students. The elementary and middle schools have also been restructuring their instructional program offerings to align with the common core; offering targeted reading instruction with "Readers Workshop"; offering targeted math instruction with the implementation of online math games and instruction through "Success Maker".

We are also committed to serve the families in our community and of our students. We are committed in offering more after school programing, such as tutoring, high school credit recovery, high interest enrichment activities and student groups to support our students and parents. We also offer an after school supper program that is free to all that attend an after school enrichment activity in our district. A breakfast program started FY 2012/13 that is free to all students and is served in the classrooms at the elementary to ensure all of our students have a healthy start to the day. The District also offered a summer food service program in FY 2012/13 that is free to all children under the age of 18 to ensure the health of our community children and plan to continue this offering in the future.

The District Vision will only be achieved by investing in our curriculum, our staff, and facilities. And to that end, the School District Administration and Board of Education will invest some of the fund balance for FY 2012/13 to support this vision. It is projected that in FY 2012/13 the district will have gross expenditures exceeding revenues by \$791,000. The expenditures that have been allocated in next fiscal year include new teaching positions throughout the district. These positions will allow for enhanced offerings such as Art, Debate, and Forensic Science at Madison High School; Spanish and Music offerings at the Wilkinson Middle School and Madison Preparatory High School; Music and smaller class sizes in both elementary buildings. In addition, the budget projected has a \$300,000 boiler replacement in the elementary school.

* The Madison District Public Schools 2012-2013 General Fund adopted budget is as follows:

REVENUE	\$12,365,340
<u>EXPENDITURES</u>	<u>13,156,778</u>
<u>NET (UNDER) BUDGET</u>	<u>(\$791,438)</u>

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Business Office, Madison District Public Schools.

MADISON DISTRICT PUBLIC SCHOOLS
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2012

	<u>Governmental Activities</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash and Cash Equivalents	\$4,769,644
Investments	181,249
Due from Other Governmental Units	2,639,499
Inventory	8,923
Prepaid Expenses	27,217
Total Current Assets	\$7,626,532
<u>NON-CURRENT ASSETS</u>	
Land	1,782,186
Capital Assets	22,208,929
Less: Accumulated Depreciation	(12,825,485)
Total Noncurrent Assets	\$11,165,630
<u>TOTAL ASSETS</u>	\$18,792,162
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Accounts Payable	\$323,737
State Aid Note Payable	3,054,417
Salaries Payable	624,633
Due to Internal Fund	3,607
Accrued Expenses	416,823
Deferred Revenue	13,284
Current Portion of Long-Term Obligations	1,406,294
Total Current Liabilities	\$5,842,795
<u>NON-CURRENT LIABILITIES</u>	
Noncurrent Portion of Long-Term Obligations	7,408,778
<u>TOTAL LIABILITIES</u>	\$13,251,573
<u>NET ASSETS</u>	
<u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	2,702,981
Restricted for:	
Debt Service	926,915
Food Service	89,038
Unrestricted	1,821,655
<u>TOTAL NET ASSETS</u>	\$5,540,589
<u>TOTAL LIABILITIES AND NET ASSETS</u>	\$18,792,162

See accompanying notes to the basic financial statements.

MADISON DISTRICT PUBLIC SCHOOLS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

<u>FUNCTIONS/PROGRAMS</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue & Change in Net Assets</u>
		<u>Charges For Services</u>	<u>Operating Grants and Contributions</u>	
Governmental Activities:				
Instruction	\$7,300,213	\$0	\$3,323,223	(\$3,976,990)
Support Services	5,162,037	48,425	293,351	(4,820,261)
Community Services	9,354	0	0	(9,354)
Food Service	623,873	107,139	542,382	25,648
Interest - Long-Term Obligations	456,842	0	0	(456,842)
<u>TOTALS</u>	<u>\$13,552,319</u>	<u>\$155,564</u>	<u>\$4,158,956</u>	<u>(\$9,237,799)</u>
General Revenues:				
Taxes:				
Property Taxes, Levied for General Purposes				3,798,660
State Sources - Unrestricted				7,022,475
Federal Sources - Unrestricted				24,290
Interest				8,138
Other General Revenues				116,545
Total General Revenues and Transfers				<u>\$10,970,108</u>
Change in Net Assets				\$1,732,309
Net Assets - Beginning				<u>3,808,280</u>
<u>Net Assets - Ending</u>				<u>\$5,540,589</u>

See accompanying notes to the basic financial statements.

MADISON DISTRICT PUBLIC SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF JUNE 30, 2012

	General Fund	2005 Debt Retirement	Non-Major Food Service	Total Governmental Funds
<u>ASSETS</u>				
Cash and Cash Equivalents	\$3,742,117	\$662,180	\$365,347	\$4,769,644
Investments	181,249	0	0	181,249
Due from Other Funds	1,564,331	578,039	0	2,142,370
Due from Other Governmental Units	2,632,599	0	6,900	2,639,499
Inventory	0	0	8,923	8,923
Prepaid Expenditures	27,217	0	0	27,217
<u>TOTAL ASSETS</u>	<u>\$8,147,513</u>	<u>\$1,240,219</u>	<u>\$381,170</u>	<u>\$9,768,902</u>
<u>LIABILITIES</u>				
Accounts Payable	\$313,334	\$0	\$10,403	\$323,737
State Aid Note Payable	3,054,417	0	0	3,054,417
Due to Other Funds	1,563,552	313,304	269,121	2,145,977
Salaries Payable	620,889	0	3,744	624,633
Accrued Expenses	350,820	0	(343)	350,477
Deferred Revenue	13,000	0	284	13,284
Total Liabilities	\$5,916,012	\$313,304	\$283,209	\$6,512,525
<u>FUND BALANCES</u>				
Non-Spendable				
Inventory	0	0	8,923	8,923
Prepaid Expenditures	27,217	0	0	27,217
Restricted				
Debt Retirement	0	926,915	0	926,915
Food Service	0	0	89,038	89,038
Assigned - Subsequent Year Expenditures	791,438	0	0	791,438
Unassigned	1,412,846	0	0	1,412,846
Total Fund Balances	\$2,231,501	\$926,915	\$97,961	\$3,256,377
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$8,147,513</u>	<u>\$1,240,219</u>	<u>\$381,170</u>	<u>\$9,768,902</u>

