

MADISON SCHOOL DISTRICT
FINANCIAL REPORT
WITH SUPPLEMENTAL INFORMATION
JUNE 30, 2014

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415 S. Jackson St.
P.O. Box 906
Jackson, MI 49204



(517) 783-2886
Fax (517) 783-2938
www.dwapllc.com

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, 2014, 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.

Board of Education
Madison School District
Adrian, Michigan

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Madison School District as of June 30, 2014, 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.

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 October 22, 2014 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.

Board of Education
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
October 22, 2014

MADISON SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS For Fiscal Year Ended June 30, 2014

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, 2014. 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, 2014

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, 2014

- **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, 2014 and 2013:

(See next page)

MADISON SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued) For Fiscal Year Ended June 30, 2014

TABLE I

	Governmental Activities	
	June 30	
	2014	2013
	(in millions)	
Assets		
Current and other assets	\$ 5.8	\$ 6.5
Capital assets, net	17.9	17.2
Total assets	23.7	23.7
Deferred Outflow of Resources		
Debt refunding deferred charges	0.04	0.04
Combined Outflow of Resources	23.7	23.7
Liabilities		
Current and noncurrent due within one year	1.9	2.0
Noncurrent due in more than one year	3.4	3.5
Total liabilities	5.3	5.5
Net Position		
Invested in capital assets - Net of related debt	14.4	13.6
Restricted	0.4	0.4
Unrestricted	3.6	4.2
Total net position	\$ 18.4	\$ 18.2

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 \$18.4 million at June 30, 2014. The investment in capital assets, net of related debt, reflects a balance of \$14.4 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, \$3.6 million, was unrestricted.

The \$3.6 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, 2014 and 2013.

MADISON SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued) For Fiscal Year Ended June 30, 2014

TABLE 2

	Governmental Activities	
	2014	2013
	(in millions)	
Revenue		
Program revenue:		
Charges for services	\$ 0.2	\$ 0.2
Operating grants and contributions	1.7	1.9
General revenue:		
Property taxes	2.4	3.2
State foundation allowance	11.3	11.1
Other	0.6	0.6
Total revenue	<u>16.2</u>	<u>17.0</u>
Functions/Program Expenses		
Instruction	9.9	9.8
Support services	4.1	4.6
Food services	0.8	0.7
Athletics	0.4	0.3
Interest on long-term debt	0.1	0.2
Depreciation (unallocated)	0.6	0.6
Total functions/program expenses	<u>15.9</u>	<u>16.2</u>
Increase in Net Position	0.3	0.8
Net Position - Beginning of year	18.1	17.4
Net Position - End of year	<u>\$ 18.4</u>	<u>\$ 18.2</u>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$15.9 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, \$1.7 million. We paid for the remaining "public benefit" portion of our governmental activities with \$2.4 million in taxes, \$11.3 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 \$0.3 million, resulting in a corresponding increase in net position.

MADISON SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued) For Fiscal Year Ended June 30, 2014

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, 2014, the governmental funds reported a combined fund balance of \$4.0 million, which is a decrease of \$0.5 million from last year. The primary reasons for the decrease are as follows:

- In the General Fund, our principal operating fund, the fund balance decreased by \$0.6 million to \$3.6 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 a small decrease in enrollment, and an excess of capital expenditures over property tax and investment revenues in the Capital Projects Fund.

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

Our Other Nonmajor Fund showed a net decrease of approximately \$11,687 due to capital outlay for improvements and equipment.

Combined, the Debt Service Funds showed a fund balance increase of approximately \$25,000. 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, 2014

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 2013-2014 year, the final of which was approved by the Board of Education on June 16, 2014. 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 \$0.3 million as a result of an unanticipated increase in foundation allowance payments due, in part, to the addition of Best Practice Incentive Funds and categorical revenue for retirement funding.

Budgeted expenditures were also increased \$.04 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 \$44,000 higher than the final budget.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2014, the School District had \$17.8 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 \$0.6 million from last year.

MADISON SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued) For Fiscal Year Ended June 30, 2014

	2014	2013
Land	\$ 912,065	\$ 912,065
Construction in process	4,851,311	4,085,994
Buildings and building improvements	15,911,438	15,826,378
Buses and other vehicles	705,264	667,509
Furniture and equipment	3,924,483	3,676,446
Total capital assets	26,304,561	25,168,392
Less: accumulated depreciation	8,457,457	7,944,956
Net capital assets	\$ 17,847,104	\$ 17,223,436

This year's net additions of \$0.6 million included computer and other technology related equipment, kitchen equipment, a bus and completion of the center for the performing arts. No new debt was issued for these additions.

Major capital projects planned for the 2014-2015 fiscal year include the renovation of the elementary gymnasium and elementary kitchen. 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 \$3.47 million in bonds and loans outstanding versus \$3.6 million in the previous year - a decrease of 4 percent. Those bonds and loans consisted of the following:

	2014	2013
General obligation bonds	\$ <u>3,470,000</u>	\$ <u>3,600,000</u>

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 \$3.47 million is below this statutorily imposed limit of 15 percent 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, 2014

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 2014-15 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 2014-15 budget was adopted in June 2014, based on the estimated number of students who would be enrolled in September 2014. At that time we anticipated the fall student count would be consistent with what was used in creating the 2013-14 budget. 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 2014-15 maintains the foundation grant for each student in the Madison School District at \$7,942. Due to the state's overall economic decline, Michigan school districts have been allocated funding at "less than inflationary increases". Funding for Madison School District decreased \$470 per student in 2011. Since 2011 Madison received an increase of \$9 per student last year and the promised increase of \$50 per student for 2014-15. The amount restored is substantially less than what was cut in 2011 and, as noted, much less than inflationary increases over the past ten years. Statewide there has been lower revenue from income, sales, and property taxes. Additionally, the School District has been challenged by increased fixed costs such as retirement and health care.

