

MADISON SCHOOL DISTRICT
FINANCIAL REPORT
WITH SUPPLEMENTAL INFORMATION
JUNE 30, 2013

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Certified Public Accountants
INDEPENDENT AUDITORS' REPORT

Board of Education
Madison School District
Adrian, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and aggregate remaining fund information of the Madison School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Adrian, Michigan

aggregate remaining fund information of the Madison School District as of June 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the financial statements, the Madison School District adopted the provisions of Governmental Accounting Standards Board (GASB) Statements No. 63 and 65 as of July 1, 2012. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4-12 and 33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Madison School District's basic financial statements. The accompanying supplemental information, identified in the table of contents as Other Supplemental Information is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2013 on our consideration of Madison School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Madison School District's internal control over financial reporting and compliance

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Madison School District
Adrian, Michigan

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

Drake, Watters & Associates, PLLC

Jackson, Michigan
September 23, 2013

MADISON SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS For Fiscal Year Ended June 30, 2013

This section of Madison School District's annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2013. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Using this Annual Report

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

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

Basic Financial Statements

Government-wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statements

Budgetary Information for Major Funds
(Required Supplemental Information)

Other Supplemental Information

Other Reporting Required by Government Auditing Standards

MADISON SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued) For Fiscal Year Ended June 30, 2013

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

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

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

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

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

MADISON SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued) For Fiscal Year Ended June 30, 2013

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

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

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

The School District as a Whole

Recall that the statement of net position provides the perspective of the School District as a whole. Table I provides a summary of the School District's net position as of June 30, 2013 and 2012:

(See next page)

MADISON SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued) For Fiscal Year Ended June 30, 2013

TABLE I

	Governmental Activities	
	June 30	
	2013	2012
	(in millions)	
Assets		
Current and other assets	\$ 6.5	\$ 9.8
Capital assets, net	17.2	13.6
Total assets	<u>23.7</u>	<u>23.4</u>
Deferred Outflow of Resources		
Debt refunding deferred charges	0.04	0.0
Combined Outflow of Resources	<u>23.7</u>	<u>23.4</u>
Liabilities		
Current and noncurrent due within one year	2.0	2.4
Noncurrent due in more than one year	3.5	3.6
Total liabilities	<u>5.5</u>	<u>6.0</u>
Net Position		
Invested in capital assets - Net of related debt	13.6	9.7
Restricted	0.4	3.7
Unrestricted	4.2	4.0
Total net position	<u>\$ 18.2</u>	<u>\$ 17.4</u>

The above analysis focuses on the net position (Table 1). The change in net position (Table 2) of the School District's governmental activities is discussed below. The School District's net position was \$18.2 million at June 30, 2013. The investment in capital assets, net of related debt, reflects a balance of \$13.6 million. This figure compares the original cost less depreciation of the School District's capital assets to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use that net position for day-to-day operations. The remaining amount of net position, \$4.2 million, was unrestricted.

The \$4.2 million in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. The unrestricted net position balance enables the School District to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (Table 2), which shows the changes in net position for the fiscal years ended June 30, 2013 and 2012.

MADISON SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued) For Fiscal Year Ended June 30, 2013

TABLE 2

	Governmental Activities	
	2013	2012
	(in millions)	
Revenue		
Program revenue:		
Charges for services	\$ 0.2	\$ 0.2
Operating grants and contributions	1.9	1.9
General revenue:		
Property taxes	3.2	2.8
State foundation allowance	11.1	10.1
Other	0.6	0.4
Total revenue	<u>17.0</u>	<u>15.4</u>
Functions/Program Expenses		
Instruction	9.8	9.7
Support services	4.6	3.6
Food services	0.7	0.7
Athletics	0.3	0.3
Interest on long-term debt	0.2	0.2
Depreciation (unallocated)	0.6	0.5
Total functions/program expenses	<u>16.2</u>	<u>15.0</u>
(Decrease) Increase in Net Position	0.8	0.4
Net Position - Beginning of year	<u>17.4</u>	<u>17.0</u>
Net Position - End of year	<u>\$ 18.2</u>	<u>\$ 17.4</u>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$16.2 million. Certain activities were partially funded from those who paid for goods and services from those programs, \$0.2 million, or by other governments and organizations that subsidized certain programs with grants and contributions, \$1.9 million. We paid for the remaining "public benefit" portion of our governmental activities with \$3.2 million in taxes, \$11.1 million in state foundation allowance, and with our other revenue (i.e., interest and general entitlements) of \$0.6 million. Overall, the amount of revenue from funding sources exceeded the cost of activities by \$0.8 million, resulting in a corresponding increase in net position.

MADISON SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued) For Fiscal Year Ended June 30, 2013

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

The School District's Funds

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

As of June 30, 2013, the governmental funds reported a combined fund balance of \$4.5 million, which is a decrease of \$3.1 million from last year. The primary reasons for the decrease are as follows:

- In the General Fund, our principal operating fund, the fund balance increased by \$0.15 million to \$4.2 million. This amount helps to provide for cash flow needs, particularly during the month of September when there are no state aid receipts, and also during the several months of the year when we experience minimal local tax receipts.
- The overall decrease in governmental funds was mainly due to the excess of capital expenditures over property tax and investment revenues in the Capital Projects and Sinking Funds.

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

Our Other Nonmajor Fund grew compared to prior years, showing a net increase of approximately \$65,000 due to an increase in the level of federal revenue received.

Combined, the Debt Service Funds showed a fund balance decrease of approximately \$13,000. This decrease is due primarily to a loss in property tax revenue as a result of declining property values. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Debt Service fund balances are reserved since they can only be used to pay debt service obligations.

MADISON SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued) For Fiscal Year Ended June 30, 2013

General Fund Budgetary Highlights

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

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

The School District made budget amendments during the 2012-2013 year, the final of which was approved by the Board of Education on June 17, 2013. A schedule showing the School District's original and final budget amounts compared to actual amounts is provided in the required supplemental information in these financial statements.

Budgeted revenue increased \$0.5 million as a result of an unanticipated increase in foundation allowance payments due to the actual student enrollment being greater than original estimates, the addition of Best Practice Incentive Funds, and an increase in federal grant awards.

Budgeted expenditures were also increased \$.015 million to account for changes in costs of basic programs and supporting services to serve the additional students.

The School District's final actual fund balance was approximately \$451,000 higher than the final budget.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2013, the School District had \$17.2 million invested in a broad range of capital assets, including land, buildings, vehicles, furniture, and equipment. This amount represents a net increase (including additions, disposals, and depreciation) of approximately \$3.6 million from last year.

MADISON SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued) For Fiscal Year Ended June 30, 2013

	2013	2012
Land	\$ 912,065	\$ 912,065
Construction in process	4,085,994	158,060
Buildings and building improvements	15,826,378	15,826,378
Buses and other vehicles	667,509	638,200
Furniture and equipment	3,676,446	3,520,238
Total capital assets	25,168,392	21,054,941
Less: accumulated depreciation	7,944,956	7,445,249
Net capital assets	\$ 17,223,436	\$ 13,609,692

This year's net additions of \$3.6 million included computer and other technology related equipment, kitchen equipment, a bus and construction of a new center for the performing arts. No new debt was issued for these additions.

Major capital projects planned for the 2013-2014 fiscal year include the completion of the Performing Arts Center and the renovation of the elementary gymnasium. More detailed information about our capital assets is presented in the notes to the financial statements.

Debt

At the end of this year, the School District had \$3.6 million in bonds and loans outstanding versus \$3.9 million in the previous year - a decrease of 7 percent. Those bonds and loans consisted of the following:

	2013	2012
General obligation bonds	\$ 3,600,000	\$ 3,890,000
Loans	-	8,519
Total bonds and loans	\$ 3,600,000	\$ 3,898,519

The School District's general obligation bond rating continues to be A+. The state limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. The School District's outstanding unqualified general obligation debt of \$3.6 million is below this statutorily imposed limit of 15 percent (\$25.9 million) of the assessed value of all taxable property within the School District's boundaries.

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

MADISON SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued) For Fiscal Year Ended June 30, 2013

Economic Factors and Next Year's Budgets and Rates

The following factors will affect the School District in the future and were considered in preparing the School District's budget for the 2013-14 fiscal year:

One of the most important factors affecting the budget is our student enrollment. The other is the state foundation revenue determined by multiplying the blended student count by the per pupil foundation allowance. The 2013-14 budget was adopted in June 2013, based on the estimated number of students who would be enrolled in September 2013. At that time we anticipated the fall student count would be consistent with what was used in creating the 2012-13 budget. Subsequent to the original budget adoption the enrollment increased significantly more than was earlier projected. In an effort to sustain student enrollment and maximize funding from the state, Madison School District continues to provide opportunities to students through Schools of Choice.

The State School Aid Act for 2013-14 maintains the foundation grant for each student in the Madison School District at \$7,848, with the reduction of \$470 per student from the foundation level of the 2010-11 fiscal year remaining in place. Due to the state's overall economic decline, Michigan school districts have been allocated funding at less than inflationary increases over the past nine years. Statewide job losses, reductions in consumer spending, and reductions in property values resulted in lower revenue from income, sales, and property taxes. In 2011 the Governor and State Legislature decided to fund K-16 public education from the School Aid Fund, which had previously only been used to fund K-12 public education. That decision further reduced the funding available to K-12 public schools from its primary revenue source, the State of Michigan. Additionally, the School District has been challenged by increased fixed costs such as retirement and health care.