See accompanying notes to the basic financial statements.

MADISON DISTRICT PUBLIC SCHOOLS
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
AS OF JUNE 30, 2012

Total Governmental Fund Balances: \$3,256,377

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

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$23,991,115 and the accumulated depreciation is \$12,825,485 11,165,630

Accrued Interest on Long-Term Debt (66,346)

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

Bonds Payable	\$8,455,000	
Bond Premium	353,874	
Deferred Amount on Refunding	(346,225)	
Compensated Absences	333,223	
Self Insurance	19,200	
Total Long-Term Liabilities	<u> </u>	<u>(8,815,072)</u>

TOTAL NET ASSETS -
GOVERNMENTAL ACTIVITIES \$5,540,589

MADISON DISTRICT PUBLIC SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	General Fund	2005 Debt Retirement	Non-Major Food Service	Total Governmental Funds
<u>REVENUES</u>				
Local Sources	\$2,271,812	\$1,858,161	\$132,394	\$4,262,367
State Sources	8,311,571	0	19,710	8,331,281
Federal Sources	1,110,292	0	522,672	1,632,964
Total Revenues	<u>\$11,693,675</u>	<u>\$1,858,161</u>	<u>\$674,776</u>	<u>\$14,226,612</u>
<u>EXPENDITURES</u>				
Current:				
Instruction	6,895,185	0	0	6,895,185
Support Services	4,942,761	0	0	4,942,761
Community Services	9,354	0	0	9,354
Food Service	0	0	615,205	615,205
Debt Service				
Principal	0	1,405,000	0	1,405,000
Interest	0	468,325	0	468,325
Other	0	225	0	225
Taxes Abated	0	79,141	0	79,141
Total Expenditures	<u>\$11,847,300</u>	<u>\$1,952,691</u>	<u>\$615,205</u>	<u>\$14,415,196</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(\$153,625)	(\$94,530)	\$59,571	(\$188,584)
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers (to) from Other Funds	45,100	0	(45,100)	0
Other Transfers	1,058,016	0	0	1,058,016
Total Other Financing Sources (Uses)	<u>\$1,103,116</u>	<u>\$0</u>	<u>(\$45,100)</u>	<u>\$1,058,016</u>
Net Change in Fund Balance	\$949,491	(\$94,530)	\$14,471	\$869,432
<u>FUND BALANCE - BEGINNING</u>	<u>1,282,010</u>	<u>1,021,445</u>	<u>83,490</u>	<u>2,386,945</u>
<u>FUND BALANCE - ENDING</u>	<u>\$2,231,501</u>	<u>\$926,915</u>	<u>\$97,961</u>	<u>\$3,256,377</u>

See accompanying notes to the basic financial statements.

MADISON DISTRICT PUBLIC SCHOOLS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

Total net change in fund balances - governmental funds	\$869,432
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.	(536,269)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments reported as expenditures in the governmental funds.	1,405,000
Change in accrued interest on long-term liabilities	11,708
Underwriter's premium reported as revenue in the governmental funds upon issuance and amortized on the statement of activities.	59,810
Deferred charges on debt refunding are reported as expenditures in the governmental funds upon issuance and amortized on the statement of activities.	(58,516)
Decrease in accrued compensated absences	<u>(18,856)</u>
<u>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</u>	<u>\$1,732,309</u>

MADISON DISTRICT PUBLIC SCHOOLS
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
AS OF JUNE 30, 2012

	<u>Trust & Agency</u>
<u>ASSETS</u>	
Cash and Cash Equivalents	\$86,322
Due from Other Funds	<u>3,607</u>
<u>TOTAL ASSETS</u>	<u>\$89,929</u>
<u>LIABILITIES</u>	
Accounts Payable	\$1,187
Due to Student Groups	<u>88,742</u>
<u>TOTAL LIABILITIES</u>	<u>\$89,929</u>

See accompanying notes to the basic financial statements.