Prudent fiscal responsibility and cost containment remain critical to the School District's ability to effectively operate in a difficult economic climate. Over the past few years, the School District has made a series of budget adjustments to protect its financial future. The School District continues to explore avenues that allow it to reduce costs by restructuring its delivery of services. To balance the 2014-15 budget, an estimated \$0.3 million contribution from fund balance will be utilized to minimize 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, 2014

	Governmental Activities
ASSETS:	
Cash and cash equivalents (Note 3)	\$ 2,852,658
Accounts receivable (Note 4)	9,870
Due from other governmental units (Note 4)	2,974,970
Inventories	8,170
Capital assets, net (Note 5)	17,847,104
TOTAL ASSETS	23,692,772
DEFERRED OUTFLOW OF RESOURCES	
Debt refunding deferred charges	37,958
COMBINED ASSETS AND DEFERRED OUTFLOW OF RESOURCES	23,730,730
LIABILITIES:	
Accounts payable	\$ 26,124
Accrued expenses	510,820
Accrued salaries and withholding	877,095
Unearned revenue	376,427
Accrued interest	22,488
Noncurrent liabilities	
Due within one year	139,380
Due in more than one year	3,356,400
TOTAL LIABILITIES	5,308,734
NET POSITION	
Invested in capital assets, net of related debt	14,377,104
Nonspendable - inventories	8,170
Restricted for construction/repairs	126,241
Restricted for debt service	28,021
Restricted for food services	301,081
Unrestricted	3,581,379
TOTAL NET POSITION	\$ 18,421,996

See auditors' report and accompanying notes to financial statements.

MADISON SCHOOL DISTRICT

STATEMENT OF ACTIVITIES Year Ended June 30, 2014

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	\$ 9,927,422	\$ -	\$ 1,021,739	\$ (8,905,683)
Support services	4,125,809	-	-	(4,125,809)
Food services	809,052	129,605	667,190	(12,257)
Athletics	358,044	53,048	-	(304,996)
Interest on long-term debt	139,891	-	-	(139,891)
Depreciation (Unallocated)	567,666	-	-	(567,666)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 15,927,884	\$ 182,653	\$ 1,688,929	(14,056,302)
GENERAL REVENUES:				
Taxes				
Property taxes, levied for general operations				1,897,112
Property taxes, levied for debt service				293,336
Property taxes, levied for construction/repairs				219,645
State of Michigan aid, unrestricted				11,305,813
Interest and investment earnings				10,994
Other				596,163
			Total general revenues	14,323,063
CHANGE IN NET POSITION				
Net position:				266,761
Beginning of year				18,155,235
End of year				\$ 18,421,996

See auditors' report and accompanying notes to financial statements.

MADISON SCHOOL DISTRICT

**BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2014**

	General	Capital Projects Fund	Debt Retirement	Sinking Fund	Other Nonmajor Governmental Fund	Total Governmental Funds
Assets						
Cash and investments (Note 3)	\$ 2,388,098	\$ -	\$ 28,021	\$ 126,241	\$ 310,298	\$ 2,852,658
Accounts receivable (Note 4)	8,172	-	-	-	1,698	9,870
Due from other funds	34,722	-	-	-	-	34,722
Due from other governmental units (Note 4)	2,949,382	-	-	-	25,588	2,974,970
Inventories	-	-	-	-	8,170	8,170
TOTAL ASSETS	\$ 5,380,374	\$ -	\$ 28,021	\$ 126,241	\$ 345,754	\$ 5,880,390
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ 26,124	\$ -	\$ -	\$ -	\$ -	\$ 26,124
Due to other funds	-	-	-	-	34,722	34,722
Accrued expenses	510,820	-	-	-	-	510,820
Salaries payable	877,095	-	-	-	-	877,095
Unearned revenue	374,646	-	-	-	1,781	376,427
TOTAL LIABILITIES	1,788,685	-	-	-	36,503	1,825,188
Fund Balances						
Nonspendable - inventory	-	-	-	-	8,170	8,170
Restricted - debt retirement	-	-	28,021	-	-	28,021
Restricted - construction/repairs/renovations	-	-	-	126,241	-	126,241
Restricted, food services	-	-	-	-	301,081	301,081
Assigned, subsequent year budget shortfall	265,432	-	-	-	-	265,432
Assigned, highly effective compensation	11,000	-	-	-	-	11,000
Unassigned	3,315,257	-	-	-	-	3,315,257
TOTAL FUND BALANCES	3,591,689	-	28,021	126,241	309,251	4,055,202
TOTAL LIABILITIES AND FUND BALANCE	\$ 5,380,374	\$ -	\$ 28,021	\$ 126,241	\$ 345,754	\$ 5,880,390

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, 2014

Total Governmental Fund Balances		\$	4,055,202
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		\$	26,304,561
			<u>(8,457,457)</u>
			17,847,104
Long-term liabilities are not due and payable in the current period and are not reported in the fund; Bonds payable Compensated absences			(3,470,000)
			(25,780)
Bond issuance costs reported as an expenditure in the governmental fund financial statements are capitalized in the government-wide financial statements			37,958
Accrued Interest is not included as a liability in governmental funds			<u>(22,488)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES		\$	<u>18,421,996</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, 2014**

	General	Capital Projects Fund	Debt Retirement	Sinking Fund	Other Nonmajor Governmental Fund	Totals
Revenues						
Local sources	\$ 2,112,684	\$ 37,474	\$ 293,342	\$ 220,150	\$ 129,605	\$ 2,793,255
State sources	11,305,813	-	-	-	25,588	11,331,401
Federal sources	301,717	-	-	-	641,602	943,319
Interdistrict sources	720,022	-	-	-	-	720,022
Miscellaneous	406,078	-	-	-	570	406,648
TOTAL REVENUES	14,846,314	37,474	293,342	220,150	797,365	16,194,645
Expenditures						
Current:						
Instruction and instructional support services	11,487,533	-	-	-	-	11,487,533
Supporting services	3,938,717	-	-	-	809,052	4,747,769
Capital Projects						
Building construction	-	56,593	-	123,646	-	180,239
Debt Service:						
Principal repayment	-	-	130,000	-	-	130,000
Interest and other expenses	-	-	138,200	-	-	138,200
TOTAL EXPENDITURES	15,426,250	56,593	268,200	123,646	809,052	16,683,741
Excess (Deficiency) of Revenues Over Expenditures	(579,936)	(19,119)	25,142	96,504	(11,687)	(489,096)
Other Financing Sources (Uses)						
Fund Modification	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	-	-	-
Net Change in Fund Balances	(579,936)	(19,119)	25,142	96,504	(11,687)	(489,096)
Fund Balances - Beginning of year	4,171,625	19,119	2,879	29,737	320,938	4,544,298
Fund Balances - End of year	\$ 3,591,689	\$ -	\$ 28,021	\$ 126,241	\$ 309,251	\$ 4,055,202