Prudent fiscal responsibility and cost containment remain critical to the School District's ability to effectively operate in this volatile and difficult economic climate. Over the past five years, the School District has made a series of budget adjustments to protect its financial future. The School District continues to explore avenues that allow it to reduce costs by restructuring its delivery of services. To balance the 2013-14 budget, an estimated \$0.5 million contribution from fund balance will be utilized to eliminate reductions in programs and services for our students.

Contacting the School District's Management

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

MADISON SCHOOL DISTRICT

STATEMENT OF NET POSITION June 30, 2013

	Governmental Activities
ASSETS:	
Cash and cash equivalents (Note 3)	\$ 4,642,717
Accounts receivable (Note 4)	7,220
Due from other governmental units (Note 4)	1,824,744
Inventories	11,050
Capital assets, net (Note 5)	<u>17,223,436</u>
TOTAL ASSETS	<u>23,709,167</u>
DEFERRED OUTFLOW OF RESOURCES	
Debt refunding deferred charges	<u>40,191</u>
COMBINED ASSETS AND DEFERRED OUTFLOW OF RESOURCES	<u>23,749,358</u>
LIABILITIES:	
Accounts payable	\$ 561,596
Accrued expenses	504,356
Accrued salaries and withholding	847,633
Unearned revenue	27,844
Accrued Interest	23,034
Noncurrent liabilities	
Due within one year	134,380
Due in more than one year	<u>3,495,280</u>
TOTAL LIABILITIES	<u>5,594,123</u>
NET POSITION	
Invested in capital assets, net of related debt	13,623,436
Nonspendable - inventories	11,050
Restricted for construction/repairs	48,856
Restricted for debt service	2,879
Restricted for food services	309,888
Unrestricted	<u>4,159,126</u>
TOTAL NET POSITION	<u>\$ 18,155,235</u>

See auditors' report and accompanying notes to financial statements.

MADISON SCHOOL DISTRICT

STATEMENT OF ACTIVITIES Year Ended June 30, 2013

FUNCTIONS/PROGRAMS	Program Revenues			Governmental
	Expenses	Charges for Services	Operating Grants	Activities Net (Expense) Revenue and Changes in Net Position
Governmental Activities:				
Instruction and instructional support	\$ 9,836,188	\$ -	\$ 1,237,469	\$ (8,598,719)
Support services	4,618,922	-	-	(4,618,922)
Food services	735,284	123,081	676,293	64,090
Athletics	305,286	46,689	-	(258,597)
Interest on long-term debt	188,400	-	-	(188,400)
Depreciation (Unallocated)	555,357	-	-	(555,357)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 16,239,437	\$ 169,770	\$ 1,913,762	(14,155,905)
GENERAL REVENUES:				
Taxes				
				2,740,253
				282,372
				164,044
				11,147,029
				8,925
				32,759
				545,633
			Total general revenues	14,921,015
CHANGE IN NET POSITION				
				765,110
			Net position:	
			Beginning of year	17,390,125
			End of year	\$ 18,155,235

See auditors' report and accompanying notes to financial statements.

MADISON SCHOOL DISTRICT

**BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2013**

	General	Capital Projects Fund	Debt Retirement	Sinking Fund	Other Nonmajor Governmental Fund	Total Governmental Funds
Assets						
Cash and investments (Note 3)	\$ 4,091,789	\$ 19,119	\$ 643	\$ 173,433	\$ 357,733	\$ 4,642,717
Accounts receivable (Note 4)	5,072	-	-	-	2,148	7,220
Due from other funds	192,662	-	2,236	1,304	-	196,202
Due from other governmental units (Note 4)	1,824,744	-	-	-	-	1,824,744
Inventories	-	-	-	-	11,050	11,050
TOTAL ASSETS	\$ 6,114,267	\$ 19,119	\$ 2,879	\$ 174,737	\$ 370,931	\$ 6,681,933
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ 561,596	\$ -	\$ -	\$ -	\$ -	\$ 561,596
Due to other funds	3,540	-	-	145,000	47,662	196,202
Accrued expenses	504,356	-	-	-	-	504,356
Salaries payable	847,633	-	-	-	-	847,633
Unearned revenue	25,518	-	-	-	2,331	27,849
TOTAL LIABILITIES	1,942,643	-	-	145,000	49,993	2,137,636
Fund Balances						
Nonspendable - inventory	-	-	-	-	11,050	11,050
Restricted - debt retirement	-	-	2,879	-	-	2,879
Restricted - construction/repairs/renovations	-	19,119	-	29,737	-	48,856
Restricted, food services	-	-	-	-	309,888	309,888
Assigned, subsequent year budget shortfall	495,903	-	-	-	-	495,903
Assigned, elementary gym renovation	180,000	-	-	-	-	180,000
Unassigned	3,495,721	-	-	-	-	3,495,721
TOTAL FUND BALANCES	4,171,624	19,119	2,879	29,737	320,938	4,544,297
TOTAL LIABILITIES AND FUND BALANCES	\$ 6,114,267	\$ 19,119	\$ 2,879	\$ 174,737	\$ 370,931	\$ 6,681,933

See auditors' report and accompanying notes to financial statements.

MADISON SCHOOL DISTRICT

**RECONCILIATION OF GOVERNMENTAL FUND BALANCES
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
June 30, 2013**

Total Governmental Fund Balances		\$	4,544,302
Amounts reported for governmental activities in the statements of net position are different because:			
Capital assets used in governmental activities are not financial resources, and are not reported in the funds; The costs of the capital assets are Accumulated depreciation is		\$	25,168,392 <u>(7,944,956)</u>
			17,223,436
Long-term liabilities are not due and payable in the current period and are not reported in the fund; Bonds payable Compensated absenses			(3,600,000) (29,660)
Bond issuance costs reported as an expenditure in the governmental fund financial statements are capitalized in the government-wide financial statements			40,191
Accrued interest is not included as a liability in governmental funds			<u>(23,034)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES		\$	<u>18,155,235</u>

See auditors' report and accompanying notes to financial statements.

MADISON SCHOOL DISTRICT

**STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2013**

	General	Capital Projects Fund	Debt Retirement	Sinking Fund	Other Nonmajor Governmental Fund	Totals
Revenues						
Local sources	\$ 2,953,930	\$ 65,418	\$ 282,386	\$ 164,624	\$ 123,081	\$ 3,589,439
State sources	11,147,029	-	8,925	-	22,138	11,178,092
Federal sources	367,966	-	-	-	654,155	1,022,121
Interdistrict sources	869,503	-	-	-	-	869,503
Miscellaneous	344,728	-	-	-	664	345,392
TOTAL REVENUES	15,683,156	65,418	291,311	164,624	800,038	17,004,547
Expenditures						
Current:						
Instruction and instructional support services	10,998,907	-	-	-	-	10,998,907
Supporting services	4,535,410	-	-	-	735,284	5,270,694
Capital Projects						
Building construction	-	3,415,336	-	125	-	3,415,461
Debt Service:						
Principal repayment	-	-	298,519	-	-	298,519
Interest and other expenses	-	-	150,656	-	-	150,656
TOTAL EXPENDITURES	15,534,317	3,415,336	449,175	125	735,284	20,134,237
Excess (Deficiency) of Revenues Over Expenditures	148,839	(3,349,918)	(157,864)	164,499	64,754	(3,129,690)
Other Financing Sources (Uses)						
Fund Modification	-	-	145,000	(145,000)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	145,000	(145,000)	-	-
Net Change in Fund Balances	148,839	(3,349,918)	(12,864)	19,499	64,754	(3,129,690)
Fund Balances - Beginning of year	4,022,790	3,369,037	15,743	10,238	256,184	7,673,992
Fund Balances - End of year	\$ 4,171,629	\$ 19,119	\$ 2,879	\$ 29,737	\$ 320,938	\$ 4,544,302

See auditors' report and accompanying notes to financial statements.

MADISON SCHOOL DISTRICT**RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2013**

Net Change in Fund Balances - Total Governmental Funds		\$ (3,129,690)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures in the statement of activities; these costs are allocated over their estimated useful lives as depreciation.		
Depreciation expense	\$ (555,357)	
Capital outlay, net of disposals	<u>4,169,101</u>	3,613,744
Decrease in accrued interest payable is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid		1,984
Amortization of deferred bond related costs is reported as an expenditure in the government-wide financial statements. Bond related costs were recognized in the governmental fund when paid		(39,728)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)		298,519
Decrease in compensated absences are not reported in the governmental funds		<u>20,281</u>
Change in Net Position of Governmental Activities		\$ <u>765,110</u>

See auditors' report and accompanying notes to financial statements.

	<u>Agency Fund Student Activities</u>
Assets	
Cash and cash equivalents	\$ <u>166,230</u>
Liabilities	
Liabilities:	
Due to student groups	\$ <u>166,230</u>

See auditors' report and accompanying notes to financial statements.

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

REPORTING ENTITY

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

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. Substantially all inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the School District's government-wide activities are considered governmental activities.

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

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

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Continued**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

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

The effect of inter-fund activity has been substantially eliminated from the government-wide financial statements.

