

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

Year Ended June 30, 2017

**Madison School District
Financial Report
For the Fiscal Year Ended
June 30, 2017**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Madison School District
Adrian, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Madison School District (the School District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Schools District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not

for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Madison School District, as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof 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, the major fund budgetary comparison schedule, the schedule of the School District's proportionate share of the net pension liability, the schedule of the School District's contributions, and the notes to required supplemental information, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Madison School District basic financial statements. The combining non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit*

Requirements for Federal Awards, and is also not a required part of the basic financial statements.

The combining non-major fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining non-major fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2017, on our consideration of Madison School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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.

DARNELL & MEYERING, P.C.

A handwritten signature in cursive script that reads "Darnell & Meyering, P.C.".

Taylor, Michigan
October 23, 2017

MADISON SCHOOL DISTRICT - ADRIAN, MICHIGAN
MANAGEMENT AND DISCUSSION LETTER
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Our discussion and analysis of Madison School District's (the School District) financial performance provides an overview of the School District's financial activities in the fiscal year ended June 30, 2017. The School District implemented GASB requirements in the June 30, 2017 audit as required by the Governmental Accounting Standards Board (GASB). Please read it in conjunction with the School District's financial statements, which immediately follow this section.

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

USING THIS ANNUAL REPORT

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

Reporting the School District as a whole

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

**MADISON SCHOOL DISTRICT - ADRIAN, MICHIGAN
MANAGEMENT AND DISCUSSION LETTER
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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

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

Reporting the School District's most significant funds

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

Most of the School District's services are reported in governmental funds. Governmental fund reporting focuses on how money flows into and out of the funds and the balances left at year-end that are available for spending in future periods. They are reported using an accounting method called "modified accrual" accounting, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the School District's operations and services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between *governmental activities* (reported in the **Statement of Net Position** and the **Statement of Activities**) and *governmental funds* in reconciliation on pages 16 and 18.

Fund types include the General Fund, Special Revenue Fund, Debt Retirement Fund, Capital Projects Fund, and Fiduciary Fund. The General Fund is used primarily to account for the general education requirements of the School District. Its revenues are derived from property taxes, state and federal distributions and grants and other intergovernmental revenues. The Debt Fund is used to record the funding and payment of principal and interest on Bonded Debt. The Special Revenue Fund is used to record the funding and expenditures of monies specified for a specific purpose (Food Service). The Fiduciary Fund accounts for assets held by the School District in a trustee capacity or as an agent for various student groups and related activities.

**MADISON SCHOOL DISTRICT - ADRIAN, MICHIGAN
MANAGEMENT AND DISCUSSION LETTER
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

The School District as a Whole

The School District's net position was (\$4,202,101) at the end of June 30, 2017 and (\$2,672,540) as of June 30, 2016, representing a net decrease of \$1,529,561. Of the total amount \$(18,426,248) was unrestricted. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those funds for day-to-day operations. Our analysis below focuses on the **Net Position** (Table 1) and **Change in Net Position** (Table 2) of the School District's governmental activities.

Net Position (Table 1)		
	<u>2017</u>	<u>2016</u>
Assets:		
Current assets	\$ 6,253,174	\$ 6,589,092
Noncurrent assets	<u>16,964,641</u>	<u>17,120,098</u>
Total assets	23,217,815	23,709,190
Deferred Outflows of Resources related to pension	3,746,207	3,666,981
Total assets and deferred outflows of resources	<u>26,964,022</u>	<u>27,376,171</u>
Liabilities:		
Current liabilities	1,721,059	2,016,930
Noncurrent liabilities	<u>28,244,045</u>	<u>27,948,902</u>
Total liabilities	29,965,104	29,965,832
Deferred Inflows of Resources related to pension	<u>1,201,019</u>	82,879
Total liabilities and deferred inflows of resources	<u>31,166,123</u>	<u>30,048,711</u>
Net position:		
Net investment in capital assets	13,951,981	14,189,146
Restricted for School Lunch program	224,113	225,810
Restricted for Debt Service	48,053	13,958
Unrestricted	<u>(18,426,248)</u>	<u>(17,101,454)</u>
Total net position (deficit)	<u>\$ (4,202,101)</u>	<u>\$ (2,672,540)</u>

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

Table 2		
Changes in Madison School District's Net Position		
	<u>2017</u>	<u>2016</u>
Revenues:		
Program revenues:		
Operating and grants contribution	\$ 3,693,391	\$ 4,424,388
Charges for services	370,291	272,328
General revenues:		
Property taxes	2,516,379	2,466,059
State aid - unrestricted	10,213,793	10,088,913
Investment income	22,189	9,243
Other	111,174	224,526
Total revenues	<u>16,927,217</u>	<u>17,485,457</u>
Expenses:		
Instruction	12,239,503	11,447,099
Support services	3,855,178	3,893,469
Community services	102,591	132,373
Food services	827,642	770,998
Athletics	375,548	364,408
Interest expense	129,620	133,625
Other	24,125	-
Unallocated depreciation	902,571	899,563
Total expenses	<u>18,456,778</u>	<u>17,641,535</u>
Change in net position	<u>\$ (1,529,561)</u>	<u>\$ (156,078)</u>

Financial Analysis of the School District's Funds

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

**MADISON SCHOOL DISTRICT - ADRIAN, MICHIGAN
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FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

GENERAL FUND Factors affecting Revenue

State Aid funding -The State of Michigan provides a \$7,511 per pupil foundation allowance that provides a substantial portion of our district's revenue, 77 percent. In addition we also receive various grants from the state. This means that the financial stability of the School District rests primarily with the economic health of the State of Michigan. State aid payments are made with the first payment of the school year beginning in October, and the last payment being made in August. Therefore, at the end of the School District's fiscal year end, there is adjustment made that includes 2 months of state aid payments into revenue that has not yet been made.

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

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

Factors affecting Expenses

- *Salaries and Benefits* - A significant portion of the School District's expenses are related to compensation, 90% in 2016-17.
- *Instructional purchases* - Another part of each year's budgetary expenditures includes textbooks and supplemental learning materials, supplies, and purchased services.
- *Operation and Maintenance* - Each year's budgetary expenditures also include the general operation and maintenance of our school buildings.

General Fund Budgetary Highlights

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

**MADISON SCHOOL DISTRICT - ADRIAN, MICHIGAN
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Original Budget versus Final Budget

- *Revenues*-Original estimated budgets for revenues were \$15,892,572 versus the final budget of \$16,178,018. Major components of revenue and their original budget versus final budget are discussed below.
 - The increase in enrollment by 23 students.
 - There was additional state revenue from MPSERS UAAL approximately \$68,000, at risk approximately \$41,000. The increases were offset by a decrease in special education allocation of about \$17,000.
 - Federal revenue increased by \$34,732.