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, 2014**

Net Change in Fund Balances - Total Governmental Funds		\$	(489,096)
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	\$	(567,666)	
Capital outlay		<u>1,191,334</u>	
			623,668
Decrease in accrued interest payable is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid			542
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			(2,233)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)			130,000
Decrease in compensated absences are not reported in the governmental funds			<u>3,880</u>
Change in Net Position of Governmental Activities		\$	<u>266,761</u>

See auditors' report and accompanying notes to financial statements.

	<u>Agency Fund Student Activities</u>
Assets	
Cash and cash equivalents	\$ <u>193,599</u>
Liabilities	
Liabilities:	
Due to student groups	\$ <u>193,599</u>

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.

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, 2014; 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.

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 \$3,157,369 had \$2,657,358 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.

Note 3 – DEPOSITS AND INVESTMENTS continued

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, 2014:

	<u>MATURITY DATES</u>	<u>INTEREST RATES</u>	<u>CARRYING AMOUNT</u>	<u>BANK BALANCE</u>
General Fund:				
United Bank & Trust	N/A	0.09%	\$ 121,947	\$ 214,597
United Bank & Trust	N/A	0.09%	9,386	9,816
MI Liquid Asset Fund	N/A	VAR	24,838	27,142
United Bank & Trust - Athletic	N/A	0.09%	8,351	9,072
TLC Comm. Cr. Union	N/A	0.00%	11	11
1 st Federal Bank	N/A	VAR	2,844	2,844
MBIA	N/A	VAR	762	762
MI Liquid Asset Fund	N/A	VAR	1,271,826	1,271,826
1 st Federal Bank	N/A	VAR	<u>948,133</u>	<u>948,133</u>
			<u>\$2,388,098</u>	<u>\$2,484,203</u>
Debt Retirement Fund:				
MI Liquid Assets	N/A	VAR	<u>\$ 28,021</u>	<u>\$ 28,021</u>
Sinking Fund:				
1 st Federal Bank	N/A	VAR	<u>\$ 126,241</u>	<u>\$ 126,241</u>
School Service Fund:				
United Bank & Trust - School Lunch	N/A	0.09%	<u>\$ 310,298</u>	<u>\$ 322,014</u>
Agency Fund:				
United Bank & Trust	N/A	0.09%	\$ 183,037	\$ 186,328
United Bank & Trust	N/A	0.12%	<u>10,562</u>	<u>10,562</u>
			<u>\$ 193,599</u>	<u>\$ 196,890</u>
Total Cash			<u>\$3,046,257</u>	<u>\$3,157,369</u>

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

Note 3 - DEPOSITS AND INVESTMENTS continued

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, 2014, the District had \$1,326,989 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, 2014, the fair value of the District's investments is the same as the value of the pool shares. As of June 30, 2014, 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:

	<u>General Fund</u>	<u>Nonmajor and Other Funds</u>	<u>Total</u>
Receivables:			
Intergovernmental	\$2,949,382	\$ 25,588	\$2,974,970
Other Receivables	<u>8,172</u>	<u>1,698</u>	<u>9,870</u>
Net receivables	<u>\$2,957,554</u>	<u>\$ 27,286</u>	<u>\$2,984,840</u>

MADISON SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

Note 5 - CAPITAL ASSETS

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

	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Disposals/ Adjustments</u>	<u>Balance June 30, 2014</u>
Assets not being depreciated:				
Construction in process	\$ 4,085,994	\$ 765,317	\$ -	\$ 4,851,311
Land	<u>912,065</u>	<u>-</u>	<u>-</u>	<u>912,065</u>
Subtotal	<u>4,998,059</u>	<u>765,317</u>	<u>-</u>	<u>5,763,376</u>
Capital assets being depreciated:				
Building and building improvements	15,826,378	85,060	-	15,911,438
Buses and other vehicles	667,509	92,920	55,165	705,264
Furniture and equipment	<u>3,676,446</u>	<u>248,037</u>	<u>-</u>	<u>3,924,483</u>
Subtotal	<u>20,170,333</u>	<u>426,017</u>	<u>55,165</u>	<u>20,541,185</u>
Building and building improvements	4,896,249	384,346	-	5,280,595
Buses and other vehicles	427,684	44,268	55,165	416,787
Furniture and equipment	<u>2,621,023</u>	<u>139,052</u>	<u>-</u>	<u>2,760,075</u>
Subtotal	<u>7,944,956</u>	<u>567,666</u>	<u>55,165</u>	<u>8,457,457</u>
Net capital assets being depreciated	<u>12,225,377</u>	<u>(141,649)</u>	<u>-</u>	<u>12,083,728</u>
Net capital assets	<u>\$17,223,436</u>	<u>\$ 623,668</u>	<u>\$ -</u>	<u>\$17,847,104</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. The following is a summary of the long-term debt transactions of the District for the year ended June 30, 2014:

	<u>LONG-TERM DEBT JULY 1, 2013</u>	<u>INCREASED LONG-TERM DEBT</u>	<u>PAYMENTS/ REDUCTIONS</u>	<u>LONG-TERM DEBT JUNE 30, 2014</u>	<u>DUE WITHIN ONE YEAR</u>
UNUSED SICK LEAVE	\$ 29,660	\$ -	\$ 3,880	\$ 25,780	\$ 4,380
2011 BUILDING & SITE	<u>3,600,000</u>	<u>-</u>	<u>130,000</u>	<u>3,470,000</u>	<u>135,000</u>
	<u>\$3,629,660</u>	<u>\$ -</u>	<u>\$133,880</u>	<u>\$3,495,780</u>	<u>\$139,380</u>

Note 6 - LONG-TERM LIABILITIES - continued

Long-term liabilities at June 30, 2014 are comprised of the following individual issues:

Due to the uncertainty of unused sick leave maturity as of June 30, 2014, this liability has been included in the amount due "Thereafter" section. \$ 25,780

\$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%. \$ 3,470,000

An amount of \$28,021 is available in the debt service funds to service the general obligation debt.