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

Fund Financial Statements – The accounts of the School District are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the combined financial statements in this report, into generic fund types in two broad fund categories as follows:

GOVERNMENTAL FUNDS

General Fund - The General Fund is the general operating fund of the School District. It is used to account for all financial resources except those that are required to be accounted for in another fund.

School Service Funds - The School Service Funds are used to report the activity of Food Service. For reporting purposes this activity is combined under the caption "GENERAL" in the general-purpose financial statements. Specific detail for the activity can be seen presented in the Supplemental Financial Information.

Debt Retirement Fund - Debt Retirement Funds are used to account for the accumulation of resources for and the payment of general long-term principal, interest, and related costs.

Sinking Fund – Sinking Funds are used to account for the accumulation of resources for and the payment of building repairs and renovations on a pay as you go basis, in accordance with Michigan law. The District has complied with the applicable provisions of Section 1212 (1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Continued

Capital Projects Fund – The Capital Projects Fund is used to account for all resources for the acquisitions of capital facilities and equipment. The District has complied with the applicable provisions of Section 1212 (1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan.

FIDUCIARY FUNDS

Agency Fund - Agency Funds are used to account for assets held by the School District as an agent for student clubs, organizations, and classes. Agency Funds are custodial in nature and do not involve measurement of results of operations.

ACCOUNT GROUPS

Account groups are not funds. They do not reflect available financial resources and related liabilities or the measurement of results of operations. They are the District's accounting records of general long-term debt. The General Long-Term Debt Account Group is used to record the outstanding bonded debt, long-term notes payable and any other non-current obligation of the District.

BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The modified accrual or accrual basis of accounting, as appropriate, is used in measuring financial position and operating results:

Governmental Funds are accounted for using the current financial resources measurement focus. Accordingly, only current assets and liabilities are included on the balance sheets and the fund balances report only spendable resources. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net position. These funds use the modified accrual basis of accounting. Under this basis of accounting, revenues are recognized when they are available and measurable and expenditures are recorded when the fund liability is incurred, if measurable.

Fiduciary fund revenues and expenses or expenditures as appropriate are recognized on the accrual basis and use the economic resources measurement focus. Nonexpendable Trust Funds and Agency Fund assets and liabilities are accounted for on the modified accrual basis and are prepared using the current financial resources measurement focus.

The term "Fund Modification" is used to refer to transfers that are recognized in the accounting period in which the inter-fund receivable and payable arise.

Governmental Funds, Agency Funds and the Expendable Trust Funds utilize the modified-accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Continued**BASIS OF ACCOUNTING Continued**

- a. Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned. Other revenue is recorded when received. Properties are assessed as of December 31 and the related property taxes are levied and become a lien on July 1 for the property taxes that are due on February 14. The final collection date is February 28 after which they are added to the county tax rolls.
- b. Principal and interest on general long-term debt are not recorded as expenditures until their due dates.
- c. The non-current portion of vested sick days is reflected in the General Long-term Debt Account Group.

Cash and Cash Equivalents – The District considers investments with an original maturity date of three months or less from the date of acquisition to be cash equivalents.

Inventories – Inventories of expendable school and maintenance supplies are not recognized. These items are charged to the appropriate expense at the time of purchase. No central inventory is maintained. The School Service Fund inventory consists of food and paper supplies. USDA commodities are stated at a value established by the USDA.

Fund Balance Reporting – The Governmental Accounting Standards Board (GASB) has issued Statement No. 54. This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories listed below:

Nonspendable – Fund balances associated with inventories, prepaids, long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed or assigned).

Restricted – Fund balances including amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

Committed – Fund balance reporting required by the School Board, either because of a School Board Policy in the School Board Policy Manual, or because of motions that passed at School Board meetings.

Assigned – Fund balance reporting occurring by School Board Administration authority, under the direction of the Chief Business Officer.

Unassigned – Fund balance representing the residual classification for the District's general fund and includes all spendable amounts not contained in the other classifications.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Continued

Order of Fund Balance Spending Policy – The District’s policy is to apply expenditures against non-spendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance at the end of the fiscal year by adjusting journal entry.

First non-spendable fund balances are determined. Then restricted fund balances for specific purposes are determined (not including non-spendable amounts). Then any remaining fund balance amounts for the non-general funds are classified as restricted fund balances.

It is possible for the non-general funds to have negative unassigned fund balances when non-spendable amounts plus the restricted fund balances for specific purposes amounts exceed the positive fund balance for the non-general fund.

Capital Assets – Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental column in the government-wide financial statements. The Government defines capital assets as at least 80% of those tangible assets of the District with an estimated useful life in excess of one year and an initial cost equal to or exceeding \$5,000. A professional property appraisal firm has been used to perform an asset inventory and give an objective estimate of the asset’s useful lives and values.

Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extended asset life are not capitalized. The School District does not have infrastructure-type assets.

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

Buildings and additions	20–50 years
Buses and other vehicles	8 years
Furniture and other equipment	5-20 years

Compensated Absences – The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Long-term Obligations – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line.

In the fund financial statements, governmental fund types recognize bond proceeds, premiums and discounts, as well as bond issuance costs, during the current period.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Continued

Comparative Data – Comparative data is not included in the School District's financial statements.

Effective July 1, 2012, the School District implemented the provisions of Governmental Accounting Standards Board Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. This 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 provided a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. This statement impacted the format and reporting of the balance sheet at the government-wide and also at the fund level.

Also effective July 1, 2012, the School District implemented the provisions of Governmental Accounting Standards Board Statement No. 65, Items Previously Reported as Assets and Liabilities. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources.

Note 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information - The School District formally adopted General, Sinking and School Services Fund budgets by function for the fiscal year ended June 30, 2013; expenditures at this level in excess of amounts budgeted is a violation of Michigan law. Unexpended appropriations lapse at year-end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner. The budget has been prepared in accordance with generally accepted accounting principles.

The budget statement (combined statement of revenue, expenditures and changes in fund balances - budget and actual – general, sinking and school service fund types) is presented on the same basis of accounting used in preparing the adopted budget.

Note 3 – DEPOSITS AND INVESTMENTS

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

The District has designated three banks for the deposit of its funds.

The investment policy adopted by the board has authorized investments as listed in the state statutory authority as listed above.

Note 3 – DEPOSITS AND INVESTMENTS continued

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

Custodial Credit Risk of Bank Deposits – Custodial credit risk is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. At year end, the District’s deposit balance of \$5,088,460 had \$4,588,429 of bank deposits that were uninsured and uncollateralized. The District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

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

Concentration of Credit Risk – The District places no limit on the amount the District may invest in any one issuer. The District minimizes concentration of credit risk by requiring diversification of the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Foreign Currency Risk – Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. State law prohibits investment in foreign currency.

Cash deposits and investments of the District consist of the following items at June 30, 2013:

	<u>MATURITY</u> <u>DATES</u>	<u>INTEREST</u> <u>RATES</u>	<u>CARRYING</u> <u>AMOUNT</u>	<u>BANK</u> <u>BALANCE</u>
General Fund:				
United Bank & Trust	N/A	0.20%	\$ 372,554	\$ 610,522
United Bank & Trust	N/A	0.20%	9,371	9,831
MI Liquid Asset Fund	N/A	VAR	21,882	25,221
United Bank & Trust - Athletic	N/A	0.30%	13,845	14,610
TLC Comm. Cr. Union	N/A	0.0%	26	31
1 st Federal Bank	N/A	VAR	2,053	2,053
MBIA	N/A	VAR	762	762
MI Liquid Asset Fund	N/A	VAR	1,416,174	1,416,174
1 st Federal Bank	N/A	VAR	<u>2,255,122</u>	<u>2,255,122</u>
			<u>\$4,091,789</u>	<u>\$4,334,326</u>
Debt Retirement Fund:				
MI Liquid Assets	N/A	VAR	<u>\$ 643</u>	<u>\$ 643</u>

Note 3 - DEPOSITS AND INVESTMENTS continued

Sinking Fund:					
1 st Federal Bank	N/A	VAR	\$ <u>173,433</u>	\$ <u>173,433</u>	
Capital Projects Fund:					
1 st Federal Bank	N/A	VAR	\$ <u>19,119</u>	\$ <u>19,119</u>	
School Service Fund:					
United Bank & Trust - School Lunch	N/A	0.30%	\$ <u>357,733</u>	\$ <u>385,963</u>	
Agency Fund:					
United Bank & Trust	N/A	0.30%	\$ 155,687	\$ 164,433	
United Bank & Trust	N/A	0.30%	<u>10,543</u>	<u>10,543</u>	
			\$ <u>166,230</u>	\$ <u>174,976</u>	
Total Cash			\$ <u>4,808,947</u>	\$ <u>5,088,460</u>	

Deposits are carried at cost. The carrying amount of deposits is included on the balance sheet as "Cash".

The District invests certain excess funds with Michigan School District Liquid Asset Fund (MILAF) in investment trust accounts in accordance with Section 622, 1221, and 1223 of the Michigan School Code. Investments are stated at cost, which approximates market value. The Investment Funds are categorized as mutual funds. Each School District owns a pro-rata share of each investment or deposit that is held in the name of the fund. MILAF is rated AAAM by Standard & Poor's. As of June 30, 2013, the District had \$1,442,038 invested in MILAF accounts.