- *Expenditures* – The original budget for expenditures was \$15,960,271 versus the final budget of \$16,387,193. Major components of expenditure and their original budget versus final budget are discussed below.
 - Basic programs increased mainly due to additional ½ teacher and benefits, technology supplies and equipment and two additional high school teachers and benefits.
 - Added needs increased mainly due to additional elementary special education aides, high school special education aides and early literacy grant additional wages.
 - Instructional staff increased due to Title I Director hired for a few weeks, instructional specialist previously in Title I added needs budget reclass to instructional staff and additional high school library employee.

Final Budget versus Actual Figures

- The majority (about 87%) of *Local Revenues* are property taxes received from three townships including Adrian, Madison and Palmyra and the City of Adrian.

- *State Revenues* were budgeted at \$12,449,006 versus actual of \$12,456,102. This was an increase of \$7,096.

- *Federal Revenues* were budgeted at \$403,397 versus actual of \$391,459. This was a decrease of \$11,938.

- *Overall revenues* were over budget by \$84,057 from the final budget amounts. This is an insignificant amount compared to the total revenue budget of \$16,178,018.

- *Expenses*- Final estimated budgets for expenses were \$16,387,193 versus an actual final amount of \$16,156,876. The overall variation from final budget to actual was \$230,317 favorable variance.

**MADISON SCHOOL DISTRICT - ADRIAN, MICHIGAN
MANAGEMENT AND DISCUSSION LETTER
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

SPECIAL REVENUE FUND

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

CAPITAL PROJECT FUND

This fund consisted of sinking fund and is restricted for improvements to the School District. At the end of the fiscal year 2016-17 there was a fund balance of \$1,081.

DEBT SERVICE FUND

This fund is directly funded through taxes. For fiscal year 2016-17 the collection of property taxes for the retirement of principal and interest relating to the School District was \$332,315. Principal and interest requirements for the 2016-17 retirement was \$278,075.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets-At June 30, 2017, the School District had \$16,964,641 invested in capital assets, net of accumulated depreciation. The School District had bonded debt outstanding of \$3,045,000. As these items also relate to capital assets, the amount of *Net investment in capital assets* is \$13,951,981. Assets, net of accumulated depreciation will probably continue to decrease because the School District at this time has no intention of purchasing many capital assets. Those already on the books will continue to depreciate.

The District's capital assets are as follows:

Table 3				
Madison School District's Capital Assets				
	Cost	Accumulated Depreciation	2017 Net Book Value	2016 Net Book Value
Land	\$ 912,065	\$ -	\$ 912,065	\$ 912,065
Building and Improvements	22,507,957	7,269,054	15,238,903	15,335,974
Machinery and Equipment	3,851,720	3,258,583	593,137	672,608
Transportation Equipment	774,764	554,228	220,536	199,451
Total	<u>\$ 28,046,506</u>	<u>\$ 11,081,865</u>	<u>\$ 16,964,641</u>	<u>\$ 17,120,098</u>

**MADISON SCHOOL DISTRICT - ADRIAN, MICHIGAN
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FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Long-term debt Activity

At year-end, the School District had outstanding long-term debt obligations in the amount of \$3,433,347 (more detailed information about the School District's long-term liabilities is presented in Note 6 of the financial statements.)

Table 4		
Madison School District's Outstanding Long-Term Debt		
	2017	2016
2011 Building and Site Bond	\$ 3,045,000	\$ 3,195,000
Unamortized bond discount	(31,259)	(33,492)
Compensated absences	419,606	23,155
Total	\$ 3,433,347	\$ 3,184,663

The School District's long term debt increased by \$248,684 the key factors in this increase was the net effect of the principal payment on the 2011 building and site bond and the increase in compensated absences.

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 2017-18 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 2017-18 budget was adopted in June 2017, based on the estimated number of students who would be enrolled in September 2017. At that time we anticipated the fall student count would be consistent with what was used in creating the 2016-17 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 2017-18 maintains the foundation grant for each student in the Madison School District at \$8,196. Due to the state's overall economic decline, Michigan school districts have been allocated funding at "less than inflationary increases". Under state law, the District cannot assess additional property tax revenue for general operations. As a result, District funding is heavily dependent on the State's ability to fund local school operations and on its total student enrollment. Since over 80% of the total General Fund revenues are from the foundation allowance, school districts are in a position to compete for its share of a dwindling enrollment base. Statewide there has been lower revenue from income, sales, and property taxes. Additionally, the School District has been challenged by increased fixed costs such as retirement and health care.

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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 2017-18 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 District's Financial Management

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

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

**Madison School District
Statement of Net Position
June 30, 2017**

	<u>Governmental Activities</u>
Assets	
Current Assets:	
Cash and equivalents	\$ 1,004,396
Investments	2,180,207
Receivables:	
Accounts receivable	36,143
Due from other governmental units	3,026,897
Inventory	5,531
Total Current Assets	<u>6,253,174</u>
Noncurrent Assets:	
Capital assets	28,046,506
Less accumulated depreciation	<u>(11,081,865)</u>
Total Noncurrent Assets	<u>16,964,641</u>
Total Assets	<u>23,217,815</u>
Deferred outflows of resources related to pension	<u>3,746,207</u>
Total assets and deferred outflows of resources	<u><u>26,964,022</u></u>
Liabilities	
Current Liabilities:	
Accounts payable	13,025
Accrued expenditures	601,669
Accrued interest	20,658
Accrued salary	910,808
Unearned revenue	22,132
Current portion of long term obligations	152,767
Total Current Liabilities	<u>1,721,059</u>
Noncurrent Liabilities:	
Noncurrent portion of long term obligations	2,860,974
Noncurrent portion of compensated absences	419,606
Net Pension Liability	<u>24,963,465</u>
Total Noncurrent Liabilities	<u>28,244,045</u>
Total Liabilities	<u>29,965,104</u>
Deferred inflows of resources related to pension	<u>1,201,019</u>
Total liabilities and deferred inflows of resources	<u>31,166,123</u>
Net Position (Deficit):	
Net investment in capital assets	13,951,981
Restricted for school lunch program	224,113
Restricted for debt service	48,053
Unrestricted	<u>(18,426,248)</u>
Total Net Position (Deficit)	<u><u>\$ (4,202,101)</u></u>

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

**Madison School District
Statement of Activities
Year Ended June 30, 2017**

<u>Functions/programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Governmental Activities</u>
		<u>Charges for Services</u>	<u>Operating Grants & Contributions</u>	<u>Net (expense) Revenue and Changes in Net Position</u>
Governmental activities:				
Instruction	\$ 12,239,503	\$ 61,992	\$ 2,658,526	\$ (9,518,985)
Support services	3,855,178	20,208	313,477	(3,521,493)
Community services	102,591	55,731	2,846	(44,014)
Food services	827,642	119,237	714,614	6,209
Athletics	375,548	113,123	3,928	(258,497)
Interest expense	129,620	-	-	(129,620)
Capital outlay	24,125	-	-	(24,125)
Unallocated depreciation	902,571	-	-	(902,571)
Total governmental activities	<u><u>\$ 18,456,778</u></u>	<u><u>\$ 370,291</u></u>	<u><u>\$ 3,693,391</u></u>	(14,393,096)
General revenues:				
Property taxes, levied for general purposes				2,516,379
Investment earnings				22,189
State of Michigan school aid unrestricted				10,213,793
Miscellaneous				111,174
Total general revenues				<u><u>12,863,535</u></u>
Change in net position				(1,529,561)
Net position, beginning of year				<u><u>(2,672,540)</u></u>
Net position, end of year (deficit)				<u><u>\$ (4,202,101)</u></u>