The annual requirements to amortize all debts outstanding as of June 30, 2014, including interest payments of \$1,466,710 are as follows:

YEAR ENDING <u>JUNE 30</u>	UNUSED SICK <u>LEAVE</u>	2011 BUILDING & <u>SITE ISSUE</u>
2015	\$ 4,380	\$ 269,950
2016	-	271,575
2017	-	278,075
2018	-	278,950
2019	-	284,300
2020-2024	-	1,451,725
2025-2029	-	1,498,885
2030-2034	-	603,250
Thereafter	<u>21,400</u>	-
	<u>\$25,780</u>	<u>\$4,936,710</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.

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

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. For the period from July 1, 2013 through September 30, 2013, employees were given 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

For the period from October 1, 2013 through June 30, 2014, employees were given 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	18.34%	18.11%	18.11%	15.44%	15.44%	15.44%	18.34%
Health Contributions	6.45%	6.45%	5.52%	5.52%	6.45%	5.52%	5.52%
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%

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, for those not eligible for Medicare, 10 percent or 20% 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 ranged from 8.18 to 9.11 percent of covered payroll for the period from July 1, 2013 through September 30, 2013. For the period from October 1, 2013 through June 30, 2014, the employer contribution rate ranged from 5.52 percent to 6.45 percent dependent upon the employee's date of hire and plan election as noted above.

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

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.

The School District's required and actual contributions to the pension plan and for retiree healthcare benefits for the years ended June 30, 2014, 2013, and 2012 were \$2,619,401, \$2,049,854 and \$1,880,606, 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, 2014 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) in June of 2012, issued Statement 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. 68 is effective for periods beginning on or after June 15, 2014. The 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. Additionally, the School District will be required to more comprehensively and comparably measure the annual costs of pension benefits. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The District is currently evaluating the impact this standard will have on its financial statements when adopted: however, the impact is expected to be material.

Required Supplemental Information

MADISON SCHOOL DISTRICT

REQUIRED SUPPLEMENTAL INFORMATION BUDGETARY COMPARISON SCHEDULE - GENERAL FUND Year Ended June 30, 2014

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Over (Under) Actual
	Original	Final		
	Revenues:			
Local sources	\$ 2,084,228	\$ 2,137,064	\$ 2,112,684	\$ 24,380
State sources	11,102,885	11,325,312	11,305,813	19,499
Federal sources	310,156	335,566	301,717	33,849
Interdistrict sources	750,000	687,063	720,022	(32,959)
Miscellaneous	283,837	392,896	406,078	(13,182)
TOTAL REVENUES	<u>14,531,106</u>	<u>14,877,901</u>	<u>14,846,314</u>	<u>31,587</u>
Expenditures:				
Current:				
Instruction:				
Basic programs	8,560,502	8,749,178	8,719,274	(29,904)
Added needs	2,374,886	2,359,064	2,346,769	(12,295)
Community services	59,787	107,679	102,449	(5,230)
Pupil services	248,611	244,873	236,758	(8,115)
Instructional staff	96,417	80,626	82,283	1,657
Supporting Services:				
School administration and business	1,719,979	1,797,051	1,807,264	10,213
Operation, transportation and central	1,642,307	1,802,805	1,773,409	(29,396)
Athletics	324,521	359,787	358,044	(1,743)
TOTAL EXPENDITURES	<u>15,027,010</u>	<u>15,501,063</u>	<u>15,426,250</u>	<u>(74,813)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER USES	(495,904)	(623,162)	(579,936)	(43,226)
Budgetary fund balance - July 1, 2013	<u>4,171,624</u>	<u>4,171,624</u>	<u>4,171,624</u>	<u>-</u>
Budgetary fund balance - June 30, 2014	<u>\$ 3,675,720</u>	<u>\$ 3,548,462</u>	<u>\$ 3,591,688</u>	<u>\$ (43,226)</u>

See auditors' report and accompanying notes to financial statements.

Other Supplemental Information

MADISON SCHOOL DISTRICT

BALANCE SHEET - NONMAJOR GOVERNMENTAL FUND June 30, 2014

	Nonmajor Special Revenue/ Governmental Fund
	School Lunch Fund
Assets	
Cash and investments	\$ 310,298
Accounts receivable	1,698
Due from other governments	25,588
Inventory	8,170
TOTAL ASSETS	\$ 345,754
Liabilities and Fund Balance	
Liabilities	
Due to general fund	\$ 34,722
Unearned revenue	1,781
TOTAL LIABILITIES	36,503
Fund Balance	
Nonspendable - inventory	8,170
Restricted	301,081
TOTAL FUND BALANCE	309,251
TOTAL LIABILITIES AND FUND BALANCE	\$ 345,754

See auditors' report.

MADISON SCHOOL DISTRICT

NONMAJOR GOVERNMENTAL FUND STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE Year Ended June 30, 2014

	Nonmajor Special Revenue/ Governmental Fund
	School Lunch Fund
Revenues	
Local sources	\$ 129,605
State sources	25,588
Federal sources	641,602
Miscellaneous	570
TOTAL REVENUES	<u>797,365</u>
Expenditures	
Current operations:	
Food services	729,369
Capital outlay	79,683
TOTAL EXPENDITURES	<u>809,052</u>
Excess of Revenues Over (Under) Expenditures	(11,687)
Fund Balance - July 1, 2013	<u>320,938</u>
Fund Balance - June 30, 2014	<u>\$ 309,251</u>

See auditors' report.