The District also invests certain excess funds in pooled short term investment funds which included money market funds. One of the pooled investment funds utilized by the School District is MBIA Michigan Class Accounts, in accordance with Sections 622, 1221, and 1223 of the Michigan School Code. MBIA is not regulated nor is it registered with the SEC. MBIA reports as of June 30, 2013, the fair value of the District's investments is the same as the value of the pool shares. As of June 30, 2013, the District had \$762 invested in MBIA accounts.

Note 4 - RECEIVABLES

Receivables as of year-end for the School District's individual major funds and the nonmajor and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Nonmajor and Other Funds	Total
Receivables:			
Intergovernmental	\$1,824,744	\$ 0	\$1,824,744
Other Receivables	<u>5,072</u>	<u>2,148</u>	<u>7,220</u>
Net receivables	<u>\$1,829,816</u>	<u>\$ 2,148</u>	<u>\$1,831,964</u>

Note 5 - CAPITAL ASSETS

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

	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Disposals/</u> <u>Adjustments</u>	<u>Balance</u> <u>June 30, 2013</u>
Assets not being depreciated:				
Construction in process	\$ 158,060	\$3,927,934	\$ -	\$ 4,085,994
Land	<u>912,065</u>	<u>-</u>	<u>-</u>	<u>912,065</u>
Subtotal	<u>1,070,125</u>	<u>3,927,934</u>	<u>-</u>	<u>4,998,059</u>
Capital assets being depreciated:				
Building and building improvements	15,826,378	-	-	15,826,378
Buses and other vehicles	638,200	84,959	55,650	667,509
Furniture and equipment	<u>3,520,238</u>	<u>156,208</u>	<u>-</u>	<u>3,676,446</u>
Subtotal	<u>19,984,816</u>	<u>241,167</u>	<u>55,650</u>	<u>20,170,333</u>
Accumulated depreciation:				
Building and building improvements	4,511,192	385,057	-	4,896,249
Buses and other vehicles	433,229	50,105	55,650	427,684
Furniture and equipment	<u>2,500,828</u>	<u>120,195</u>	<u>-</u>	<u>2,621,023</u>
Subtotal	<u>7,445,249</u>	<u>555,357</u>	<u>55,650</u>	<u>7,944,956</u>
Net capital assets being depreciated	<u>12,539,567</u>	<u>(314,190)</u>	<u>-</u>	<u>12,225,377</u>
Net capital assets	<u>\$13,609,692</u>	<u>\$3,613,744</u>	<u>\$-</u>	<u>\$17,223,436</u>

Note 6 - LONG-TERM LIABILITIES

Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-Term Debt Account Group, not in the governmental funds.

Because of their spending measurement focus, expenditure recognition for governmental fund types is limited to excluding amounts represented by non-current liabilities. Since they do not affect current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities. They are instead reported as liabilities in the General Long-Term Debt Account Group.

Note 6 - LONG-TERM LIABILITIES - continued

The following is a summary of the long-term debt transactions of the District for the year ended June 30, 2013:

	LONG-TERM DEBT JULY 1, 2012	INCREASED LONG-TERM DEBT	PAYMENTS/ REDUCTIONS	LONG-TERM DEBT JUNE 30, 2013	DUE WITHIN ONE YEAR
UNUSED SICK LEAVE	\$ 49,940	\$ 5,400	\$ 25,680	\$ 29,660	\$ 4,380
1998 BOND ISSUE	290,000	-	290,000	-	-
2011 BUILDING & SITE	3,600,000	-	-	3,600,000	130,000
DURANT DEBT	<u>8,519</u>	<u>-</u>	<u>8,519</u>	<u>-</u>	<u>-</u>
	<u>\$3,948,459</u>	<u>\$ 5,400</u>	<u>\$324,199</u>	<u>\$3,629,660</u>	<u>\$134,380</u>

Long-term liabilities at June 30, 2013 are comprised of the following individual issues:

Due to the uncertainty of unused sick leave maturity as of June 30, 2013, this liability has been included in the amount due "Thereafter" section. \$ 29,660

\$3,600,000 – 2011 School Building and Site Bonds for the purpose of erecting, furnishing and equipping a performing arts addition to and partially remodeling the Madison High School, and developing and improving the site, due in annual installments of \$116,702 to \$305,425 through May 1, 2031; interest of 2.50% to 4.50%. \$ 3,600,000

\$3,620,000 – 1998 General Obligation Bond Issue for the purpose of erecting, furnishing and equipping an addition to the Madison High School, and developing and improving the site and relocating the softball field, due in annual installments of \$70,000 to \$340,000 through May 1, 2013; interest of 3.40% to 4.0%. \$ -

\$127,000 – 1998 Durant School Improvement Bond Issue for the purpose of school improvement, due in various installments through May 15, 2013, interest at 4.76%. \$ -

An amount of \$643 is available in the debt service funds to service the general obligation debt.

Note 6 - LONG-TERM LIABILITIES – continued

The annual requirements to amortize all debts outstanding as of June 30, 2013, including interest payments of \$1,604,910 are as follows:

YEAR ENDING <u>JUNE 30</u>	UNUSED SICK <u>LEAVE</u>	2011 <u>BUILDING & SITE ISSUE</u>
2014	\$ 4,380	\$ 268,200
2015	-	269,950
2016	-	271,575
2017	-	278,075
2018	-	278,950
2019-2023	-	1,440,350
2024-2028	-	1,492,475
2029-2034	-	905,335
Thereafter	<u>25,280</u>	<u>-</u>
	<u>\$29,660</u>	<u>\$5,204,910</u>

Note 7 - DEFINED BENEFIT PENSION PLAN AND POST RETIREMENT BENEFITS

Plan Description - The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The system provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The system also provides postemployment healthcare benefits to retirees and beneficiaries who elect to receive those benefits.

The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplemental information for the pension and postemployment healthcare plans. That report is available on the web at <http://www.michigan.gov/orsschools>, or by writing to the Office of Retirement System at 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909.

Pension Benefits - Employer contributions to the pension system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits. The employer contribution rate for basic plan members was 15.96 percent of covered payroll for the period from July 1, 2012 through September 30, 2012. The employer contribution rate for pension plus plan members was 14.73 percent for the period from July 1, 2012 through September 30, 2012. Beginning October 1, 2012 through January 31, 2013, employees were given the following plan options with the corresponding employer contribution rates:

**Note 7 - DEFINED BENEFIT PENSION PLAN AND POST RETIREMENT BENEFITS
(Continued)**

	First Worked Before July 1, 2010*	First Worked on Or After July 1, 2010 through September 3, 2012	First Worked on Or After September 4, 2012 – Remain Pension Plus	First Worked on or After September 4, 2012 and Elect DC
Pension Contributions	16.25%	15.02%	15.02%	12.78%
Health Contributions	9.11%	9.11%	8.18%	8.18%

* Basic, MIP Fixed, MIP Graded, PIP Plus
** Pension Plus

For the period from February 1, 2013 through June 30, 2013, employees could transition to a defined contribution plan (DC) and could also elect out of the healthcare premium subsidy and into the Personal Healthcare Fund (PHF) depending upon their date of hire and retirement plan election. Employees had the following plan options with the corresponding employer contribution rates:

	Basic MIP	Pension Plus	Plus PHF*	DC with PHF*	Basic MIP DB to DC With DB With DB Health	Basic MIP DB to DC With PHF	With PHF
Pension Contributions	15.21%	15.02%	15.02%	12.78%	12.78%	12.78%	15.21%
Health Contributions	9.11%	9.11%	8.18%	8.18%	9.11%	8.18%	8.18%
Employer Contribution:							
Defined Contribution	0%	1.00%	1.00%	3.00%	4.00%	4.00%	0%
Personal Healthcare	0%	0%	2.00%	2.00%	0%	2.00%	2.00%

* First worked September 4, 2012 or later

Depending on the plan selected, plan member contributions range from 0 percent up to 7.0 percent of gross wages. Plan members electing into the defined contribution plan are not required to make additional contributions.

Postemployment Benefits - Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage through MPSERS. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rate to fund the benefits on a pay as you go basis. Participating employers are required to contribute at that rate. The employer contribution rate was 8.5 percent of covered payroll for the period from July 1, 2012 through September 30, 2012. For the period from October 1, 2012 through June 30, 2013, the employer contribution rate ranged from 8.18 percent to 9.11 percent dependent upon the employee's date of hire and plan election as noted above. Effective February 1, 2013, members can choose to contribute 3 percent of their covered payroll to the Retiree Healthcare Fund and keep this premium subsidy benefit or they can elect not to pay the 3 percent contribution and instead choose the Personal Healthcare Fund, which can be used to pay healthcare expenses in retirement. Members electing the Personal Healthcare Fund will be automatically enrolled in a 2 percent employee contribution into their 457 account as of their transition date and create a 2 percent employer match into the employee's 401(k) account.

Note 7 - DEFINED BENEFIT PENSION PLAN AND POST RETIREMENT BENEFITS
(Continued)

The School District's required and actual contributions to the pension plan and for retiree healthcare benefits for the years ended June 30, 2013, 2012, and 2011 were \$2,049,854, \$1,880,606, and \$1,517,605, respectively.