MADISON DISTRICT PUBLIC SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES</u>				
Local Sources	\$2,071,959	\$2,271,096	\$2,271,812	\$716
State Sources	7,854,118	8,300,075	8,311,571	11,496
Federal Sources	0	1,190,538	1,110,292	(80,246)
Total Revenues	<u>\$9,926,077</u>	<u>\$11,761,709</u>	<u>\$11,693,675</u>	<u>(\$68,034)</u>
<u>EXPENDITURES</u>				
Current:				
Instruction	5,808,483	6,925,025	6,895,185	29,840
Student Services	763,200	821,440	784,920	36,520
Instructional Support	353,114	558,520	516,275	42,245
General Administration	305,002	395,373	407,043	(11,670)
School Administration	850,720	761,685	800,939	(39,254)
Business Administration	509,501	383,598	350,581	33,017
Operation & Maintenance of Plant	1,498,218	1,312,271	1,361,501	(49,230)
Transportation	373,700	344,199	345,067	(868)
Support Services - Other	347,690	289,641	376,435	(86,794)
Community Services	0	26,020	9,354	16,666
Total Expenditures	<u>\$10,809,628</u>	<u>\$11,817,772</u>	<u>\$11,847,300</u>	<u>(\$46,194)</u>
Excess of Revenues Over Expenditures	(\$883,551)	(\$56,063)	(\$153,625)	(\$114,228)
<u>OTHER FINANCING SOURCES (USES)</u>				
Net Change in Fund Balance	<u>794,872</u>	<u>863,579</u>	<u>1,103,116</u>	<u>239,537</u>
	(\$88,679)	\$807,516	\$949,491	\$125,309
<u>FUND BALANCE - BEGINNING (DEFICIT)</u>			<u>1,282,010</u>	
<u>FUND BALANCE - ENDING (DEFICIT)</u>			<u>\$2,231,501</u>	

See accompanying notes to the basic financial statements.

MADISON DISTRICT PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Madison District Public Schools (the "School District") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District:

Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate, component units of the School District. Based on the application of the criteria, the School District does not contain any component units.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets (deficit) and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted state aid.

MADISON DISTRICT PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. 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 and claims and judgments, are recorded only when payment is due.

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

Fiduciary fund statements are also reported using the economic resources measurement focus and the accrual basis of accounting. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

The School District reports the following major governmental fund:

General Fund - The General Fund is the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.

Additionally, the School District reports the following fund types:

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. The School District's Special Revenue Funds include food services. Any operating deficit generated by these activities is the responsibility of the General Fund.

Debt Service Funds - Debt Service Funds are used to record tax, interest, other revenue for payment of interest, principal, and other expenditures on bonds outstanding.

Student Activity (Agency) Fund - The School District presently maintains a Student Activity Fund to record the transactions of student groups for school and school-related purposes. The funds are segregated and held in trust for the students.

Assets, Liabilities, and Net Assets or Equity

Cash and Investments - Cash and investments include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from the School District's funds is generally allocated to each fund using a weighted average of balance for the principal.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

MADISON DISTRICT PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The School District considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded. Property taxes are assessed as of December 31 and the related property taxes become a lien on July 1 for approximately 50 percent of the taxes that are due on September 15 and December 1 for the remainder of the property taxes that are due on February 14. The final collection date is February 28, after which they are added to the county tax rolls.

Inventories and Prepaid Costs - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid costs in both government-wide and fund financial statements.

Capital Assets - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the School District as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The School District does not have infrastructure-type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities</u> <u>Estimated Lives</u>
Site Improvements	15 Years
Buildings and Building Additions	15 – 40 years
Buses and Other Vehicles	10 years
Furniture and Equipment	5 – 20 years

Compensated Absences - The liability for compensated absences reported in the government-wide statements consists of earned but unused accumulated vacation and sick leave benefits. A liability for these amounts is reported in governmental funds as it comes due for payment. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Long-term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets (deficit).

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 are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Comparative Data/Reclassifications - Comparative data is not included in the School District's financial statements.

MADISON DISTRICT PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance

The District implemented, Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

Fund balances for each of the District's governmental funds (General Fund, special revenue funds, capital projects funds, and debt service funds) are displayed in the following classifications depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

- * Nonspendable fund balance - amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact.
- * Restricted fund balance - amounts that can be spent only for specific purposes because of constraints imposed by external providers (such as grantors, bondholders, and higher levels of government), or imposed by constitutional provisions or enabling legislation. The District's Capital Projects Fund, Debt Service Fund and Food Service balances are considered restricted.
- * Committed fund balance - amounts that can be spent only for specific purposes determined by a formal action resolution of the District's highest level of decision-making authority, the Board of Education.
- * Assigned fund balance - amounts the District intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. The intent is expressed by the Board of Education.
- * Unassigned fund balance - amounts that are available for any purpose; these amounts can be reported only in the District's General Fund.

The District would typically use restricted fund balance first, followed by committed resources, and then assigned resources as appropriate opportunities arise, but reserve the right to selectively spend unassigned resources first to defer the use of these classified funds.

2) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level (i.e., basic program, added needs, etc.). State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. The budget was amended during the year to account for the decrease in state revenue as a result of declining enrollment. The School District did not have significant budget overruns.

Encumbrance accounting is employed in governmental funds. Purchase orders, contracts, etc. are encumbered during the year. At year end, any remaining purchase orders are lapsed, as they are not significant. As a result, fund balance has not been reserved.

MADISON DISTRICT PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

3) DEPOSITS AND INVESTMENTS

State statutes authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The School District is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The School District's deposits are in accordance with statutory authority.

The School District Board of Education has designated five financial institutions for the deposit of its funds.

The investment policy adopted by the board in accordance with state statutes has authorized investment in bonds and securities of the United States government and bank accounts and CDs and all other investments as noted by the state statutory authority as listed above.

The School District's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District's investment policy requires that financial institutions be evaluated and only those with an acceptable risk level are used for the School District's deposits for custodial credit risk. At year end, the School District's deposit balance of \$4,939,850 had \$4,027,670 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The School District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the School District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the 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's policy for custodial credit risk states that custodial credit risk will be minimized by limiting investments to the types of securities allowed by state law, and by prequalifying the financial institutions, broker/dealers, intermediaries, and advisors with which the School District will do business using the criteria established in the investment policy. The School District does not have investments with custodial credit risk.