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

**Madison School District
Balance Sheet
Governmental Funds
June 30, 2017**

	General Fund	Other Nonmajor Governmental Fund	Total Governmental Funds
Assets			
Assets:			
Cash and equivalents	\$ 644,724	\$ 359,672	\$ 1,004,396
Investments	2,180,207	-	2,180,207
Receivables			
Accounts	36,143	-	36,143
Other governmental units	3,026,897	-	3,026,897
Due from other fund	63,596	-	63,596
Inventory	-	5,531	5,531
Total Assets	<u>\$ 5,951,567</u>	<u>\$ 365,203</u>	<u>\$ 6,316,770</u>
Liabilities, Deferred Inflows of Resources and Fund Balances			
Liabilities:			
Accounts payable	\$ 13,025	\$ -	\$ 13,025
Accrued expenditures	601,669	-	601,669
Accrued salary	910,808	-	910,808
Due to other funds	-	63,596	63,596
Unearned revenue	19,961	2,171	22,132
Total Liabilities	<u>1,545,463</u>	<u>65,767</u>	<u>1,611,230</u>
Deferred Inflows of Resources:			
Unavailable revenue	100,010	-	100,010
Total Deferred Inflows of Resources	<u>100,010</u>	<u>-</u>	<u>100,010</u>
Fund Balances:			
Nonspendable inventory	-	5,531	5,531
Restricted for:			
School lunch program	-	224,113	224,113
Debt service	-	68,711	68,711
Capital outlay	-	1,081	1,081
Unassigned reported in general fund	4,306,094	-	4,306,094
Total Fund Balances	<u>4,306,094</u>	<u>299,436</u>	<u>4,605,530</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 5,951,567</u>	<u>\$ 365,203</u>	<u>\$ 6,316,770</u>

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

Madison School District
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
June 30, 2017

Total governmental fund balances		\$ 4,605,530
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the funds		
The cost of capital assets is:	\$ 28,046,506	
Accumulated depreciation is:	<u>(11,081,865)</u>	16,964,641
Long term liabilities are not due and payable in the current period and are not reported in the funds		
Bonds payable		(3,045,000)
Unamortized bond discount		31,259
Compensated absences		(419,606)
Interest payable on long term debt		(20,658)
Net pension liability		(24,963,465)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.		
Deferred outflow of resources related to pension (see Note 7)		3,746,207
Deferred inflow of resources related to pension (see Note 7)		(1,201,019)
Receivables collected after 60 days are considered unavailable in the governmental funds.		<u>100,010</u>
Net position of governmental activities (deficit)		<u><u>\$ (4,202,101)</u></u>

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

Madison School District
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
Year Ended June 30, 2017

	General Fund	Other Nonmajor Governmental Fund	Total Governmental Funds
Revenues:			
Local sources			
Property taxes	\$ 1,932,248	\$ 584,131	\$ 2,516,379
Investment earnings	21,676	513	22,189
Food service	-	119,237	119,237
Athletics	113,123	-	113,123
Tuition	20,155	-	20,155
Other	143,538	5,605	149,143
Total local sources	<u>2,230,740</u>	<u>709,486</u>	<u>2,940,226</u>
Intermediate sources	1,183,774	-	1,183,774
State sources	12,456,102	42,891	12,498,993
Federal sources	391,459	671,723	1,063,182
Total revenues	<u>16,262,075</u>	<u>1,424,100</u>	<u>17,686,175</u>
Expenditures:			
Current:			
Instruction	11,629,150	-	11,629,150
Support	3,890,658	-	3,890,658
Community service	102,370	-	102,370
Food service activities	-	805,987	805,987
Athletic activities	371,119	-	371,119
Capital Outlay	163,579	486,896	650,475
Total expenditures	<u>16,156,876</u>	<u>1,292,883</u>	<u>17,449,759</u>
Excess (deficiency) of revenues over expenditures:	<u>105,199</u>	<u>131,217</u>	<u>236,416</u>
Other financing sources (uses):			
Redemption of principal on 2011 bond	-	(150,000)	(150,000)
Interest payment on 2011 bond	-	(128,075)	(128,075)
Indirect cost transfer	24,030	(24,030)	-
Total other financing sources (uses):	<u>24,030</u>	<u>(302,105)</u>	<u>(278,075)</u>
Net change in fund balance	129,229	(170,888)	(41,659)
Fund balances:			
Beginning of year	4,176,865	470,324	4,647,189
End of year	<u>\$ 4,306,094</u>	<u>\$ 299,436</u>	<u>\$ 4,605,530</u>

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

Madison School District
Reconciliation of the Statement of Revenues,
Expenditures and Changes in Fund Balance of Governmental Fund
To the Statement of Activities
Year Ended June 30, 2017

Net change in fund balance total governmental fund (decrease) \$ (41,659)

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

Governmental funds report capital outlays as expenditures.

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

Capital outlay	747,114
Depreciation expense	(902,571)

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

Current year's amortization of bond discount	(2,233)
Principal repayment on long-term obligations from bonds payable	150,000

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

Accrued interest payable beginning of the year	21,346
Accrued interest payable end of the year	(20,658)

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

Compensated payable beginning of the year	23,155
Compensated payable end of the year	(419,606)

Revenue in support of pension contributions made subsequent to measurement date	(764,882)
---	-----------

Change in deferred outflows of resources related to pension	79,226
---	--------

Change in deferred inflows of resources related to pension	(353,258)
--	-----------

Change in net proportionate share of net pension liability	(51,459)
--	----------

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

Revenues are recorded in the statement of activities when earned.	5,924
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Change in net position of governmental activities (decrease)	\$ (1,529,561)
---	-----------------------

**Madison School District
Statement of Fiduciary Net Position
June 30, 2017**

	<u>Agency Fund</u>
Assets:	
Cash and cash equivalents	<u>\$ 298,611</u>
	<u><u>\$ 298,611</u></u>
Liabilities:	
Due to student groups	<u>\$ 298,611</u>
	<u><u>\$ 298,611</u></u>

**MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

B. Government-Wide And Fund Financial Statements

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

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

MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

The School District does not allocate indirect costs.

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

MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

- General fund is used to account for all financial resources not accounted for and reported in another fund.

**MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Nonspendable fund balance

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

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

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

**MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

- The School District will maintain a fund balance equal to the corpus (principal) of any permanent funds that are legally or contractually required to be maintained in-tact.
- The School District will maintain a fund balance equal to the balance of any land or other nonfinancial assets held for sale.

Restricted fund balance

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

Committed fund balance

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

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

Assigned fund balance

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

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

MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Unassigned fund balance

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

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

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

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

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

The School District reports the following major governmental fund:

The General Fund

MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Other Non-major Funds

The Special Revenue Fund

The Debt Service Fund

The Capital Project Fund

Fiduciary Funds account for assets held by the School District in a trustee capacity or as an agent on behalf of others. Trust Funds account for assets held by the School District under the terms of a formal trust agreement. Fiduciary Funds are not included in the government-wide statements.

The *Agency Fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency Funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the School District holds for others in an agency capacity (primarily student activities).

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

Accrual Method

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

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Revenue not meeting this definition is classified as deferred inflow of resources. For this purpose, the School District considers revenues to be available if they are

MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, pensions and claims and judgments, are recorded only when payment is due.

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

State Revenue

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

The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the School Districts. For the year ended June 30, 2017, the foundation allowance was based on pupil membership counts taken in February and October of 2016.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period and is funded through payments from October 2016 to August 2017. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

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

MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies

1. Cash and Investments.

The School District reports its investments in accordance with GASB 79 *Certain External Investment Pools and Pool Participants* GASB 40 *Deposit and Investment Risk Disclosures* and GASB 72 *Fair Value Measurements*. Under these standards, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the School District intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

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

The School District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. At June 30, 2017, the School District had \$2,180,196 and \$11 in external investment pools and money market deposit account, respectively.

2. Property Taxes

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

**MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

For the year ended June 30, 2017, the School District levied the following amounts per \$1,000 of assessed valuation.

Fund	Mills
General Fund -Non Personal Residence and commercial property	18.0
2011 Debt - total taxable value	1.94
Sinking Fund - total taxable value	1.50

3. Inventories and Prepaid Expenditures

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

4. Capital Assets

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

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

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

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

MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

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

5. Deferred Outflows/Inflows

In addition to assets, the statement of net position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. At June 30, 2017, the School District's statement of net position had deferred outflows of resources related to deferred pension plan expenses totaling \$3,746,207.

In addition to liabilities, the statement of net position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. At June 30, 2017, the School District's statement of net position had deferred inflows of resources related to its pension plan and revenue in support of pension payments made subsequent to the measurement date totaling \$436,137 and \$764,882, respectively. Furthermore, at June 30, 2017, the School District's balance sheet had deferred inflows of resources related to unavailable revenue totaling \$100,010.

6. Compensated absences

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

MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

7. Long term obligations

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

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

8. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Michigan Public School Employees Retirement System (MPSERS), and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. MPSERS uses the economic resources measurement focus and the full accrual basis of accounting. Contribution revenue is recorded as contribution as contributions are due, pursuant to legal requirements. Benefit payments (including refunds of employee contributions) are recognized as expense when due and payable in accordance with the plan benefit terms. Related plan investments are reported at fair value.

9. Fair Value Measurements

The School District is required to disclose amounts within a framework established for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure

MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

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

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

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

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

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

10. Use of Estimates

The process of preparing basic financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate

**MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

11. Adoption of New Accounting Standards

As of June 30, 2017, the School District adopted Governmental Accounting Standards Board (GASB) Statements No. 77, *Tax Abatement Disclosures*. This statement requires School Districts to disclose in their financial statements information related to tax abatement agreements. The adoption of this statement did not have an impact on amounts reported in the basic financial statements.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund.

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

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

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.

**MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY
(continued)

3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. The Superintendent and Business Manager are authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund.
6. The budget was amended during the year with supplemental appropriation, the last one approved prior to June 30, 2017. The School District does not consider these amendments to be significant.
7. The School District had the following general fund budget function overdrafts for the year ended June 30, 2017.

<u>Function</u>	<u>Amount by which expenditures exceeded appropriations</u>
Pupil	\$ 11,590
Instructional Staff	32,757
Transportation	3,036
Central	22,411
Capital outlay	16,079

MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 3 - DEPOSITS AND INVESTMENTS

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the deposits may not be returned to the School District. The School District does not have a deposit policy for custodial credit risk. As of June 30, 2017, \$1,368,106 of the School District's bank balance of \$1,628,692 (money market deposit account, savings and checking accounts) that were uninsured and uncollateralized. The School District believes due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits.

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

As of June 30, 2017, the School District's investments balance from external investment pool amounting to \$2,180,196 were uninsured and uncollateralized.

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

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

**MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 3 - DEPOSITS AND INVESTMENTS (continued)

At June 30, 2017, the maturities of investments and the credit quality ratings of investment securities held by the School District are as follows:

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Michigan Liquid Asset Fund*	n/a	\$ 2,179,425	AAAm	Standard & Poor's
Michigan CLASS	n/a	771	AAAm	Standard & Poor's
Money Market Fund	n/a	<u>11</u>	n/a	n/a
Total Investments		<u>\$ 2,180,207</u>		

*Investment fair value reported at amortized cost.

Concentration of credit risk – State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The School District's policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.

NOTE 4 - INTERGOVERNMENTAL RECEIVABLES

Due from governmental units June 30, 2017 consist of the following:

	<u>General</u>
State Aid	\$ 2,272,282
Federal	388,787
Other Governmental Entity	<u>365,828</u>
Net Total Due from Governmental Units	<u>\$ 3,026,897</u>

No allowance for doubtful accounts is considered necessary.

**MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 5 - CAPITAL ASSETS

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

Governmental Activities	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
Capital assets not being depreciated				
Land	\$ 912,065	\$ -	\$ -	\$ 912,065
Subtotal	<u>912,065</u>	<u>-</u>	<u>-</u>	<u>912,065</u>
Capital assets being depreciated				
Building and Improvements	21,908,477	599,480		22,507,957
Machinery & Equipment	3,773,586	78,134		3,851,720
Transportation Equipment	705,264	69,500		774,764
Total Depreciable Assets	<u>26,387,327</u>	<u>747,114</u>	<u>-</u>	<u>\$ 27,134,441</u>
Less: Accumulated depreciation for:				
Building and Improvements	6,572,503	696,551		7,269,054
Machinery & Equipment	3,100,978	157,605		3,258,583
Transportation Equipment	505,813	48,415		554,228
Subtotal	<u>10,179,294</u>	<u>902,571</u>	<u>-</u>	<u>11,081,865</u>
Net Depreciable Capital Assets	<u>16,208,033</u>	<u>(155,457)</u>	<u>-</u>	<u>16,052,576</u>
Governmental Activities Capital Assets, net	<u>\$ 17,120,098</u>	<u>\$ (155,457)</u>	<u>\$ -</u>	<u>\$ 16,964,641</u>

Depreciation is computed by the straight line method for all classes of assets. Depreciation for the fiscal year ended June 30, 2017 amounted to \$902,571. The School District determined that it was impractical to allocate depreciation and amortization to the various governmental activities as the assets serve multiple functions.

**MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 6 - LONG-TERM DEBT

The School District issue bond to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. The School District had total bonded debt outstanding of \$3,045,000. Remaining payments for all bonded indebtedness vary from \$150,000 to \$285,000 through 2031, and include interest at 2.5% – 4.5%.

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

Year Ending June 30	Principal	Interest	Total Due
2018	155,000	123,950	278,950
2019	165,000	119,300	284,300
2020	170,000	113,524	283,524
2021	180,000	107,574	287,574
2022	190,000	101,274	291,274
2023	200,000	93,674	293,674
2024	210,000	85,674	295,674
2025	220,000	77,064	297,064
2026	230,000	68,046	298,046
2027	240,000	58,386	298,386
2028	255,000	48,304	303,304
2029	265,000	36,906	301,906
2030	280,000	25,424	305,424
2031	285,000	12,826	297,826
	<u>\$ 3,045,000</u>	<u>\$ 1,071,926</u>	<u>\$ 4,116,926</u>

The following is a schedule of the governmental long term obligations for the School District for the year ended June 30, 2017:

	2011 Building and Site Bond	Unamortized Bond Discount	Compensated Absences	Total
Balance July 1, 2016	\$ 3,195,000	\$ (33,492)	\$ 23,155	\$ 3,184,663
Additions	-	-	396,451	396,451
Deletions	150,000	2,233	-	147,767
Balance June 30, 2017	3,045,000	(31,259)	419,606	3,433,347
Less: current portion	155,000	2,233	-	152,767
Total due after one year	<u>\$ 2,890,000</u>	<u>\$ (29,026)</u>	<u>\$ 419,606</u>	<u>\$ 3,280,580</u>

**MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

The debt service requirements of governmental activities at June 30, 2017 were as follows:

Fiscal Year Ending,	Governmental Activities		
	Principal	Interest	Total
2018	\$ 155,000	\$ 123,950	\$ 278,950
2019	165,000	119,300	284,300
2020	170,000	113,524	283,524
2021	180,000	107,574	287,574
2022	190,000	101,274	291,274
2023-2027	1,100,000	382,844	1,482,844
2028-2031	1,085,000	123,460	1,208,460
Total	\$ 3,045,000	\$ 1,071,926	\$ 4,116,926

Interest expense for the year amounted to \$129,620.

NOTE 7 - EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN

Plan Description

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

MPSERS is administered by the Office of Retirement Services (ORS) within the Michigan Department of Technology, Management & Budget. The Department Director appoints the Office Director, with whom the general oversight of MPSERS resides. The State Treasurer serves as the investment officer and custodian for MPSERS. MPSERS' financial statements are available at www.michigan.gov/mpsers-cafr

**MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 - EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN
(Continued)

Benefits Provided

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Depending on the plan option selected, member retirement benefits are determined by final average compensation, years of service, and a pension factor ranging from 1.25 percent to 1.5 percent. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. MPSERS also provides disability and survivor benefits to DB plan members.

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

Member Contributions

Mandatory member contributions were phased out between 1974 and 1977, with the plan remaining noncontributory until January 1, 1987, when the Member Investment Plan (MIP) was enacted. MIP members enrolled prior to January 1, 1990, contribute at a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990, when it was reduced to 3.9%. Members first hired between January 1, 1990 and June 30, 2008, and returning members who did not work between January 1, 1987, through December 31, 1989, contribute at the following graduated permanently fixed contribution rates: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Members first hired July 1, 2008, or later including Pension Plus Plan members, contribute at the following graduated permanently fixed contribution rates: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 6.4% of all wages over \$15,000.

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

**MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 - EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN
(Continued)

Under Public Act 300 of 2012, eligible members voluntarily chose between increasing, maintaining, or stopping their contributions to the pension fund as of the transition date. Their options are described in detail under Pension Reform 2012 beginning on page 23. Members who elected to increase their level of contribution contribute 4% (Basic Plan) or 7% (MIP); by doing so they maintain a 1.5% pension factor in their pension formula. Members who elected to maintain their level of contribution will receive a 1.25% pension factor in their pension formula for their years of service as of their transition date. Their contribution rates are described above. Members who elected to stop their contributions became participants in the Defined Contribution plan as of their transition date.

Basis of Accounting and Presentation

MPSERS financial statements are prepared using the accrual basis of accounting. Contributions from the employers are recognized as revenue when due and payable. Benefits and refunds are recognized when due and payable in accordance with the terms of MPSERS. The reserves are described below and details are provided in the supporting schedules.

GASB Statement No. 67, which was adopted during the year ended September 30, 2015, addresses accounting and financial reporting requirements for pension plans. The requirements for GASB Statement No. 67 require changes in presentation of the financial statements, notes to the financial statements, and required supplementary information.

Significant changes include an actuarial calculation of total and net pension liability. It also includes comprehensive footnote disclosure regarding the pension liability, the sensitivity of the net pension liability to the discount rate, and increased investment activity disclosures. The implementation of GASB Statement No. 67 did not significantly impact the accounting for accounts receivable and investment balances.

Contribution and Funded Status

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

**MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

NOTE 7 - EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN
(Continued)

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2016 valuation will be amortized over a 20 year period for the 2016 fiscal year.

The School District's required and actual contributions to the plan for the year ended June 30, 2017 were \$2,639,489. The School District's required and actual contributions include an allocation of \$764,882 in revenue received from the State of Michigan, and remitted to MPSERS to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate for the year ended June 30, 2017.

The schedule below summarizes pension contribution rates in effect for fiscal year 2016.

Pension Contribution Rates

Benefit Structure	Member	Employer
Basic	0.0 - 4.0 %	18.95 %
Member Investment Plan	3.0 - 7.0 %	18.95 %
Pension Plan	3.0 - 6.4 %	17.73 %
Defined Contribution	0.0 %	14.56 %

Required contributions from School District were \$2,246,837 for the year ended September 30, 2016.

PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS

At June 30, 2017, the School District's reported a liability of \$24,963,465 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2015. The School District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of

**MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

NOTE 7 - EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN
(Continued)

pension contributions required from all applicable employers during the measurement period. At September 30, 2016, School District's proportion was .10006 percent, which was a decrease of .00193 percent from its proportion measured as of September 30, 2015.