Note 8 – CONTINGENT LIABILITIES

The School District is a reimbursing employer to the Michigan Employment Security Commission and, as such, is responsible to pay the Commission for those benefits paid and charged to its account. As of June 30, 2013 appropriate liabilities have been recorded for all claims paid by the Commission. However, no provision has been made for future payments that might result from claims in process or not yet filed.

Note 9 – RISK MANAGEMENT

The District is exposed to various risks of loss from property and casualty theft damage to various tort and liability claims and worker's compensation claims. The District limits its exposure to such claims through its participation in and payments of premiums to SET-SEG, Inc. Insurance Trust. This pool maintains a loss fund and is also required by the terms of the participation agreement to obtain insurance and reinsurance as necessary.

The terms of the participation agreement with the pool indicate that, should losses of the pool incurred in a given coverage period exceed the loss fund and the aggregate excess reinsurance, the fund may access its member districts on a pro-rata basis to cover excess losses. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 10 – UPCOMING ACCOUNTING PRONOUNCEMENTS

The Government Accounting Standards Board (GASB) has issued Statements No. 67, which applies to financial reporting by most pension plans and No. 68, *Accounting and Financial Reporting for Pensions*, which applies to financial reporting by most governments that provide their employees with pension benefits. Statement No. 67 is effective for periods beginning on or after June 15, 2013 and Statement No. 68 is effective for periods beginning on or after June 15, 2014. These statements will result in major changes in the calculation and reporting of pension obligations and expenses. The District will be required to recognize their unfunded pension benefit obligation as a liability on its government wide statements. The district is currently evaluating the impact this standard will have on its financial statements.

Required Supplemental Information

MADISON SCHOOL DISTRICT

REQUIRED SUPPLEMENTAL INFORMATION BUDGETARY COMPARISON SCHEDULE - GENERAL FUND Year Ended June 30, 2013

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Over (Under) Actual
	Original	Final		
Revenues:				
Local sources	\$ 2,961,825	\$ 2,961,733	\$ 2,953,925	\$ 7,808
State sources	10,679,825	10,736,230	11,147,029	(410,799)
Federal sources	263,275	367,766	367,966	(200)
Interdistrict sources	597,600	833,730	869,503	(35,773)
Miscellaneous	205,800	304,617	344,728	(40,111)
TOTAL REVENUES	14,708,325	15,204,076	15,683,151	(479,075)
Expenditures:				
Current:				
Instruction:				
Basic programs	8,287,242	8,188,959	8,217,123	28,164
Added needs	2,415,727	2,389,580	2,393,111	3,531
Community services	55,407	57,934	58,147	213
Pupil services	235,705	238,025	239,780	1,755
Instructional staff	101,479	91,203	90,746	(457)
Supporting Services:				
School administration and business	1,491,475	1,799,686	1,801,186	1,500
Operation, transportation and central	2,487,237	2,433,069	2,428,938	(4,131)
Athletics	278,825	307,625	305,286	(2,339)
TOTAL EXPENDITURES	15,353,097	15,506,081	15,534,317	28,236
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER USES	(644,772)	(302,005)	148,834	(450,839)
Budgetary fund balance - July 1, 2012	4,022,790	4,022,790	4,022,790	-
Budgetary fund balance - June 30, 2013	\$ 3,378,018	\$ 3,720,785	\$ 4,171,624	\$ (450,839)

See auditors' report and accompanying notes to financial statements.

Other Supplemental Information

MADISON SCHOOL DISTRICT

BALANCE SHEET - NONMAJOR GOVERNMENTAL FUND June 30, 2013

	Nonmajor Special Revenue/ Governmental Fund
	School Lunch Fund
Assets	
Cash and investments	\$ 357,733
Accounts receivable	2,148
Inventory	11,050
TOTAL ASSETS	<u>\$ 370,931</u>
Liabilities and Fund Balance	
Liabilities	
Due to general fund	\$ 47,662
Unearned revenue	2,331
TOTAL LIABILITIES	<u>49,993</u>
Fund Balance	
Nonspendable - inventory	11,050
Restricted	309,888
TOTAL FUND BALANCE	<u>320,938</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 370,931</u>

See auditors' report.

MADISON SCHOOL DISTRICT

NONMAJOR GOVERNMENTAL FUND STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE Year Ended June 30, 2013

	Nonmajor Special Revenue/ Governmental Fund
	School Lunch Fund
Revenues	
Local sources	\$ 123,081
State sources	22,138
Federal sources	654,155
Miscellaneous	664
TOTAL REVENUES	800,038
Expenditures	
Current operations:	
Food services	686,357
Capital outlay	48,927
TOTAL EXPENDITURES	735,284
Excess of Revenues Over (Under) Expenditures	64,754
Fund Balance - July 1, 2012	256,184
Fund Balance - June 30, 2013	\$ 320,938

See auditors' report.

MADISON SCHOOL DISTRICT

GENERAL FUND STATEMENT OF REVENUES - BUDGET AND ACTUAL Year Ended June 30, 2013

	<u>2013 Budget</u>	<u>2013 Actual</u>	<u>Over (Under) Budget</u>	<u>2012 Actual</u>
Revenue from Local Sources:				
Property tax	\$ 2,769,228	\$ 2,740,248	\$ (28,980)	\$ 2,308,460
Tuition	42,700	46,207	3,507	36,472
Earnings on investments and deposits	15,000	14,997	(3)	18,249
Athletics	91,005	46,689	(44,316)	49,564
Other local revenue	43,800	105,784	61,984	93,429
TOTAL REVENUE FROM LOCAL SOURCES	<u>2,961,733</u>	<u>2,953,925</u>	<u>(7,808)</u>	<u>2,506,174</u>
Revenue from State Sources:				
State School Aid	<u>10,736,230</u>	<u>11,147,029</u>	<u>410,799</u>	<u>10,067,841</u>
TOTAL REVENUE FROM STATE SOURCES	<u>10,736,230</u>	<u>11,147,029</u>	<u>410,799</u>	<u>10,067,841</u>
Revenue from Federal Sources:				
Title I	289,339	286,090	(3,249)	198,655
Other	78,427	81,876	3,449	114,657
TOTAL REVENUE FROM FEDERAL SOURCES	<u>367,766</u>	<u>367,966</u>	<u>200</u>	<u>313,312</u>
Incoming Transfers and Other Transactions:				
County special education	833,730	869,503	35,773	907,631
Payments received from other units	304,617	344,728	40,111	260,009
TOTAL INCOMING TRANSFERS AND OTHER TRANSACTIONS	<u>1,138,347</u>	<u>1,214,231</u>	<u>75,884</u>	<u>1,167,640</u>
TOTAL REVENUE AND OTHER FINANCING SOURCES	<u>\$ 15,204,076</u>	<u>\$ 15,683,151</u>	<u>\$ 479,075</u>	<u>\$ 14,054,967</u>

See auditors' report.

MADISON SCHOOL DISTRICT

GENERAL FUND STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL Year Ended June 30, 2013

	2013 Budget	2013 Actual	Over (Under) Budget	2012 Actual
Instruction:				
Basic Programs - Pre-School:				
Salaries	\$ 77,955	\$ 77,955	\$ -	\$ 68,393
Benefits	33,875	34,780	905	34,851
Purchased services	5,100	5,212	112	8,050
Supplies and materials	637	636	(1)	855
TOTAL PRE-SCHOOL	117,567	118,583	1,016	112,149
Basic Programs - Elementary:				
Salaries	2,557,624	2,552,134	(5,490)	2,512,105
Benefits	1,350,057	1,384,883	34,826	1,316,556
Purchased services	59,481	61,271	1,790	52,530
Supplies and materials	74,000	73,832	(168)	51,959
Capital outlay	74,015	74,011	(4)	63,770
TOTAL ELEMENTARY	4,115,177	4,146,131	30,954	3,996,920
Basic Programs - High School/Middle School:				
Salaries	2,412,803	2,384,732	(28,071)	2,322,425
Benefits	1,286,848	1,312,997	26,149	1,241,921
Purchased services	127,962	121,548	(6,414)	111,290
Supplies and materials	107,142	108,173	1,031	109,868
Capital outlay	21,460	21,428	(32)	24,762
TOTAL HIGH SCHOOL/MIDDLE SCHOOL	3,956,215	3,948,878	(7,337)	3,810,266
TOTAL BASIC PROGRAMS	8,188,959	8,213,592	24,633	7,919,335
Added Needs - Special Education				
Salaries	948,737	944,764	(3,973)	994,916
Benefits	480,673	489,339	8,666	487,363
Purchased services	17,301	18,919	1,618	58,130
Supplies and materials	5,100	5,079	(21)	5,429
Capital outlay	969	963	(6)	2,932
TOTAL SPECIAL EDUCATION	1,452,780	1,459,064	6,284	1,548,770
Added Needs - Compensatory Education				
Salaries	324,748	318,978	(5,770)	245,127
Benefits	81,683	87,020	5,337	56,309
Supplies and materials	1,534	700	(834)	5,473
Purchased services	900	900	-	900
TOTAL COMPENSATORY EDUCATION	408,865	407,598	(1,267)	307,809

See auditors' report.