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's investment policy does not restrict investment maturities. The School District's policy minimizes interest rate risk by structuring 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 in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The School District's investment policy does not further limit its investment choices.

At year end, the investments and the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Cash Management Funds	\$ 181,249	AAAm	S&P

MADISON DISTRICT PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

3) DEPOSITS AND INVESTMENTS (Continued)

Concentration of Credit Risk - The School District places no limit on the amount the School District may invest in any one issuer.

Foreign Currency Risk - Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. State law and the School District's policy prohibit investment in foreign currency.

4) RECEIVABLES

Receivables at June 30, 2012, consist of taxes, accounts (fees), intergovernmental grants and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables (due from other governmental units) follows:

<u>GOVERNMENTAL ACTIVITIES</u>	<u>AMOUNT</u>
State Aid	\$ 1,503,592
Federal Grants	1,089,158
Other	46,749
	<hr/>
<u>TOTAL GOVERNMENTAL ACTIVITIES</u>	<u>\$ 2,639,499</u>

5) CAPITAL ASSETS

Capital asset activity of the School District's governmental activities was as follows:

	<u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u>
	<u>Beginning</u>			<u>Ending</u>
<u>GOVERNMENTAL ACTIVITIES</u>				
Land	\$1,782,186	\$0	\$0	\$1,782,186
Site Improvements	2,440,920	0	0	2,440,920
Building and Building Improvements	19,180,026	18,729	0	19,198,755
Buses and Other Vehicles	46,160	0	0	46,160
Furniture and Equipment	513,236	9,858	0	523,094
Totals at Historical Cost	<u>\$23,962,528</u>	<u>\$28,587</u>	<u>\$0</u>	<u>\$23,991,115</u>
Less: Accumulated Depreciation				
Site Improvements	(1,861,998)	(150,841)	0	(2,012,839)
Building and Building Improvements	(10,003,257)	(386,644)	0	(10,389,901)
Buses and Other Vehicles	(33,660)	(2,500)	0	(36,160)
Furniture and Equipment	(361,714)	(24,871)	0	(386,585)
Total Accumulated Depreciation	<u>(\$12,260,629)</u>	<u>(\$564,856)</u>	<u>\$0</u>	<u>(\$12,825,485)</u>
<u>GOVERNMENTAL ACTIVITIES</u>				
<u>CAPITAL ASSETS - NET</u>	<u>\$11,701,899</u>	<u>(\$536,269)</u>	<u>\$0</u>	<u>\$11,165,630</u>

MADISON DISTRICT PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

5) CAPITAL ASSETS (Continued)

Depreciation expense, when appropriate, was allocated to governmental functions. Depreciation expense that was not allocated appears on the statement of activities as “unallocated”. Depreciation was recorded on the statement of activities as follows:

Instruction	\$ 386,172
Support Services	170,016
Food Service	<u>8,668</u>
<u>TOTAL DEPRECIATION EXPENSE</u>	<u>\$ 564,856</u>

6) INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund balances at June 30, 2012 consisted of the following:

DUE FROM				
DUE TO	General	Debt	Trust &	Total
	Fund	Retirement	Agency	
General Fund	\$981,906	\$578,039	\$3,607	\$1,563,552
Debt Retirement	313,304	0	0	313,304
Food Service Fund	<u>269,121</u>	<u>0</u>	<u>0</u>	<u>269,121</u>
<u>TOTAL</u>	<u>\$1,564,331</u>	<u>\$578,039</u>	<u>\$3,607</u>	<u>\$2,145,977</u>

7) LONG-TERM DEBT

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include compensated absences and certain risk liabilities.

Long-term obligation activity can be summarized as follows:

<u>Governmental Activities:</u>	Balance Beginning	Additions	Deductions	Balance Ending	Amount Due in One Year
Bonds Payable	\$9,860,000	\$0	\$1,405,000	\$8,455,000	\$1,405,000
Bond Premium	413,684	0	59,810	353,874	59,810
Deferred Amount on Refunding	(404,741)	58,516	0	(346,225)	(58,516)
Compensated Absences	314,367	19,252	396	333,223	0
Self-Insurance	<u>19,200</u>	<u>0</u>	<u>0</u>	<u>19,200</u>	<u>0</u>
<u>Total Governmental Activities</u>	<u>\$10,202,510</u>	<u>\$77,768</u>	<u>\$1,465,206</u>	<u>\$8,815,072</u>	<u>\$1,406,294</u>

MADISON DISTRICT PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

7) LONG-TERM DEBT (Continued)

Annual Principal Requirements

The annual principal requirements for all debts outstanding as of June 30, 2012 are as follows:

	BONDS PAYABLE	INTEREST	TOTAL
June 30, 2013	\$1,405,000	\$398,076	\$1,803,076
June 30, 2014	1,410,000	327,826	1,737,826
June 30, 2015	1,410,000	257,326	1,667,326
June 30, 2016	1,410,000	186,826	1,596,826
June 30, 2017	1,410,000	125,138	1,535,138
June 30, 2018	1,410,000	63,450	1,473,450
<u>TOTAL</u>	<u>\$8,455,000</u>	<u>\$1,358,642</u>	<u>\$9,813,642</u>

The interest expenditures on long-term obligations for the year was \$468,325.