PENSION EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS

For the year ended June 30, 2017 the School District recognized total pension expense of \$2,412,901. At June 30, 2017 the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferered Inflows of Resources
Difference between actual and expected experience	\$ 311,111	\$ 59,164
Changes of assumptions	390,284	-
Net difference between projected and actual earnings on pension plan investments	414,893	-
Changes in proportion and differences between School District contributions and proportionate share of contributions	373,516	376,973
School District contributions subsequent to the measurement date	<u>2,256,403</u>	<u>-</u>
Total	<u>\$ 3,746,207</u>	<u>\$ 436,137</u>

**MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

NOTE 7 - EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN
(Continued)

Contributions subsequent to measurement date reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Plan Year Ending September 30

2017	\$ 230,156
2018	\$ 197,550
2019	\$ 595,042
2020	\$ 30,919

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2016, are summarized in the following table:

Domestic Equity Pools		
% Alternative Investment	28.0%	5.9%
Pools	18.0%	9.2%
International Equity	16.0%	7.2%
Fixed Income Pools	10.5%	0.9%
Real Estate and Infrastructure Pools	10.0%	4.3%
Absolute Return Pools	15.5%	6.0%
Short Term Investment Pools	2.0%	0.0%
 Total	 100.0%	

*Long term rate of return does not include 2.1% inflation

**MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

NOTE 7 - EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN
(Continued)

Discount Rate

A discount rate of 8.0% was used to measure the total pension liability (7.0% for the Pension Plus plan, a hybrid plan provided through non-university employers only). This discount rate was based on the long term expected rate of return on pension plan investments of 8.0% (7.0% for the Pension Plus plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

As required by GASB Statement No. 68, the following presents the School District's proportionate share of the net pension liability, calculated using a discount rate of 8.0% (7.0% for the Hybrid Plan), as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher:

1% Decrease (Non-Hybrid/Hybrid)	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid)	1% Increase (Non-Hybrid/Hybrid)
7.0% / 6.0%	8.0% / 7.0%	9.0% / 8.0%
<u>\$32,146,660</u>	<u>\$24,963,465</u>	<u>\$18,907,342</u>

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPSERS financial report.

Payable to the Pension Plan

At June 30, 2017, the School District reported a payable of approximately \$307,000 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2017.

**MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

NOTE 7 - EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN
(Continued)

Actuarial Assumptions

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

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Actuarial Assumptions

Wage Inflation Rate:	3.50%
Investment Rate of Return	
-MIP and Basic Plans (Non-Hybrid):	8.00%
-Pension Plus Plan (Hybrid)	7.00%
Projected Salary Increases:	3.5% to 12.3% Including wage inflation at 3.5%
Cost-of-Living Pension Adjustments:	3% Annual Non-Compounded for MIP Members
Mortality:	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of MPSERS. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 7 - EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN
(Continued)

Notes

- Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by MPSERS for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2016, is based on the results of an actuarial valuation date of September 30, 2015, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: (4.6273 for non-university employers 1.2456 for university employers)
- Recognition period for assets in years is 5.0000
- Full actuarial assumptions are available in the 2016 MPSERS Comprehensive Annual financial Report (www.michigan.gov/mpsers-cafr).

Postemployment Benefits Other Than Pension (OPEB)

Under the MPSERS act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental and vision coverage through MPSERS. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent, or 20 percent for those not Medicare eligible 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 6.4% to 6.83% of the covered payroll for the period July 1, 2016 through September 30, 2016 and from 5.69% to 5.91% of the covered payroll for the period October 1, 2016 through June 30, 2017 dependent upon the employee's date of hire and plan election as noted above. Members can choose to contribute 3% of their covered payroll to the Retiree Healthcare Fund and keep this premium subsidy benefit or they can elect not to pay the 3% 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% employee contribution into their 457 account as their transition date and create a 2% employer match into the employee's 403(b) account.

The School District's required and actual contributions to the plan for retiree healthcare benefits for the year ended June 30, 2017 were approximately \$890,000. In addition, a portion ranging from 35% to 100% of the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate is considered a contribution to the retiree healthcare plan.

**MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

NOTE 8 - INTERFUND BALANCES AND TRANSFERS

Interfund balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system and (3) payments between funds are made. All balances at June 30, 2017 are expected to be repaid within the next fiscal year.

A schedule of interfund balances follows:

Fund	Interfund Receivable	Fund	Interfund Payable
Major	\$ 63,596	Nonmajor	\$ 63,596

Interfund transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the Debt Service Fund as debt service payments become due and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

A schedule of interfund transfers follows:

Fund	Transfers In	Fund	Transfer Out
General Fund	\$ 24,030	Nonmajor	\$ 24,030

NOTE 9 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The School District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The School District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. The premiums are based on the ultimate cost of the experience to date of the participating members of the risk pool. The School District cannot estimate losses from reported and unreported claims at June 30, 2017. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency.

MADISON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 9 - RISK MANAGEMENT (Continued)

The School District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2017 or any of the prior three years.

NOTE 10 - CONTINGENCIES

The School District had no contingencies at June 30, 2017.

NOTE 11 - AT RISK

During the year, the School District received State categorical aid for at risk students, which amounted to \$604,171. The School District split all of these funds for at risk students.

NOTE 12 - NET POSITION RESTRICTED BY ENABLING LEGISLATION

The government-wide statement of net position reports \$272,166 of restricted net position at June 30, 2017, all of which is restricted by enabling legislation.

NOTE 13 – UPCOMING ACCOUNTING PRONOUNCEMENTS

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for government that finance OPEB for employees of other governments. This OPEB standard will require the School District to recognize on the face of the financial statements its proportionate share of the net OPEB liability related to its participation in the MPSERS plan. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The School District is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the School District's financial statements for the year ending June 30, 2018.

REQUIRED SUPPLEMENTARY INFORMATION

**Madison School District
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2017**

	Original Budget	Final Budget	Actual	Variance with final budget Favorable (Unfavorable)
Revenues:				
Local sources	\$ 2,202,269	\$ 2,187,285	\$ 2,230,740	\$ 43,455
Intermediate sources	1,148,205	1,138,330	1,183,774	45,444
State sources	12,173,433	12,449,006	12,456,102	7,096
Federal sources	368,665	403,397	391,459	(11,938)
Total revenues	<u>15,892,572</u>	<u>16,178,018</u>	<u>16,262,075</u>	<u>84,057</u>
Expenditures:				
Current:				
Instruction:				
Basic programs	9,121,373	9,364,232	9,236,072	128,160
Added needs	2,416,044	2,501,923	2,393,078	108,845
Total instruction	<u>11,537,417</u>	<u>11,866,155</u>	<u>11,629,150</u>	<u>237,005</u>
Support services:				
Pupil	334,054	329,138	340,728	(11,590)
Instructional staff	127,307	222,379	255,136	(32,757)
General administration	472,126	530,742	475,502	55,240
School administration	1,077,026	1,000,769	998,424	2,345
Business and fiscal services	247,594	232,985	216,954	16,031
Operation & maintenance	1,029,851	1,068,713	1,064,795	3,918
Transportation	425,258	442,727	445,763	(3,036)
Central	70,328	70,945	93,356	(22,411)
Athletics	372,002	372,101	371,119	982
Total support services	<u>4,155,546</u>	<u>4,270,499</u>	<u>4,261,777</u>	<u>8,722</u>
Community service:				
Child care	36,097	40,650	40,836	(186)
Other community service	98,211	62,389	61,534	855
Total community service	<u>134,308</u>	<u>103,039</u>	<u>102,370</u>	<u>669</u>
Capital outlay				
	133,000	147,500	163,579	(16,079)
	<u>133,000</u>	<u>147,500</u>	<u>163,579</u>	<u>(16,079)</u>
Total expenditures	<u>15,960,271</u>	<u>16,387,193</u>	<u>16,156,876</u>	<u>230,317</u>
Excess (deficiency) of revenues over expenditures	<u>(67,699)</u>	<u>(209,175)</u>	<u>105,199</u>	<u>314,374</u>
Other financing sources (uses):				
Indirect cost transfer	-	24,000	24,030	30
Total other financing sources (uses)	<u>-</u>	<u>24,000</u>	<u>24,030</u>	<u>30</u>
Net change in fund balance	<u>(67,699)</u>	<u>(185,175)</u>	<u>129,229</u>	<u>314,404</u>
Fund balance:				
Beginning of year	4,176,865	4,176,865	4,176,865	-
End of year	<u>\$ 4,109,166</u>	<u>\$ 3,991,690</u>	<u>\$ 4,306,094</u>	<u>\$ 314,404</u>