MADISON SCHOOL DISTRICT

GENERAL FUND STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL Year Ended June 30, 2013

Instruction continued:	2013 Budget	2013 Actual	Over/(Under) Budget	2012 Actual
Other added needs:				
Salaries	\$ 364,598	\$ 360,289	\$ (4,309)	\$ 360,661
Benefits	159,092	161,915	2,823	153,547
Purchased services	1,333	1,333	-	539
Supplies and materials	2,912	2,912	-	6,186
TOTAL OTHER ADDED NEEDS	527,935	526,449	(1,486)	520,933
TOTAL ADDED NEEDS	2,389,580	2,393,111	3,531	2,377,512
TOTAL INSTRUCTION	10,578,539	10,606,703	28,164	10,296,847
Community Services:				
Salaries	43,845	43,432	(413)	45,076
Benefits	13,554	7,128	(6,426)	12,340
Purchased services	-	7,070	7,070	149
Supplies and materials	535	517	(18)	2,628
TOTAL COMMUNITY SERVICES	57,934	58,147	213	60,193
Supporting Services:				
Pupil Services:				
Salaries	172,095	172,108	13	164,956
Benefits	64,233	65,573	1,340	63,614
Purchased services	111	111	-	229
Supplies and materials	1,466	1,868	402	770
Capital outlay	120	120	-	-
TOTAL PUPIL SERVICES	238,025	239,780	1,755	229,569
Instructional staff:				
Salaries	63,203	58,816	(4,387)	65,031
Benefits	22,113	26,158	4,045	17,657
Purchased services	680	746	66	7,721
Supplies and materials	4,146	3,965	(181)	6,350
Capital outlay	1,061	1,061	-	60
TOTAL INSTRUCTIONAL STAFF	91,203	90,746	(457)	96,819
General Administration:				
Salaries	357,870	356,826	(1,044)	281,101
Benefits	276,294	275,293	(1,001)	195,357
Purchased services	74,720	73,307	(1,413)	89,659
Supplies and materials	154,700	156,255	1,555	111,350
Capital outlay	1,735	1,731	(4)	924
TOTAL GENERAL ADMINISTRATION	865,319	863,412	(1,907)	678,391
School Administration:				
Salaries	617,810	607,957	(9,853)	582,377
Benefits	304,321	321,163	16,842	279,736
Purchased services	1,121	1,121	-	4,819
Supplies and materials	9,280	9,300	20	7,385
Capital outlay	1,835	1,764	(71)	1,014
TOTAL SCHOOL ADMINISTRATION	934,367	941,305	6,938	875,331

See auditors' report.

MADISON SCHOOL DISTRICT

GENERAL FUND STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL Year Ended June 30, 2013

	2013 Budget	2013 Actual	Over (Under) Budget	2012 Actual
Supporting Services continued:				
Operation and maintenance of plant:				
Salaries	\$ 343,115	\$ 342,428	\$ (687)	\$ 331,528
Benefits	219,539	222,396	2,857	214,741
Purchased services	327,440	346,566	19,126	261,968
Supplies and materials	44,205	44,797	592	43,427
Capital outlay	1,144,115	1,114,561	(29,554)	137,128
TOTAL OPERATION AND MAINTENANCE OF PLANT	2,078,414	2,070,748	(7,666)	988,792
Pupil Transportation Services				
Salaries	162,288	170,611	8,323	144,496
Benefits	59,616	62,028	2,412	46,041
Purchased services	20,852	20,620	(232)	17,877
Supplies and materials	66,455	59,487	(6,968)	60,822
Capital outlay	44,959	44,959	-	-
Other	485	485	-	70
TOTAL TRANSPORTATION SERVICES	354,655	358,190	3,535	269,306
Athletics				
Salaries	103,500	102,239	(1,261)	92,927
Benefits	33,125	34,259	1,134	29,176
Purchased services	102,500	102,375	(125)	95,734
Supplies and materials	68,500	63,793	(4,707)	62,806
Capital outlay	-	2,620	2,620	2,136
TOTAL ATHLETICS	307,625	305,286	(2,339)	282,779
TOTAL SUPPORTING SERVICES	4,869,608	4,869,467	(141)	3,420,987
TOTAL EXPENDITURES	15,506,081	15,534,317	28,236	13,778,027
Outgoing Transfers and Other Transactions:				
Fund modification	-	-	-	25,000
TOTAL TRANSFERS AND OTHER TRANSACTIONS	-	-	-	25,000
TOTAL EXPENDITURES AND TRANSFERS	\$ 15,506,081	\$ 15,534,317	\$ 28,236	\$ 13,803,027

See auditors' report.

MADISON SCHOOL DISTRICT

DEBT RETIREMENT FUND COMBINING BALANCE SHEET June 30, 2013

	1998 Debt	Durant Issue	Totals
Assets			
Cash	\$ 643	\$ -	\$ 643
Due to other funds	2,236	-	2,236
TOTAL ASSETS	\$ 2,879	\$ -	\$ 2,879
Fund Balance			
Restricted:			
Debt retirement	\$ 2,879	\$ -	\$ 2,879
TOTAL FUND BALANCE	\$ 2,879	\$ -	\$ 2,879

See auditors' report.

MADISON SCHOOL DISTRICT

DEBT RETIREMENT FUND COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES Year ended June 30, 2013

	1998 Debt	Durant Issue	Totals
Revenues			
Local Sources:			
Property tax levy	\$ 280,136	\$ -	\$ 280,136
Payment in lieu of taxes	2,236	-	2,236
Earnings on investments	14	-	14
State Sources:			
State aid restricted	-	8,925	8,925
TOTAL REVENUES	282,386	8,925	291,311
Expenditures			
Debt Service:			
Redemption of principal	290,000	8,519	298,519
Interest on debt	149,800	406	150,206
Other	450	-	450
TOTAL EXPENDITURES	440,250	8,925	449,175
Excess (Deficiency) of Revenues Over Expenditures	(157,864)	-	(157,864)
Other financing sources (uses):			
Fund Modification	145,000	-	145,000
TOTAL OTHER FINANCING SOURCES	145,000	-	145,000
Net Change In Fund Balances	(12,864)	-	(12,864)
Fund Balance - July 1, 2012	15,743	-	15,743
Fund Balance - June 30, 2013	\$ 2,879	\$ -	\$ 2,879

See auditors' report.

MADISON SCHOOL DISTRICT

CAPITAL PROJECTS FUND BALANCE SHEET June 30, 2013

Assets		
Cash		\$ <u>19,119</u>
TOTAL ASSETS		\$ <u><u>19,119</u></u>
Fund Balance		
Fund Balance		
Restricted:		
Building Construction		\$ <u>19,119</u>
TOTAL FUND BALANCE		\$ <u><u>19,119</u></u>

See auditors' report.

MADISON SCHOOL DISTRICT

**CAPITAL PROJECTS FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
Year Ended June 30, 2013**

	Budget	Actual	Over (Under) Budget
Revenues			
Local Sources:			
Earnings on investments	\$ 16,921	\$ 17,168	\$ 247
Donations	48,250	48,250	-
TOTAL REVENUES	65,171	65,418	247
Expenditures			
Building construction	3,415,336	3,415,336	-
TOTAL EXPENDITURES	3,415,336	3,415,336	-
Excess (Deficiency) of Revenues Over Expenditures	(3,350,165)	(3,349,918)	247
Fund Balance - July 1, 2012	3,369,037	3,369,037	-
Fund Balance - June 30, 2013	\$ 18,872	\$ 19,119	\$ 247

See auditors' report.

MADISON SCHOOL DISTRICT

SINKING FUND BALANCE SHEET June 30, 2013

Assets		
Cash		\$ 173,433
Due from other funds		<u>1,304</u>
TOTAL ASSETS		\$ <u>174,737</u>
Liabilities and Fund Balance		
Liabilities		
Due to general fund		\$ <u>145,000</u>
TOTAL LIABILITIES		<u>145,000</u>
Fund Balance		
Restricted:		
Repairs/renovations		<u>29,737</u>
TOTAL LIABILITIES AND FUND BALANCE		\$ <u>174,737</u>

See auditors' report.

MADISON SCHOOL DISTRICT

SINKING FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL Year Ended June 30, 2013

	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Revenues			
Local Sources:			
Property tax levy	\$ 162,632	\$ 162,740	\$ 108
Payment in lieu of taxes	0	1,304	1,304
Earnings on investments	483	580	97
TOTAL REVENUES	<u>163,115</u>	<u>164,624</u>	<u>1,509</u>
Expenditures			
Repairs/renovations	125	125	-
TOTAL EXPENDITURES	<u>125</u>	<u>125</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>162,990</u>	<u>164,499</u>	<u>1,509</u>
Other financing sources (uses):			
Fund Modification	(145,000)	(145,000)	-
TOTAL OTHER FINANCING SOURCES	<u>(145,000)</u>	<u>(145,000)</u>	<u>-</u>
Net Change in Fund Balance	17,990	19,499	1,509
Fund Balance - July 1, 2012	<u>10,238</u>	<u>10,238</u>	<u>-</u>
Fund Balance - June 30, 2013	<u>\$ 28,228</u>	<u>\$ 29,737</u>	<u>\$ 1,509</u>

See auditors' report.