MADISON SCHOOL DISTRICT

GENERAL FUND STATEMENT OF REVENUES - BUDGET AND ACTUAL Year Ended June 30, 2014

	2014 Budget	2014 Actual	Over (Under) Budget	2013 Actual
Revenue from Local Sources:				
Property tax	\$ 1,924,347	\$ 1,897,112	\$ (27,235)	\$ 2,740,248
Tuition	45,352	48,095	2,743	46,207
Earnings on investments and deposits	10,000	10,399	399	14,997
Athletics	102,973	53,048	(49,925)	46,689
Other local revenue	54,392	104,030	49,638	105,784
TOTAL REVENUE FROM LOCAL SOURCES	2,137,064	2,112,684	(24,380)	2,953,925
Revenue from State Sources:				
State School Aid	11,325,312	11,305,813	(19,499)	11,147,029
TOTAL REVENUE FROM STATE SOURCES	11,325,312	11,305,813	(19,499)	11,147,029
Revenue from Federal Sources:				
Title I	253,997	242,868	(11,129)	286,090
Other	81,569	58,849	(22,720)	81,876
TOTAL REVENUE FROM FEDERAL SOURCES	335,566	301,717	(33,849)	367,966
Incoming Transfers and Other Transactions:				
County special education	687,063	720,022	32,959	869,503
Payments received from other units	392,896	406,078	13,182	344,728
TOTAL INCOMING TRANSFERS AND OTHER TRANSACTIONS	1,079,959	1,126,100	46,141	1,214,231
TOTAL REVENUE AND OTHER FINANCING SOURCES	\$ 14,877,901	\$ 14,846,314	\$ (31,587)	\$ 15,683,151

See auditors' report.

MADISON SCHOOL DISTRICT

GENERAL FUND STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL Year Ended June 30, 2014

	2014 Budget	2014 Actual	Over (Under) Budget	2013 Actual
Instruction:				
Basic Programs - Pre-School:				
Salaries	\$ 79,082	\$ 79,017	\$ (65)	\$ 77,955
Benefits	40,188	39,799	(389)	34,780
Purchased services	5,561	5,617	56	5,212
Supplies and materials	667	666	(1)	636
TOTAL PRE-SCHOOL	125,498	125,099	(399)	118,583
Basic Programs - Elementary:				
Salaries	2,611,112	2,613,607	2,495	2,552,134
Benefits	1,580,248	1,578,397	(1,851)	1,384,883
Purchased services	74,298	73,699	(599)	61,271
Supplies and materials	75,302	75,700	398	73,832
Capital outlay	59,508	59,508	-	74,011
TOTAL ELEMENTARY	4,400,468	4,400,911	443	4,146,131
Basic Programs - High School/Middle School:				
Salaries	2,452,018	2,443,025	(8,993)	2,384,732
Benefits	1,449,401	1,442,250	(7,151)	1,312,997
Purchased services	128,645	124,581	(4,064)	121,548
Supplies and materials	137,460	128,748	(8,712)	108,173
Capital outlay	55,688	54,660	(1,028)	21,428
TOTAL HIGH SCHOOL/MIDDLE SCHOOL	4,223,212	4,193,264	(29,948)	3,948,878
TOTAL BASIC PROGRAMS	8,749,178	8,719,274	(29,904)	8,213,592
Added Needs - Special Education				
Salaries	857,506	853,148	(4,358)	944,764
Benefits	498,545	514,893	16,348	489,339
Purchased services	34,153	29,175	(4,978)	18,919
Supplies and materials	5,673	5,386	(287)	5,079
Capital outlay	2,145	2,143	(2)	963
TOTAL SPECIAL EDUCATION	1,398,022	1,404,745	6,723	1,459,064
Added Needs - Compensatory Education				
Salaries	266,836	263,754	(3,082)	318,978
Benefits	74,887	76,004	1,117	87,020
Supplies and materials	1,300	270	(1,030)	700
Purchased services	900	900	-	900
TOTAL COMPENSATORY EDUCATION	343,923	340,928	(2,995)	407,598

MADISON SCHOOL DISTRICT

GENERAL FUND STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL Year Ended June 30, 2014

Instruction continued:	2014 Budget	2014 Actual	Over/(Under) Budget	2013 Actual
Other added needs:				
Salaries	\$ 415,546	\$ 403,725	\$ (11,821)	\$ 360,289
Benefits	200,873	197,126	(3,747)	161,915
Purchased services	-	-	-	1,333
Supplies and materials	700	245	(455)	2,912
TOTAL OTHER ADDED NEEDS	<u>617,119</u>	<u>601,096</u>	<u>(16,023)</u>	<u>526,449</u>
TOTAL ADDED NEEDS	<u>2,359,064</u>	<u>2,346,769</u>	<u>(12,295)</u>	<u>2,393,111</u>
TOTAL INSTRUCTION	<u>11,108,242</u>	<u>11,066,043</u>	<u>(42,199)</u>	<u>10,606,703</u>
Community Services:				
Salaries	69,969	64,066	(5,903)	43,432
Benefits	24,571	25,718	1,147	7,128
Purchased services	2,675	2,671	(4)	7,070
Supplies and materials	654	651	(3)	517
Capital outlay	9,810	9,343	(467)	-
TOTAL COMMUNITY SERVICES	<u>107,679</u>	<u>102,449</u>	<u>(5,230)</u>	<u>58,147</u>
Supporting Services:				
Pupil Services:				
Salaries	169,014	166,624	(2,390)	172,108
Benefits	74,428	68,698	(5,730)	65,573
Purchased services	168	668	500	111
Supplies and materials	1,263	768	(495)	1,868
Capital outlay	-	-	-	120
TOTAL PUPIL SERVICES	<u>244,873</u>	<u>236,758</u>	<u>(8,115)</u>	<u>239,780</u>
Instructional staff:				
Salaries	52,270	52,453	183	58,816
Benefits	22,602	24,954	2,352	26,158
Purchased services	350	335	(15)	746
Supplies and materials	3,594	2,992	(602)	3,965
Capital outlay	1,810	1,549	(261)	1,061
TOTAL INSTRUCTIONAL STAFF	<u>80,626</u>	<u>82,283</u>	<u>1,657</u>	<u>90,746</u>
General Administration:				
Salaries	400,866	401,322	456	356,826
Benefits	239,689	242,563	2,874	275,293
Purchased services	48,643	49,232	589	73,307
Supplies and materials	115,231	123,860	8,629	156,255
Capital outlay	2,671	2,670	(1)	1,731
TOTAL GENERAL ADMINISTRATION	<u>807,100</u>	<u>819,647</u>	<u>12,547</u>	<u>863,412</u>
School Administration:				
Salaries	644,343	632,124	(12,219)	607,957
Benefits	335,802	345,509	9,707	321,163
Purchased services	779	1,109	330	1,121
Supplies and materials	8,662	8,510	(152)	9,300
Capital outlay	365	365	-	1,764
TOTAL SCHOOL ADMINISTRATION	<u>989,951</u>	<u>987,617</u>	<u>(2,334)</u>	<u>941,305</u>

See auditors' report.