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 2,639,489	\$ 2,418,503	\$ 2,648,947
Contribution in relation to statutorily required contribution	<u>2,639,489</u>	<u>2,418,503</u>	<u>2,648,947</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District's covered-employee payroll	\$ 10,007,957	\$ 8,478,286	\$ 8,611,789
Contribution as a percentage of covered-employee payroll	26.37%	28.53%	30.76%

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
School District's proportion of the net pension liability	0.10006%	0.10199%	0.09952%
School District's proportionate share of the net pension liability	\$ 24,963,465	\$ 24,912,006	\$ 21,919,983
School District's covered-employee payroll	\$ 8,387,800	\$ 8,916,870	\$ 8,576,648
School District's proportionate share of net pension liability as a percentage of its covered-employee payroll	297.62%	279.38%	255.58%
Plan fiduciary net position as a percentage of total pension liability	63.27%	63.17%	66.20%

MADISON SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2017

NOTE 1: CHANGES OF BENEFIT TERMS

There were no changes of benefit terms in 2016.

NOTE 2: CHANGES OF ASSUMPTIONS

There were no changes of benefit assumptions in 2016.

ADDITIONAL INFORMATION

**Madison School District
Combining Balance Sheet
Nonmajor Governmental Fund
June 30, 2017**

	Special Revenue	Debt Service	Capital Projects	Total Nonmajor Governmental Funds
Assets				
Assets:				
Cash and equivalents	\$ 289,880	\$ 68,711	\$ 1,081	\$ 359,672
Inventory	5,531	-	-	5,531
Total Assets	\$ 295,411	\$ 68,711	\$ 1,081	\$ 365,203
 Liabilities and Fund Balances				
Liabilities:				
Due to other funds	\$ 63,596	\$ -	\$ -	\$ 63,596
Unearned revenue	2,171	-	-	2,171
Total Liabilities	65,767	-	-	65,767
 Fund Balances:				
Nonspendable - inventory	5,531	-		5,531
Restricted				
School lunch program	224,113	-	-	224,113
Debt service	-	68,711	-	68,711
Capital outlay	-	-	1,081	1,081
Total Fund Balances	229,644	68,711	1,081	299,436
 Total Liabilities and Fund Balances	\$ 295,411	\$ 68,711	\$ 1,081	\$ 365,203

Madison School District
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Nonmajor Governmental Funds
Year Ended June 30, 2017

	Food Service Revenue	Debt Service	Sinking Fund	Total Nonmajor Governmental Funds 2017
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Revenues:				
Local sources:				
Property taxes	\$ -	\$ 332,315	\$ 251,816	\$ 584,131
Investment earnings	-	513	-	513
Food sales	119,237	-	-	119,237
Other	-	-	5,605	5,605
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total local sources	119,237	332,828	257,421	709,486
State sources	42,891	-	-	42,891
Federal sources	671,723	-	-	671,723
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total revenues	833,851	332,828	257,421	1,424,100
Expenditures:				
Food service/activities	805,987	-	-	805,987
Capital outlay	-	-	486,896	486,896
Total expenditures	<u>805,987</u>	<u> </u>	<u>486,896</u>	<u>1,292,883</u>
Excess (deficiency) of revenues over expenditures				
	<u>27,864</u>	<u>332,828</u>	<u>(229,475)</u>	<u>131,217</u>
Other Financing Sources (Uses):				
Principal repayment	-	(150,000)	-	(150,000)
Interest payment	-	(128,075)	-	(128,075)
Indirect cost transfer	(24,030)	-	-	(24,030)
Total other financing sources (uses)	<u>(24,030)</u>	<u>(278,075)</u>	<u> </u>	<u>(302,105)</u>
Net change in fund balance	3,834	54,753	(229,475)	(170,888)
Fund balance:				
Beginning of year	225,810	13,958	230,556	470,324
End of year	<u>\$ 229,644</u>	<u>\$ 68,711</u>	<u>\$ 1,081</u>	<u>\$ 299,436</u>

Madison School District
Schedule of Cash Receipts, Disbursements and Liabilities
Agency Funds
Year Ended June 30, 2017

	<u>Liability Balance July 1, 2016</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Liability Balance June 30, 2017</u>
Assets				
Cash and cash equivalents	\$ 289,354	\$ 594,550	\$ 585,293	\$ 298,611
Total assets	<u>\$ 289,354</u>	<u>\$ 594,550</u>	<u>\$ 585,293</u>	<u>\$ 298,611</u>
Liabilities				
Due to student groups	\$ 289,354	\$ 594,550	\$ 585,293	\$ 298,611
Total liabilities	<u>\$ 289,354</u>	<u>\$ 594,550</u>	<u>\$ 585,293</u>	<u>\$ 298,611</u>

Madison School District
Single Audit
Table of Contents
For the Year Ended June 30, 2017

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CERTIFIED PUBLIC ACCOUNTANTS

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

To the Board of Education
Madison School District
Adrian, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Madison School District (the School District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued our report thereon dated October 23, 2017.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2017-001 and 2017-002 that we consider to be significant deficiencies.

COMPLIANCE AND OTHER MATTERS

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

SCHOOL DISTRICT'S RESPONSES TO FINDINGS

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

PURPOSE OF THIS REPORT

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

DARNELL & MEYERING, P.C.



Taylor, MI
October 23, 2017

DARNELL & MEYERING, P.C.

Certified Public Accountants

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

To the Board of Education
Madison School District
Adrian, Michigan

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 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, 2017. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2017.

Report on Internal Control Over Compliance

Management of Madison School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Madison School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

DARNELL & MEYERING, P.C.