MADISON SCHOOL DISTRICT

TRUST AND AGENCY FUNDS COMBINING STATEMENT OF CHANGES IN NET POSITION June 30, 2013

	GROUPS JULY 1, 2012	ADDITIONS	DEDUCTIONS	GROUPS JUNE 30, 2013
After Prom	\$ (310.23)	\$ 6,662.75	\$ 7,178.41	\$ (825.89)
Athletic Boosters	6,707.86	24,478.34	21,367.82	9,818.38
Band Boosters	7,664.26	6,642.19	5,011.85	9,294.60
Baseball	367.05	1,159.05	1,164.05	362.05
Bowling	-	236.60	-	236.60
Boys Basketball	117.60	1,263.34	1,148.01	232.93
Checking - Interest	4,910.32	463.51	433.62	4,940.21
Cheerleaders	908.49	1,871.20	1,757.00	1,022.69
Class of:				
2013	1,299.59	3,804.25	5,103.84	-
2014	986.78	-	-	986.78
2015	1,244.33	-	76.80	1,167.53
2016	-	2,572.00	1,569.67	1,002.33
2017	-	1,200.00	-	1,200.00
Community Rewards	4,476.77	223.22	-	4,699.99
Dr. Bob Scholarship	-	10,150.00	-	10,150.00
Drama Account	656.43	-	-	656.43
Eighth Grade Trip	1,863.37	48,828.22	48,303.60	2,387.99
Elementary Earth Club	164.49	406.85	270.78	300.56
Elementary Fund Raising	5,473.81	53,756.31	57,139.63	2,090.49
Elementary Library	521.07	90.00	422.98	188.09
Elementary Student Council	128.21	1,553.31	1,553.31	128.21
Family Resource Room	-	625.00	625.00	-
Fan	22,610.43	23,229.20	23,599.78	22,239.85
Fifth Grade Camp	1,954.28	22,528.53	20,475.02	4,007.79
Fifth Grade Room	154.06	-	154.06	-
Football	6,504.25	9,109.00	12,854.01	2,759.24
Girls Basketball	563.49	6,034.25	6,106.75	490.99
Girls On The Run	-	475.00	238.47	236.53
H.S. Library Account	560.25	2,634.28	2,753.47	441.06
H.S. Student Council	1,656.70	1,216.00	1,339.43	1,533.27
Interact Club	312.27	1,288.21	1,599.31	1.17
Junior Achievement	202.50	-	-	202.50
Lenawee Child	109.88	187.14	45.82	251.20
Locker Account	7,574.38	13,783.95	10,932.34	10,425.99
MCSSC	2,255.96	1,100.00	1,520.20	1,835.76
Madison Football Club	1,610.68	3,192.00	3,001.16	1,801.52
Madison School Store	3,003.49	-	-	3,003.49
May Madness	832.56	2,904.77	324.27	3,413.06
M.S. Student Activity	3,457.87	12,199.60	12,415.21	3,242.26
M.S. Student Council	6,202.00	1,170.01	2,925.58	4,446.43
Musical Theatre	664.06	4,073.43	4,477.80	259.69
National Honor Society	385.06	600.00	438.99	546.07
P.A.T.T.	10,093.45	38,879.52	47,328.61	1,644.36
P.E.A.C.E	302.31	-	-	302.31
Pop Fund	5,820.11	611.16	1,453.03	4,978.24
Relay For Life	1,741.37	1,487.00	60.00	3,168.37
Savings Account Interest	4,619.52	22.33	-	4,641.85
Scholarship	18,401.25	1,204.90	4,995.00	14,611.15
Science Olympiad - Elementary	-	525.77	405.23	120.54
Softball	1,025.09	1,432.00	1,491.00	966.09
Special Education - Elementary	38.88	-	-	38.88
Special Education - H.S./M.S.	966.00	-	-	966.00
Strength & Conditioning	6,395.80	2,770.00	1,132.52	8,033.28
Student Activities	618.84	13,150.15	11,544.35	2,224.64
Therapy Dog	-	200.00	200.00	-
Track	5,987.63	15,480.94	15,908.11	5,560.46
Varsity Volleyball	53.50	1,410.00	1,351.00	112.50
Wrestling	1,676.90	97.50	-	1,774.40
Wrestling Club	2,568.59	5,466.85	6,196.78	1,838.66
Yearbook	1,179.68	3,401.80	510.93	4,070.55
TOTAL	\$ 159,283.29	\$ 357,851.43	\$ 350,904.60	\$ 166,230.12

See auditors' report

MADISON SCHOOL DISTRICT

PROPERTY TAX DATA Year Ended June 30, 2013

	Unpaid at July 1, 2012	Tax	Collections/ Adjustments	Unpaid (Deferred) at June 30, 2013
General Fund	\$ -	\$ 1,914,837	\$ 1,914,837	\$ -
Sinking Fund	-	162,861	162,861	-
Debt Retirement Funds	-	280,136	280,136	-
TOTAL	\$ -	\$ 2,357,834	\$ 2,357,834	\$ -

Other Information

Taxable value of property assessed in the Madison School District

	2013			
	Homestead	Industrial PP	Commercial PP	Non-homestead
Municipality:				
Madison	\$ 42,164,840	\$ 3,890,900	\$ 7,672,900	\$ 58,639,809
Adrian City	5,850,799	1,397,400	5,777,400	38,903,310
Palmyra	3,034,371	-	1,111,700	2,879,179
Adrian	142,878	-	22,000	1,194,075
Total	\$ 51,192,888	\$ 5,288,300	\$ 14,584,000	\$ 101,616,373

Tax Levy (Mills):			
Debt Retirement Funds		1.6500	1.6500
Sinking Fund		1.0000	1.0000
General Fund		18.0000	18.0000
Total tax levy		20.6500	20.6500

Blended official student enrollment 1,579.63

See auditors' report.

Other Reporting Required by *Governmental Auditing Standards*

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

Board of Education
Madison School District
Adrian, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Madison School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Madison School District' basic financial statements and have issued our report thereon dated September 23, 2013.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Corrective Action Responses, referenced as 13-01 and 13-02, presented on pages 54-56 that we consider to be significant deficiencies.

Board of Education
Madison School District
Adrian, Michigan

Compliance and other matters

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

We noted other matters that we have reported to the management of the Madison School District in a separate letter dated September 23, 2013.

Madison School District' Response to Findings

Madison School District' response to the findings identified in our audit is described in the accompanying Schedule of Findings and Corrective Action Responses. Madison School District' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Drake, Watters & Associates, PLLC

September 23, 2013

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

Board of Education
Madison School District
Adrian, Michigan

Report on Compliance for Each Major Federal Program

We have audited Madison School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Madison School District's major federal programs for the year ended June 30, 2013. Madison School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Madison School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An Audit includes examining, on a test basis, evidence about Madison School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Madison School District's compliance.

Opinion on Each major Federal Program

In our opinion, Madison School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 13-01 and 13-02. Our opinion on each major federal program is not modified with respect to these matters.

Madison School District's response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and corrective action plan. Madison School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

The management of Madison School District is responsible for establishing and maintaining effective internal control over compliance with requirements referred to above. In planning and performing our audit, we considered Madison School District's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Madison School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 13-01 and 13-02 that we consider to be significant deficiencies.

Board of Education
Madison School District
Adrian, Michigan

Madison School District's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and corrective action plan. Madison School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response,

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Drake, Watters & Associates, PLLC

Jackson, Michigan
September 23, 2013

MADISON SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS Year Ended June 30, 2013

Federal Grantor Pass Through Grantor Program Title/Grant Number	CFDA Number	Approved Awards Amount	Accrued or (Deferred) Revenue July 1, 2012	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts	Accrued or (Deferred) Revenue June 30, 2013	Adjustments Debits (Credits)
U.S. Department of Education:								
Passed through Michigan Department of Education								
Title I, Part A 121530 1112	84,010	\$ 198,655	\$ 198,655	\$ 198,655	\$ -	\$ 198,655	\$ -	\$ -
Title I, Part A 131530 1213	84,010	286,090	-	286,090	286,090	286,090	-	-
Title II, Part A, Teacher/Principal Training 120520 1112	84,367	65,083	61,834	61,834	61,834	61,834	-	-
Title II, Part A, Teacher/Principal Training 130520 1213	84,367	51,568	-	51,568	51,568	51,568	-	-
Title VI, Part B, Rural and Low-Income Grant 120660 1112	84,358	29,944	29,944	29,944	29,944	29,944	-	-
Title VI, Part B, Rural and Low-Income Grant 130660 1213	84,358	27,533	-	27,533	27,533	27,533	-	-
Education Jobs Fund 112545 1112	84,410	17,985	17,985	17,985	17,985	17,985	-	-
Total passed through Michigan Department of Education		676,858	308,418	308,418	365,191	673,609	-	-
Passed through I.S.D.								
Title II, Part B Mathematics and Science Partnerships	84,366	200	-	200	200	200	-	-
Total passed through I.S.D.		200	-	200	200	200	-	-
Total U.S. Department of Education		677,058	308,418	308,418	365,391	673,809	-	-
U.S. Department of Agriculture:								
Passed through U.S. Department of Agriculture								
Child Nutrition Cluster - Cash Assistance	10,553	153,590	-	153,590	153,590	153,590	-	-
School Breakfast Program	10,555	452,027	-	452,027	452,027	452,027	-	-
National School Lunch Program		605,617	-	605,617	605,617	605,617	-	-
Total Cash Assistance								
Child Nutrition Cluster - Non-Cash Assistance	10,555	48,538	-	48,538	48,538	48,538	-	-
Commodities - Entitlement	10,555	-	-	-	-	-	-	-
Commodities - Bonus		48,538	-	48,538	48,538	48,538	-	-
Total - Non-Cash Assistance		48,538	-	48,538	48,538	48,538	-	-
Total Child Nutrition Cluster		654,155	-	654,155	654,155	654,155	-	-
Total Passed Through U.S. Department of Agriculture		654,155	-	654,155	654,155	654,155	-	-
Total U.S. Department of Agriculture		654,155	-	654,155	654,155	654,155	-	-
U.S. Department of Health and Human Services:								
Passed through Michigan Department of Community Health:								
Passed through I.S.D.	93,778	2,575	-	2,575	2,575	2,575	-	-
Medicaid Outreach								
Total passed through I.S.D. and MDCH		2,575	-	2,575	2,575	2,575	-	-
Total U.S. Department of Health and Human Services		2,575	-	2,575	2,575	2,575	-	-
Total Federal Financial Assistance		\$ 1,333,788	\$ 308,418	\$ 308,418	\$ 1,022,121	\$ 1,330,539	\$ -	\$ -