General obligation bonds consist of the following:

2005 - \$12,750,000 refunding bonds due in annual installments of \$60,000 to \$1,410,000 through May 1, 2018; interest at 3 percent to 5 percent	<u>\$ 8,455,000</u>
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8) DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS

Plan Description

The District participates in the statewide Michigan Public School Employees' Retirement System (MPSERS), a cost sharing multiple-employer state-wide defined benefit public employee retirement plan governed by the State of Michigan. The MPSERS provides retirement survivor and disability benefits and postretirement benefits for health, dental and vision for substantially all employees of the District. The MPSERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan 48909-7671 or by calling (800) 381-5111. It is also available at <http://www.michigan.gov/orsschools>.

Funding Policy

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Members joining the system on or after July 1, 2008 contribute at the following graduated rate: 3% of the first \$5,000, 3.6% of \$5,001 through \$15,000 and 6.4% of all wages over \$15,000.

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

MADISON DISTRICT PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

8) DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS (Continued)

On May 19, 2010, the Governor signed Public Act 75 of 2010 into law. As a result, any member of MPSERS who became a member of MPSERS after June 30, 2010 is a Pension Plus Member. The Pension Plus Plan pairs a guaranteed retirement income (defined benefit pension) with a flexible and transferable retirement savings (defined contribution) account.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. For the period October 1 through September 30, the School District pays an amount equal to a percentage of its employees' wages to the Michigan Public School Employees Retirement System ("MPSERS)", which is administered by the State of Michigan. These contributions are required by law and are calculated by using the contribution rates and periods provided in the table below of the employees' wages. In addition, the District is required to match 50% up to 1% of the employee's contribution in the Pension Plus plan. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The District contributions to MPSERS were equal to the required contribution for those years.

The School District's contributions to MPSERS are as follows:

Contribution Period	Contribution Rate	
	Member	Pension Plus Member
October 1, 2011 - September 30, 2012	24.46%	23.23%
November 1, 2010 - September 30, 2011	20.66%	19.16%
October 1, 2010 - October 31, 2010	19.41%	17.91%
October 1, 2009 - September 30, 2010	16.94%	-
July 1, 2010 - September 30, 2010	-	15.44%

Fiscal Year Ending June 30,	Contribution to MSPERS
2012	\$ 1,388,987
2011	1,275,188
2010	1,396,018

Other Post-employment Benefits

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 is funded on a cash disbursement basis by the employers. The System has contracted to provide the comprehensive group medical hearing, dental and vision coverage for retirees and beneficiaries. A significant portion of the premiums is paid by the System with the balance deducted from the monthly pension of each retiree health care recipient. Public Act 75 of 2010 requires each actively employed member of MPSERS after June 30 2010 to contribute 3% (or 1.5%) of their compensation to offset employer contributions for health care benefits of current retirees. For the school fiscal year that began July 1, 2010, members who were employed by a reporting unit and were paid less than \$18,000 in the prior school year and members who were hired on or after July 1, 2010, with a starting salary of less than \$18,000 are required to contribute 1.5% of the members' compensation. For each school fiscal year that begins on or after July 1, 2011 members shall contribute 3% of compensation into the health care funding account.

MADISON DISTRICT PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

8) DEFINED BENEFIT PENSION PLAN (Continued)

On June 28, 2010, the Michigan Court of Claims issued an injunction in response to a challenge to the authority of the State to require employees who began working before July 1, 2010, to contribute 3% of reportable wages to the retiree health care trust at MPSERS. As a result, the State has adjusted the contribution rate due on employees' wages paid between November 1, 2010 and September 30, 2011 to 20.66% for members who first worked prior to July 1, 2010 and 19.16% for Pension Plus members. In March 2011, the Court of Claims granted the plaintiffs' motions for summary disposition finding that the mandatory 3% contribution violated both the U.S. and Michigan constitutions. The State has appealed the ruling to the Michigan Court of Appeals. The Court of Appeals has accepted the appeal and ordered an expedited review. The Court of Appeals also granted the State's motion for a stay of proceedings and ordered that the 3% deduction continue to be collected and placed into an escrow account until further order of the court. Should the plaintiffs prevail in the litigation; the escrowed funds will be returned to the state employees.

Pension recipients are generally eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing coverage.

The District is not responsible for the payment of retirement or post-retirement benefits which is the responsibility of the State of Michigan.

9) RISK MANAGEMENT

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

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

The School District estimates the liability for dental and vision claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. The obligation is recorded on the statement of net assets (deficit) and totals approximately \$19,200.

10) STATE AID ANTICIPATION NOTE

On August 20, 2011, Madison District Public Schools borrowed \$3,045,000 with two state aid anticipation notes. The notes bear interest monthly at a rate of .311% percent and are due on August 20, 2012. At June 30, 2012, Madison District Public Schools has accrued interest of \$9,417 on this note.

	<u>Balance</u>		<u>Balance</u>
	<u>Beginning</u>	<u>Additions</u>	<u>Deductions</u>
	<u>Ending</u>		
State Aid Note	<u>\$3,049,000</u>	<u>\$3,045,000</u>	<u>\$3,049,000</u>
	<u>\$3,045,000</u>		

MADISON DISTRICT PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

11) SUBSEQUENT EVENTS

On August 20, 2012, Madison District Public Schools borrowed \$1,600,000 with three state aid anticipation notes.

<u>Issuance</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Due</u>
2012 B-1 (Set Aside)	\$ 800,000	.400%	08/22/2013
2012 B-2	440,000	.270%	08/22/2013
2012 B-3	<u>360,000</u>	1.460%	08/22/2013
 <u>TOTAL</u>	 <u>\$ 1,600,000</u>		

Management has evaluated subsequent events through the date of the auditor's opinion, the date on which the financial statements were available to be issued.