MADISON SCHOOL DISTRICT

GENERAL FUND STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL Year Ended June 30, 2014

	2014 Budget	2014 Actual	Over (Under) Budget	2013 Actual
Supporting Services continued:				
Operation and maintenance of plant:				
Salaries	\$ 347,193	\$ 346,742	\$ (451)	\$ 342,428
Benefits	243,093	242,474	(619)	222,396
Purchased services	381,384	384,947	3,563	346,566
Supplies and materials	52,795	53,438	643	44,797
Capital outlay	312,450	298,133	(14,317)	1,114,561
	1,336,915	1,325,734	(11,181)	2,070,748
TOTAL OPERATION AND MAINTENANCE OF PLANT				
Pupil Transportation Services				
Salaries	190,499	182,595	(7,904)	170,611
Benefits	76,744	73,259	(3,485)	62,028
Purchased services	26,098	26,257	159	20,620
Supplies and materials	79,269	72,213	(7,056)	59,487
Capital outlay	92,920	92,920	-	44,959
Other	360	431	71	485
	465,890	447,675	(18,215)	358,190
TOTAL TRANSPORTATION SERVICES				
Athletics				
Salaries	108,716	108,516	(200)	102,239
Benefits	41,746	40,351	(1,395)	34,259
Purchased services	123,475	124,443	968	102,375
Supplies and materials	78,500	77,384	(1,116)	63,793
Capital outlay	7,350	7,350	-	2,620
	359,787	358,044	(1,743)	305,286
TOTAL ATHLETICS				
TOTAL SUPPORTING SERVICES	4,285,142	4,257,758	(27,384)	4,869,467
TOTAL EXPENDITURES	15,501,063	15,426,250	(74,813)	15,534,317
Outgoing Transfers and Other Transactions:				
Fund modification	-	-	-	-
TOTAL TRANSFERS AND OTHER TRANSACTIONS	-	-	-	-
TOTAL EXPENDITURES AND TRANSFERS	\$ 15,501,063	\$ 15,426,250	\$ (74,813)	\$ 15,534,317

See auditors' report.

MADISON SCHOOL DISTRICT

DEBT RETIREMENT FUND COMBINING BALANCE SHEET June 30, 2014

	2011 Issue
Assets	
Cash	\$ 28,021
Due to other funds	<u>-</u>
TOTAL ASSETS	<u>\$ 28,021</u>
Fund Balance	
Restricted:	
Debt retirement	\$ <u>28,021</u>
TOTAL FUND BALANCE	<u>\$ 28,021</u>

See auditors' report.

MADISON SCHOOL DISTRICT

DEBT RETIREMENT FUND COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES Year ended June 30, 2014

	<u>2011 Issue</u>
Revenues	
Local Sources:	
Property tax levy	\$ 291,021
Payment in lieu of taxes	2,315
Earnings on investments	<u>6</u>
TOTAL REVENUES	<u>293,342</u>
Expenditures	
Debt Service:	
Redemption of principal	130,000
Interest on debt	<u>138,200</u>
TOTAL EXPENDITURES	<u>268,200</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>25,142</u>
Other financing sources (uses):	
Fund Modification	<u>-</u>
TOTAL OTHER FINANCING SOURCES	<u>-</u>
Net Change In Fund Balances	25,142
Fund Balance - July 1, 2013	<u>2,879</u>
Fund Balance - June 30, 2014	<u>\$ 28,021</u>

See auditors' report.

MADISON SCHOOL DISTRICT

**CAPITAL PROJECTS FUND
BALANCE SHEET
June 30, 2014**

Assets		
Cash		\$ _____ -
TOTAL ASSETS		\$ <u>_____ -</u>
Fund Balance		
Fund Balance		
Restricted:		
Building Construction		\$ _____ -
TOTAL FUND BALANCE		\$ <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, 2014**

	Budget	Actual	Over (Under) Budget
Revenues			
Local Sources:			
Earnings on investments	\$ 84	\$ 84	\$ -
Donations	37,390	37,390	-
	37,474	37,474	-
TOTAL REVENUES	37,474	37,474	-
Expenditures			
Building construction	56,593	56,593	-
	56,593	56,593	-
TOTAL EXPENDITURES	56,593	56,593	-
Excess (Deficiency) of Revenues Over Expenditures	(19,119)	(19,119)	-
Fund Balance - July 1, 2013	19,119	19,119	-
Fund Balance - June 30, 2014	\$ -	\$ -	\$ -

See auditors' report.

MADISON SCHOOL DISTRICT

**SINKING FUND
BALANCE SHEET
June 30, 2014**

Assets		
Cash		\$ 126,241
Due from other funds		<u>-</u>
TOTAL ASSETS		\$ <u>126,241</u>
Liabilities and Fund Balance		
Liabilities		
Due to general fund		\$ <u>-</u>
TOTAL LIABILITIES		<u>-</u>
Fund Balance		
Restricted:		
Repairs/renovations		<u>126,241</u>
TOTAL LIABILITIES AND FUND BALANCE		\$ <u>126,241</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, 2014

	Budget	Actual	Over (Under) Budget
Revenues			
Local Sources:			
Property tax levy	\$ 219,645	\$ 217,774	\$ (1,871)
Payment in lieu of taxes	-	1,871	1,871
Earnings on investments	442	505	63
TOTAL REVENUES	220,087	220,150	63
Expenditures			
Repairs/renovations	125,757	123,646	(2,111)
TOTAL EXPENDITURES	125,757	123,646	(2,111)
Excess (Deficiency) of Revenues Over Expenditures	94,330	96,504	2,174
Other financing sources (uses):			
Fund Modification	-	-	-
TOTAL OTHER FINANCING SOURCES	-	-	-
Net Change in Fund Balance	94,330	96,504	2,174
Fund Balance - July 1, 2013	29,737	29,737	-
Fund Balance - June 30, 2014	\$ 124,067	\$ 126,241	\$ 2,174

See auditors' report.