Notes:

1. See notes to financial statements for significant accounting policies and procedures.
2. The Cash Management Grant Auditor Report was used in preparation of this schedule.
3. The value of the noncash assistance received was determined in accordance with the provisions of OMB Circular A-133.

See auditors' report

MADISON SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND CORRECTIVE ACTION RESPONSES June 30, 2013

SECTION 1: SUMMARY OF AUDITORS' RESULTS

We have audited the financial statements of Madison School District as of and for the year ended June 30, 2013 and have issued an unqualified opinion on these financial statements.

Two control deficiencies were disclosed during the audit of the financial statements and are reported in Section 2 of this schedule. Both of the conditions were considered to be significant deficiencies, however, neither was considered to be a material weakness.

No instances of noncompliance that was material to the financial statements of Madison School District were disclosed during the audit.

An unqualified opinion was issued on compliance for major federal award programs.

Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.

The following federal programs were identified as major programs: Title I, Part A – Improving Basic Programs (CFDA 84.010) and Title II, Part A – Teacher/Principal Training & Recruiting (CFDA 84.367).

The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.

The Madison School District was considered to be a low-risk auditee.

SECTION 2: FINDINGS RELATED TO THE FINANCIAL STATEMENTS

Significant Deficiencies

13-01. Finding

Internal control was found to have a significant deficiency in regards to segregation of duties. The District has an inadequate number of personnel to accomplish a proper segregation of duties.

Response

Since our District office staff currently consist of three employees, it is difficult to separate the various duties to achieve an ideal segregation of duties. We have considered the need to separate the various accounting and recordkeeping functions. Where possible, we have cross-trained employees to reconcile the accounts of another person. We have established guidelines for supervisory approval of all invoices. As an additional measure, all payments receive board of trustee approval prior to issuance of checks. We will continue to pursue other measures that may be taken to improve our system.

13-02. Finding

The District employs individuals with adequate skills in regards to controls over the period-end financial reporting process, including controls over procedures used to post to the general ledger; initiate, authorize, record and process journal entries; and, record recurring and nonrecurring adjustments. However, a significant deficiency exists due to the fact that the District does not currently have personnel with a level of knowledge or expertise to prepare and take responsibility for the District's external financial statements.

MADISON SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND CORRECTIVE ACTION RESPONSES

June 30, 2013

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

13-02. Response

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

Material Weaknesses

Of the significant deficiencies reported above, none were determined to be material weaknesses.

SECTION 3: FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Other than the two financial statement findings shown above as 13-01 and 13-02, there were no program specific findings or questioned costs to be reported.

SECTION 4: SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Financial Statement Findings

12-01. Statement of Condition: Internal control was found to have a significant deficiency in regards to segregation of duties. The District has an inadequate number of personnel to accomplish a proper segregation of duties.

Current Status: The segregation of duties finding has been addressed by the District to the extent it is economically feasible. Mitigating measures have been implemented, but this issue is not expected to be fully correctible and the District anticipates this will be an ongoing situation due to their small staff size. It remains a significant deficiency for the current year.

12.02. Statement of Condition: A significant deficiency exists due to the fact that the District does not currently have personnel with a level of knowledge or expertise to prepare and take responsibility for the District's external financial statements

Current Status: The District uses outside, professional services to overcome this deficiency. Currently, the external financial statements are drafted with the assistance of the District's auditors. The statements are reviewed and approved by the District Superintendent prior to publishing.

MADISON SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND CORRECTIVE ACTION RESPONSES

June 30, 2013

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

Federal Award Program Findings

U.S. Department of Agriculture

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

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

Current Status: Procedures are in place for supervisory review of eligibility determinations before assistance is authorized.

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AUDIT-RELATED COMMUNICATIONS

To the Board of Education
Madison School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Madison School District (the "School District") for the year ended June 30, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January 31, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Compliance

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. However, the objective of our audit was not to provide an opinion on compliance with such provisions.

Internal Controls

In planning and performing our audit of the financial statements of the School District, in accordance with auditing standards generally accepted in the United States of America, we considered the School District's internal control over financial reporting (internal control) to determine audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses, or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School District are described in Note 1 to the financial statements. The School District adopted Governmental Accounting Standards Board ("GASB") Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* and GASB Statement No. 65 *Items Previously Reported as Assets and Liabilities* for the year ended June 30, 2013. The standards had no significant impact on the financial statements of the School District. The application of existing policies was not changed during 2013. We noted no transactions entered into by the School District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events, and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

- Useful lives of capital assets and the related depreciation expense.

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

- Risk Management
- Pension Plan; and
- Contingent Liabilities

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

No Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. We did not note any misstatements during our audit.

No Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 23, 2013.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Financial Reporting for Pension Plans

In June 2012, the Governmental Accounting Standards Board ("GASB") issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans administered through trusts, and Statement No. 68, *Accounting and Reporting for Pensions*, which revises and establishes new accounting and financial reporting requirements for most governments that provide their employees with pension benefits. Statement No. 67 expands the current financial reports for defined benefit pension plans. The Statement also expands note disclosures and requires 10-year information be reported about annual money-weighted rates of return. Statement No. 68 requires employers report net pension benefits as a liability on the Statement of Net Position. The standard requires immediate recognition of the pension expense, including annual service cost and interest, and the effect of changes in benefit terms on the net pension liability. Cost-sharing employers are required 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 requires expanded note disclosures and required supplementary information covering the past 10 years for the net pension liability. Statement 67 is effective for fiscal years beginning after June 15, 2013. Statement 68 is effective for fiscal years beginning after June 15, 2014. No estimate of the School District's pension liability has been made as of June 30, 2013.

Government Combinations and Disposals of Government Operations

In January 2013, the Governmental Accounting Standards Board ("GASB") issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. The Statement requires the use of carrying value to measure assets and liabilities in a government merger; acquisition value in the measurement of assets acquired and liabilities assumed in an acquisition; and carrying value to measure the assets and liabilities in a transfer of operations. The Statement also provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold. The requirements of the standard are effective for periods beginning after December 15, 2013, and should be applied on a prospective basis. The State of Michigan is currently recommending consolidation of services through county Intermediate School Districts that may fall under this standard.

Nonexchange Financial Guarantees

In April 2013, the Governmental Accounting Standards Board ("GASB") issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. A nonexchange financial guarantee occurs when a government extends a financial guarantee for the obligations of another government, a not-for-profit entity, or a private entity without directly receiving equal or approximate value in exchange. The statement requires governments that extend these guarantees to recognize a liability if quantitative factors and historical data, if any, indicate it is more likely than not that the government will be required to make a payment on the guarantee. The liability is measured at the discounted present value of the best estimate of future outflows expected under the guarantee. The statement requires the government that has issued the obligation guaranteed to recognize revenue to the extent of the reduction in its guaranteed liabilities, or when released as an obligor on the obligation. The provisions of the Statement are effective for reporting periods beginning after June 15, 2013.

Governmental Audit Quality Center Auditee Resource Center

The GAQC has recently launched a new Auditee Resource Center, which is intended to assist procurers of audit services (i.e., auditees). The Auditee Resource Center includes information, practice aids, tools and other resources such as articles; archived GAQC web events, and access to certain GAQC Alerts that should be of interest and benefit to auditees. Topics covered include information that will be relevant to auditees that undergo: (1) government or not-for-profit organization ("NPO") financial statement audits; (2) audits performed under *Government Auditing Standards* (referred to as Yellow Book audits); (3) audits of Federal expenditures made by governments and NPOs (referred to as single audits); and (4) other Federally required compliance audits.

All resources available through the Auditee Resource Center are open to the public. You may access the Auditee Resource Center through the GAQC Web site at: www.aicpa.org/GAQC. Look for the link to the Auditee Resource Center under the "Quick Links" tab on the left side of the GAQC home page. We appreciate your business and are happy we can share the benefits of the AICPA GAQC membership with you.

Other Matters

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

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

We are pleased to serve as the School District's auditors. If there are any questions about the audited financial statements or the contents of this letter, we would welcome the opportunity to discuss them at your convenience.

Drake, Watters & Associates, PLLC

Jackson, Michigan
September 23, 2013