12) CONTINGENCIES AND COMMITMENTS

The School District is a defendant of several lawsuits that occurred in the normal course of business. The opinion of the School District's management is that the outcome from the pending litigation will not have a materially adverse effect on the School District's financial position.

13) UPCOMING ACCOUNTING PRONOUNCEMENTS

The District is currently evaluating the impact the following standards will have on the financial statements when adopted in future fiscal years 2013 through 2015.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, was issued in December 2010. This statement incorporates into the GASB literature certain accounting and financial reporting guidance issued on or before November 30, 1989 that is included in PASO Statements and Interpretations, APB Opinions and Accounting Research Bulletins of the AICPA Committee on Accounting Procedure.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, was issued by the GASB in June 2011 and will be effective for the District's 2013 fiscal year. The statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Once implemented, this statement will impact the format and reporting of the balance sheet at the government-wide level and also at the fund level.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, was issued by the GASB in March 2012 and will be effective for the District's 2013 fiscal year. The statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement provides supplemental guidance when implementing GASB Statement 63.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, was issued by the GASB in June 2012 and will be effective for the District's 2015 fiscal year. The statement requires governments that participate in defined benefit pension plans to report in their statement of net position a net pension liability. The net pension liability is the difference between the total pension liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries. Statement 68 requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan. The Statement also will improve the comparability and consistency of how governments calculate the pension liabilities and expense.

OTHER SUPPLEMENTAL
INFORMATION

MADISON DISTRICT PUBLIC SCHOOLS
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS
FOR THE YEAR ENDED JUNE 30, 2012

<u>JUNE 30</u>		Interest		Principal	Total
		November 1	May 1		
2013	5.000%	\$199,038	\$199,038	\$1,405,000	\$1,803,076
2014	5.000%	163,913	163,913	1,410,000	1,737,826
2015	5.000%	128,663	128,663	1,410,000	1,667,326
2016	4.375%	93,413	93,413	1,410,000	1,596,826
2017	4.375%	62,569	62,569	1,410,000	1,535,138
2018	4.500%	31,725	31,725	1,410,000	1,473,450
<u>TOTAL</u>		<u>\$679,321</u>	<u>\$679,321</u>	<u>\$8,455,000</u>	<u>\$9,813,642</u>
				Original Issue - 2005 Refunding Bonds	<u>\$12,750,000</u>

MADISON DISTRICT PUBLIC SCHOOLS

MADISON HEIGHTS, MICHIGAN

FEDERAL AWARDS
SUPPLEMENTAL INFORMATION

FOR THE YEAR ENDED JUNE 30, 2012

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November 1, 2012

**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 of
Madison District Public Schools

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Madison District Public Schools, as of and for the year ended June 30, 2012, which collectively comprise the Madison District Public Schools' basic financial statements and have issued our report thereon dated November 1, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Madison District Public Schools, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Madison District Public Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Madison District Public Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Madison District Public Schools' internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

Madison District Public Schools
Page 2
November 1, 2012

This report is intended solely for the information and use of management, the finance committee, Board of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



LEWIS & KNOFF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS



November 1, 2012

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Education of
Madison District Public Schools

Compliance

We have audited Madison District Public Schools' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Madison District Public Schools' major federal programs for the year ended June 30, 2012. Madison District Public Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Madison District Public Schools' management. Our responsibility is to express an opinion on Madison District Public Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Madison District Public Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Madison District Public Schools' compliance with those requirements.

In our opinion, Madison District Public Schools complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of Madison District Public Schools is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Madison District Public Schools' internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Madison District Public Schools' 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.

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Madison District Public Schools, as of and for the year ended June 30, 2012, and have issued our report thereon dated November 1, 2012, which contained unqualified opinions on those financial statements. Our audit was performed for the purpose of forming opinions that collectively comprise Madison District Public Schools' basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

This report is intended solely for the information and use of the finance committee, management, Board of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



LEWIS & KNOPF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

MADISON DISTRICT PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

FEDERAL GRANTOR/ PASS THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS - THROUGH PROJECT NUMBER	APPROVED GRANT AWARD AMOUNT
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Passed Through Michigan Department of Education:			
Title I Grants to Local Educational Agencies:			
Title I Regular (10-11)	84.010	111530-1011	\$468,148
Title I Regular (11-12)	84.010	121530-1112	506,753
Title I Schoolwide Programming Planning Grant (10-11)	84.010	111550-1011	30,000
Total Title I Grants to Local Educational Agencies			\$1,004,901
Enhancing Education Through Technology ARRA Title II D Carryover	84.386A	114295-1011	4,371
Title III - Limited English Proficient Students	84.365A		
Title III (10-11) Immigrant Students		110570-1011	25,631
Title III (11-12) Immigrant Students		120570-1112	48,381
Title III (10-11) Limited English		110580-1011	50,031
Title III (11-12) Limited English		120580-1112	59,858
Total Title III - Limited English Proficient Students			\$183,901
Teacher/Principal Training and Recruiting	84.367		
Improving Teacher Quality (10-11)		110520-1011	184,498
Improving Teacher Quality (11-12)		120520-1112	140,599
Total Teacher/Principal Training & Recruiting			\$325,097
Education Jobs Fund	84.410a	112545-1112	24,290
Total Passed Through Michigan Department of Education			\$1,542,560
Passed Through Oakland Schools:			
Special Education - Grants to States:			
IDEA Flowthrough (09-10)	84.027	100450-0910	374,448
IDEA Flowthrough (10-11)	84.027	110450-1011	388,008
IDEA Flowthrough (11-12)	84.027	110450-1112	354,356
ARRA Flowthrough (09-10)	84.391A	10455-0910	461,421
Total Special Education Grants to States			\$1,578,233
Preschool Incentive:			
Preschool (10-11)	84.173	110460-1011	28,481
Preschool (11-12)	84.173	110460-1112	24,282
ARRA Preschool (09-10)	84.392A	100465-0910	27,069
Total Preschool Incentive			\$79,832
Total Special Education Cluster			\$1,658,065
<u>TOTAL U.S. DEPARTMENT OF EDUCATION</u>			\$3,200,625