MADISON SCHOOL DISTRICT

TRUST AND AGENCY FUNDS COMBINING STATEMENT OF CHANGES IN NET POSITION June 30, 2014

	GROUPS JULY 1, 2013	ADDITIONS	DEDUCTIONS	GROUPS JUNE 30, 2014
After Prom	\$ (825.89)	\$ 8,963.74	\$ 7,925.49	\$ 212.36
Athletic Boosters	9,818.38	30,429.65	25,220.97	15,027.06
Band Boosters	9,294.60	4,285.00	5,068.33	8,511.27
Baseball	362.05	2,020.00	1,763.70	618.35
Bowling	236.60	1,327.00	1,185.00	378.60
Boys Basketball	232.93	1,504.75	1,467.00	270.68
Checking - Interest	4,940.21	569.37	491.53	5,018.05
Cheerleaders	1,022.69	5,176.40	4,316.09	1,883.00
Class of:				
2014	986.78	6,259.00	5,149.86	2,095.92
2015	1,167.53	(40.48)	-	1,127.05
2016	1,002.33	62.00	159.56	904.77
2017	1,200.00	1,825.72	-	3,025.72
Community Rewards	4,699.99	218.99	-	4,918.98
Dr. Bob Scholarship	10,150.00	-	1,000.00	9,150.00
Drama Account	656.43	329.00	-	985.43
Eighth Grade Trip	2,387.99	45,849.06	47,570.12	666.93
Elementary Earth Club	300.56	331.63	357.63	274.56
Elementary Fund Raising	2,090.49	68,973.00	55,228.47	15,835.02
Elementary Library	188.09	9,509.41	9,548.51	148.99
Elementary Student Council	128.21	3,492.00	1,856.10	1,764.11
Family Resource Room	-	25.00	-	25.00
Fan	22,239.85	8,930.56	27,315.86	3,854.55
Fifth Grade Camp	4,007.79	22,887.35	20,160.19	6,734.95
Football	2,759.24	11,664.00	11,994.48	2,428.76
Fran Reason Scholarship	-	1,476.00	267.50	1,208.50
Friends of Rachel	-	138.65	40.00	98.65
Girls Basketball	490.99	4,145.46	4,410.00	226.45
Girls On The Run	236.53	1,509.00	1,372.32	373.21
Giving Tree Project	-	262.00	-	262.00
Hickman Foundation	-	7,898.32	6,273.61	1,624.71
H.S. Library Account	441.06	3,737.09	3,644.75	533.40
H.S. Student Council	1,533.27	290.75	1,021.96	802.06
Interact Club	1.17	1,160.07	853.72	307.52
Junior Achievement	202.50	-	-	202.50
Junior Basketball	-	1,225.50	766.50	459.00
Lenawee Child	251.20	162.00	114.70	298.50
Locker Account	10,425.99	12,813.00	16,372.48	6,866.51
MCSSC	1,835.76	3,588.00	4,054.29	1,369.47
Madison Football Club	1,801.52	11,279.00	7,064.94	6,015.58
Madison School Store	3,003.49	-	-	3,003.49
May Madness	3,413.06	3,050.90	4,854.55	1,609.41
M.S. Student Activity	3,242.26	16,370.65	15,225.02	4,387.89
M.S. Cheer	-	275.00	264.17	10.83
M.S. Student Council	4,446.43	1,800.96	1,399.14	4,848.25
Musical Theatre	259.69	11,260.60	9,432.18	2,088.11
National Honor Society	546.07	-	-	546.07
Orchestra	-	2,708.30	2,229.05	479.25
P.A.T.T.	1,644.36	37,326.68	28,207.12	10,763.92
P.E.A.C.E	302.31	-	-	302.31
Pop Fund	4,978.24	1,509.49	2,396.96	4,090.77
Relay For Life	3,168.37	-	3,168.37	-
Savings Account Interest	4,641.85	18.94	-	4,660.79
Scholarship	14,611.15	7,245.00	1,000.00	20,856.15
Science Olympiad - Elementary	120.54	-	-	120.54
Softball	966.09	3,470.00	3,172.07	1,264.02
Special Education - Elementary	38.88	-	-	38.88
Special Education - H.S./M.S.	966.00	-	966.00	-
Strength & Conditioning	8,033.28	1,400.00	2,233.87	7,199.41
Student Activities	2,224.64	10,871.83	13,183.64	(87.17)
Track	5,560.46	17,771.00	17,716.12	5,615.34
Varsity Volleyball	112.50	56.92	50.00	119.42
Wrestling	1,774.40	-	-	1,774.40
Wrestling Club	1,838.66	12,753.93	5,257.43	9,335.16
Yearbook	4,070.55	3,469.00	3,476.00	4,063.55
TOTAL	\$ 166,230.12	\$ 415,636.19	\$ 388,267.35	\$ 193,598.96

See auditors' report

MADISON SCHOOL DISTRICT

PROPERTY TAX DATA Year Ended June 30, 2014

	Unpaid at July 1, 2013	Tax	Collections/ Adjustments	Unpaid (Deferred) at June 30, 2014
General Fund	\$ -	\$ 1,897,112	\$ 1,897,112	\$ -
Sinking Fund	-	217,774	217,774	-
Debt Retirement Funds	-	293,257	293,257	-
TOTAL	\$ -	\$ 2,408,143	\$ 2,408,143	\$ -

Other Information

Taxable value of property assessed in the Madison School District

	2014			
	Homestead	Industrial PP	Commercial PP	Non-homestead
Municipality:				
Madison	\$ 42,885,289	\$ 5,328,400	\$ 7,429,500	\$ 60,762,344
Adrian City	145,133	-	22,000	1,179,659
Palmyra	3,035,728	-	1,011,500	2,957,686
Adrian	5,464,529	1,393,700	5,274,900	35,872,536
Total	\$ 51,530,679	\$ 6,722,100	\$ 13,737,900	\$ 100,772,225

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

1,563.31

See auditors' report.