ACCRUED (DEFERRED) REVENUE JULY 1, 2011	PRIOR YEAR EXPENDITURES	CURRENT YEAR EXPENDITURES	ADJUSTMENTS PRIOR YEARS	CURRENT YEAR CASH/ PAYMENTS IN KIND RECEIVED	ACCRUED (DEFERRED) REVENUE JUNE 30, 2012
\$60,696	\$466,963	\$0	\$0	\$60,696	\$0
0	0	478,801	0	0	478,801
3,144	6,784	0	0	3,144	0
<u>\$63,840</u>	<u>\$473,747</u>	<u>\$478,801</u>	<u>\$0</u>	<u>\$63,840</u>	<u>\$478,801</u>
4,109	4,371	0	0	4,109	0
827	2,713	0	0	827	0
0	0	27,993	0	0	27,993
963	5,355	0	0	963	0
0	0	27,491	0	0	27,491
<u>\$1,790</u>	<u>\$8,068</u>	<u>\$55,484</u>	<u>\$0</u>	<u>\$1,790</u>	<u>\$55,484</u>
50,019	164,111	0	0	50,019	0
0	0	140,599	0	0	140,599
<u>\$50,019</u>	<u>\$164,111</u>	<u>\$140,599</u>	<u>\$0</u>	<u>\$50,019</u>	<u>\$140,599</u>
0	0	24,290	0	24,290	0
<u>\$119,758</u>	<u>\$650,297</u>	<u>\$699,174</u>	<u>\$0</u>	<u>\$144,048</u>	<u>\$674,884</u>
4,753	374,448	0	0	4,753	0
355,528	355,528	32,480	0	355,528	32,480
0	0	354,356	0	0	354,356
36,621	461,419	0	0	36,621	0
<u>\$396,902</u>	<u>\$1,191,395</u>	<u>\$386,836</u>	<u>\$0</u>	<u>\$396,902</u>	<u>\$386,836</u>
28,481	28,481	0	0	28,481	0
0	0	24,282	0	0	24,282
27,069	27,069	0	0	27,069	0
<u>\$55,550</u>	<u>\$55,550</u>	<u>\$24,282</u>	<u>\$0</u>	<u>\$55,550</u>	<u>\$24,282</u>
<u>\$452,452</u>	<u>\$1,246,945</u>	<u>\$411,118</u>	<u>\$0</u>	<u>\$452,452</u>	<u>\$411,118</u>
\$572,210	\$1,897,242	\$1,110,292	\$0	\$596,500	\$1,086,002

MADISON DISTRICT PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

FEDERAL GRANTOR/ PASS THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS - THROUGH PROJECT NUMBER	APPROVED GRANT AWARD AMOUNT
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Passed Through Michigan Department of Education:			
School Breakfast Program	10.553	N/A	\$110,231
National School Lunch Program	10.555	N/A	348,924
National School Lunch Program - Entitlement Commodities		N/A	37,205
Total National School Lunch Program			<u>\$386,129</u>
Special Milk Program for Children	10.556	N/A	702
Summer Food Service Program	10.559		
SFSP Operating		120900	2,861
SFSP Admin		121900	295
Total Summer Food Service Program			<u>\$3,156</u>
Total Nutrition Cluster			<u>\$500,218</u>
Fresh Fruit & Vegetable Program	10.582		
Fresh Fruit & Vegetable Program (10-11)		110950	24,097
Fresh Fruit & Vegetable Program (11-12)		120950	22,454
Total Fresh Fruit & Vegetable Program			<u>\$46,551</u>
<u>TOTAL U.S. DEPARTMENT OF AGRICULTURE</u>			<u>\$546,769</u>
<u>TOTAL FEDERAL AWARDS</u>			<u>\$3,747,394</u>

ACCRUED (DEFERRED) REVENUE JULY 1, 2011	PRIOR YEAR EXPENDITURES	CURRENT YEAR EXPENDITURES	ADJUSTMENTS PRIOR YEARS	CURRENT YEAR CASH/ PAYMENTS IN KIND RECEIVED	ACCRUED (DEFERRED) REVENUE JUNE 30, 2012
\$0	\$0	\$110,231	\$0	\$110,231	\$0
0	0	348,924	0	348,924	0
0	0	37,205	0	37,205	0
<u>\$0</u>	<u>\$0</u>	<u>\$386,129</u>	<u>\$0</u>	<u>\$386,129</u>	<u>\$0</u>
0	0	702	0	702	0
0	0	2,861	0	0	2,861
0	0	295		0	295
<u>\$0</u>	<u>\$0</u>	<u>\$3,156</u>	<u>\$0</u>	<u>\$0</u>	<u>\$3,156</u>
<u>\$0</u>	<u>\$0</u>	<u>\$500,218</u>	<u>\$0</u>	<u>\$497,062</u>	<u>\$3,156</u>
5,549	24,097	0	0	5,549	0
0	0	22,454	0	22,454	0
<u>\$5,549</u>	<u>\$24,097</u>	<u>\$22,454</u>	<u>\$0</u>	<u>\$28,003</u>	<u>\$0</u>
<u>\$5,549</u>	<u>\$24,097</u>	<u>\$522,672</u>	<u>\$0</u>	<u>\$525,065</u>	<u>\$3,156</u>
<u><u>\$577,759</u></u>	<u><u>\$1,921,339</u></u>	<u><u>\$1,632,964</u></u>	<u><u>\$0</u></u>	<u><u>\$1,121,565</u></u>	<u><u>\$1,089,158</u></u>

MADISON DISTRICT PUBLIC SCHOOLS
NOTES/RECONCILIATION TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

FEDERAL REVENUE RECOGNIZED FOR THE SCHEDULE
OF EXPENDITURES OF FEDERAL AWARDS

\$1,632,964

FEDERAL REVENUE RECOGNIZED PER THE GENERAL
PURPOSE FINANCIAL STATEMENTS

General Fund

\$1,110,292

School Service Fund

522,672

TOTAL

\$1,632,964

- 1) Basis of Presentation - The accompanying schedule of expenditures of federal awards includes the grant activity of Madison District Public Schools and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with OMB Circular A-133 and reconciles with the amounts presented in the preparation of the financial statements.
- 2) The Title I program (CFDA 84.010) and Special Education Cluster (84.027/84.391A/84.173/84.392A) were audited as major programs and represent 54% of expenditures. The District qualified for low risk auditee status.
- 3) Management has utilized the Grants Section Auditors Report in preparing the Schedule of Expenditures of Federal Awards. All differences between the Schedule of Expenditures of Federal Awards and the Grant Section Auditors Report have been reconciled in the attached reconciliation on page 7 of this report.

MADISON DISTRICT PUBLIC SCHOOLS
RECONCILIATION OF "GRANT SECTION AUDITOR'S REPORT"
TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

Current Payments Per the Grant Section Auditor's Report		
Cash Management System		\$631,908
<u>Add:</u> Grants Passed Through the Oakland Schools		
Special Education - Grants to States (CFDA 84.027)	\$360,281	
ARRA Flowthrough (CFDA 84.391A)	36,621	
Preschool Incentive (CFDA 84.173)	28,481	
ARRA Preschool (CFDA 84.392A)	27,069	
Total Grants Passed Through Oakland Schools	<hr/>	452,452
Entitlement and Bonus Commodities		<hr/> 37,205
<u>TOTAL CURRENT YEAR RECEIPTS PER SCHEDULE OF</u>		
<u>EXPENDITURES OF FEDERAL AWARDS</u>		<hr/> <hr/> \$1,121,565

MADISON DISTRICT PUBLIC SCHOOLS
SUMMARY OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency (ies) identified? 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? Yes None reported

Type of auditor’s report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.010	Title I
84.027/84.391A/84.173/84.392A	Special Education Cluster

Dollar threshold use to distinguish between type A and type B programs: \$ 300,000.00

Auditee qualified as low-risk auditee? Yes No

SECTION II – FINANCIAL STATEMENT FINDINGS

There were no findings for the current year.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no findings for the current year.

MADISON DISTRICT PUBLIC SCHOOLS
SUMMARY OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 2011-1

Finding Type – Significant deficiency

Criteria - Proper segregation of duties mitigates the risk of financial reporting errors. Reliable financial reporting is necessary to carry out the School District's day-to-day activities.

Condition - Related to the payroll process, a lack of segregation of duties exists whereby the same individual that processes payroll is also responsible for inputting pay rate changes.

Context - The School District has a limited number of staff in the business office. In addition, the School District has experienced turnover with the accounting manager position over the past few years. The Board of Education reviews the check runs regularly.

Cause/Effect - The lack of segregation of duties increases the risk of errors in financial reporting whether unintentional or intentional (fraud).

Recommendation - We recommend that the School District review segregation of duties related to various areas, including identifying the individuals that initiate, record, and review transactions within each system. Given the School District's limited staffing, cost/benefit of any changes should also be considered.

Views of Responsible Officials and Planned Corrective Action - Internal control procedures, including segregation of duties, will be reviewed and corrective action taken as necessary.

Status – Corrected in the current year.

Finding 2011-2

Finding Type – Significant deficiency

Criteria – Adequate reconciliation procedures and documentation, timeliness of depositing cash receipts and proper segregation of duties related to cash receipting and depositing of funds mitigates the risk of financial reporting errors and misappropriation of District assets.

Condition – *Trust and Agency Accounts* – no fundraising reconciliations were evidenced.

Context – The District has a limited number of staff in the business office. In addition, the District has experienced turnover with the accounting manager position over the past few years. The District does not have adequate supervision of decentralized cash receipting areas related to student fundraising accounts.

Cause/Effect – Lack of appropriate reconciliations and segregations of duties, increases the risk of misappropriation of assets and misstatement in the financial records.

Recommendation – We recommend the District develop and implant appropriate reconciliations and review current procedures for all decentralized cash collection points.

Views of Responsible Officials and Planned Corrective Action – Effective with the 2011-2012, corrective action will be taken to address the cash receipt control deficiencies.

Status – Corrected in the current year.