Other Reporting Required by *Governmental Auditing Standards*

415 S. Jackson St.
P.O. Box 906
Jackson, MI 49204



(517) 783-2886
Fax (517) 783-2938
www.dwapllc.com

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

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, 2014, and the related notes to the financial statements, which collectively comprise the Madison School District's basic financial statements and have issued our report thereon dated October 22, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Madison School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Madison School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Madison 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 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 2014-001 and 2014-002, presented on pages 53-54 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's 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 October 22, 2014.

Madison School District' Response to Findings

Madison School District's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Corrective Action Responses. Madison School District's 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's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Drake, Watters & Associates, PLLC

October 22, 2014

415 S. Jackson St.
P.O. Box 906
Jackson, MI 49204



(517) 783-2886
Fax (517) 783-2938
www.dwapllc.com

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INDEPENDENT AUDITOR'S 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, 2014. 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, 2014.

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 2014-001 and 2014-002 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
October 22, 2014

MADISON SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS Year Ended June 30, 2014

Federal Grantor Pass Through Grantor Program Title/Grant Number	CFDA Number	Approved Awards Amount	Accrued or (Deferred) Revenue July 1, 2013	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts	Accrued or (Deferred) Revenue June 30, 2014	Adjustments Debits (Credits)
U.S. Department of Education:								
Passed through Michigan Department of Education								
Title I, Part A 141530 1314	84.010	\$ 253,997	\$ -	\$ -	\$ 242,868	\$ 242,868	\$ -	\$ -
Title II, Part A, Teacher/Principal Training 140520 1314	84.367	45,981	-	-	44,141	44,141	-	-
Total passed through Michigan Department of Education		<u>299,978</u>	<u>-</u>	<u>-</u>	<u>287,009</u>	<u>287,009</u>	<u>-</u>	<u>-</u>
Passed through I.S.D.								
Title II, Part B Math and Science Partnerships 132410 MSP20	84.366 B	5,900	-	-	5,900	5,900	-	-
Total passed through I.S.D.		<u>5,900</u>	<u>-</u>	<u>-</u>	<u>5,900</u>	<u>5,900</u>	<u>-</u>	<u>-</u>
Total U.S. Department of Education		<u>305,878</u>	<u>-</u>	<u>-</u>	<u>292,909</u>	<u>292,909</u>	<u>-</u>	<u>-</u>
U.S. Department of Agriculture:								
Passed through U.S. Department of Agriculture								
Child Nutrition Cluster - Cash Assistance								
School Breakfast Program	10.553	153,234	-	-	153,234	153,234	-	-
National School Lunch Program	10.555	439,526	-	-	439,526	439,526	-	-
Total Cash Assistance		<u>592,760</u>	<u>-</u>	<u>-</u>	<u>592,760</u>	<u>592,760</u>	<u>-</u>	<u>-</u>
Child Nutrition Cluster - Non-Cash Assistance								
Commodities - Entitlement	10.555	48,842	-	-	48,842	48,842	-	-
Commodities - Bonus	10.555	-	-	-	-	-	-	-
Total - Non-Cash Assistance		<u>48,842</u>	<u>-</u>	<u>-</u>	<u>48,842</u>	<u>48,842</u>	<u>-</u>	<u>-</u>
Total Child Nutrition Cluster		<u>641,602</u>	<u>-</u>	<u>-</u>	<u>641,602</u>	<u>641,602</u>	<u>-</u>	<u>-</u>
Total Passed Through U.S. Department of Agriculture		<u>641,602</u>	<u>-</u>	<u>-</u>	<u>641,602</u>	<u>641,602</u>	<u>-</u>	<u>-</u>
Total U.S. Department of Agriculture		<u>641,602</u>	<u>-</u>	<u>-</u>	<u>641,602</u>	<u>641,602</u>	<u>-</u>	<u>-</u>
U.S. Department of Health and Human Services:								
Passed through Michigan Department of Community Health:								
Passed through I.S.D.								
Medicaid Outreach	93.778	8,808	-	-	8,808	8,808	-	-
Total passed through I.S.D. and MDCH		<u>8,808</u>	<u>-</u>	<u>-</u>	<u>8,808</u>	<u>8,808</u>	<u>-</u>	<u>-</u>
Total U.S. Department of Health and Human Services		<u>8,808</u>	<u>-</u>	<u>-</u>	<u>8,808</u>	<u>8,808</u>	<u>-</u>	<u>-</u>
Total Federal Financial Assistance		<u>\$ 956,288</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 943,319</u>	<u>\$ 943,319</u>	<u>\$ -</u>	<u>\$ -</u>

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, 2014

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, 2014 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 program was identified as the major program: Child Nutrition Cluster (CFDA 10.553 and CFDA 10.555).

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

The Madison School District was not considered to be a low-risk auditee.

SECTION 2: FINDINGS RELATED TO THE FINANCIAL STATEMENTS

Significant Deficiencies

2014-001. 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.

2014-002. 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.

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

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 2014-001 and 2014-002, there were no program specific findings or questioned costs to be reported.

SECTION 4: SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Financial Statement Findings

2013-001. 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.

2013-002. 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.

415 S. Jackson St.
P.O. Box 906
Jackson, MI 49204



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Fax (517) 783-2938
www.dwapllc.com

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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, 2014. 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 6, 2014. Professional standards also require that we communicate to you the following information related to our audit.

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 application of existing policies was not changed during fiscal year 2014. 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.

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. In addition, none of the misstatements detected, if any, as a result of the audit procedures and corrected by management were material, either individually or in the aggregate, to the District's financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 22, 2014.

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.

Other Matters

We applied certain limited procedures to the required supplemental information (RSI) as identified in the table of contents of the report which is required supplementary information that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

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

Restriction on Use

This information is intended solely for the use of 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.

Drake, Watters & Associates, PLLC

Jackson, Michigan
October 22, 2014