Darnell & Meyering, P.C.

October 23, 2017
Taylor, Michigan

**MADISON SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017**

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award	Accrued (Deferred) Revenue July 1, 2016	(Memo Only) Prior Years Expenditures	Current Years Expenditures	Current Years Receipts	Accrued (Deferred) Revenue June 30, 2017	Note	Adjustments	Current Year Cash Transferred to Subrecipient
U.S. Department of Education Passed through Michigan Department of Education										
Title I, Part A - Improving Basic Programs 161530/1516	84.010	\$ 309,118	\$ 267,695	\$ 289,065	\$ -	\$ 267,695	\$ -	C	\$ 21,370	\$ -
171530/1617	84.010	311,623	-	-	311,623	-	311,623		-	-
Total Title I, Part A		<u>620,741</u>	<u>267,695</u>	<u>289,065</u>	<u>311,623</u>	<u>267,695</u>	<u>311,623</u>		<u>21,370</u>	<u>-</u>
Title II, Part A - Teacher/Principal Training & Recruiting 160520/1516	84.367	46,016	46,016	46,016	-	46,016	-		-	-
170520/1617	84.367	44,490	-	-	44,490	-	44,490		-	-
Total Title II, Part A		<u>90,506</u>	<u>46,016</u>	<u>46,016</u>	<u>44,490</u>	<u>46,016</u>	<u>44,490</u>		<u>-</u>	<u>-</u>
Title Title VI B, Subpart 2 - Rural and Low Income Grant 160660/1516	84.358	29,609	29,609	29,609	-	29,609	-		-	-
170660/1617	84.358	32,674	-	-	32,674	-	32,674		-	-
Total Title VI Part B		<u>62,283</u>	<u>29,609</u>	<u>29,609</u>	<u>32,674</u>	<u>29,609</u>	<u>32,674</u>		<u>-</u>	<u>-</u>
Total U.S. Department of Education		<u>773,530</u>	<u>343,320</u>	<u>364,690</u>	<u>388,787</u>	<u>343,320</u>	<u>388,787</u>		<u>21,370</u>	<u>-</u>

See Notes to Schedule of Expenditures of Federal Awards

**MADISON SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017**

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award	Accrued (Deferred) Revenue July 1, 2016	(Memo Only) Prior Years Expenditures	Current Years Expenditures	Current Years Receipts	Accrued (Deferred) Revenue June 30, 2017	Note	Adjustments	Current Year Cash Transferred to Subrecipient
U.S. Department of Agriculture										
Passed Through Michigan Department of Education										
Child Nutrition Cluster:										
Non cash assistance (commodities):										
National School Lunch Program - Entitlement Commodities - 2016-2017	10.555	40,510	-	-	40,510	40,510	-		-	-
Cash assistance:										
National School Lunch Program	10.555	449,205	-	-	449,205	449,205	-		-	-
National School Lunch Program subtotal		489,715	-	-	489,715	489,715	-		-	-
National School Breakfast Program	10.553	163,913	-	-	163,913	163,913	-		-	-
Child and Adult Care Food Program	10.558	18,095	-	-	18,095	18,095	-		-	-
Total U.S. Department of Agriculture		671,723	-	-	671,723	671,723	-		-	-
Total Passed Through Michigan Department of Education		1,445,253	343,320	364,690	1,060,510	1,015,043	388,787		21,370	-
Federal Grantor Pass Through										
Other Pass through - Lenawee										
Intermediate School Districts (LISD)										
Medicaid Outreach	93.778	2,672	-	-	2,672	2,672	-		-	-
Total LISD		2,672	-	-	2,672	2,672	-		-	-
Total Federal Financial Assistance		\$ 1,447,925	\$ 343,320	\$ 364,690	\$ 1,063,182	\$ 1,017,715	\$ 388,787		\$ 21,370	\$ -

See Notes to Schedule of Expenditures of Federal Awards

**MADISON SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of Madison School District (the School District) under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the School District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the School District.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

NOTE C – TITLE I CFDA 84.010 ADJUSTMENTS

There is an adjustment of \$21,370 from the 2015-2016 Title I Part A grants representing state aid payments for Section 147(c) UAAL monies spent on salaries, that was not used in the request for funds at year end.

NOTE D – GRANT AUDITOR REPORT

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

NOTE E – NONCASH ASSISTANCE

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

MADISON SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Type of Auditors' Report Issued: Unmodified

Internal Control over Financial Reporting:

* Material weakness(es) identified? Yes X No

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

Noncompliance material to financial statements noted? Yes X No

FEDERAL AWARDS

Internal Control Over Major Programs:

* Material weakness(es) identified? Yes X No

* Significant deficiency(ies) identified that are considered to be material weaknesses? Yes X None reported

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

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

Identification of Major Programs

CFDA Number

10.553, 10.555, 10.558

Name of Federal Program/Cluster

Child Nutrition Cluster Including commodities

**MADISON SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

SECTION I - SUMMARY OF AUDITORS' RESULTS (Continued)

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

\$ 750,000

Auditee qualified as low-risk
auditee?

X Yes No

SECTION II - FINANCIAL STATEMENT FINDINGS

2017 – 001 - Segregation of Duties

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

Criteria: Adequate segregation of duties for the School District is necessary to minimize the likelihood that fraud or errors could occur and not be detected.

Condition: The School District has not achieved a complete segregation of duties among employees who have both access to assets and accounting responsibilities.

Cause: The small size of the business office staff creates an inherent lack of segregation of duties.

Identification of repeat finding - This is a repeat finding from the immediate previous audit 2016-001.

Effect: As a result of this condition, the School District lacks proper segregation of duties and is exposed to an increased risk of misstatement of its financial statements.

Recommendation: We understand that in your environment of limited numbers of staff, the most desirable segregation of duties is not always feasible. Also the costs of administrative systems should not exceed their benefits. These recommendations were developed with these concepts in mind and should be considered in that light. We recommend that management and the Board of Education implement procedures as follows:

- All reconciliations, journal entries and monthly reports (i.e. bank reconciliation, payroll reports) should be reviewed by a designated individual other than the preparer to ensure accuracy and completeness and to verify that reconciled items and journal entries have been properly handled. In addition, preparation and review of the reconciliations, journal entries and monthly reports should be evidenced by appropriate signatures and dated by both the preparer and reviewer.

**MADISON SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

- To further enhance cash receipts on activity funds from its events (i.e. games, fundraising etc.) we recommend at least two individuals should be present at the event. An individual who is independent of cash collections should conduct a reconciliation of the cash to receipt records. In addition, we recommend that the cash receipts record should be evidenced by the individual's signature.

Individual Responsible for Corrective Action Plan: Ryan Rowe (Superintendent)

View of Responsible Official and Corrective Action Plan: We agree with the auditor's recommendations. The School District has evaluated the manner in which they segregate duties and has implemented certain measures. In addition, the School District will continue to pursue other measure to strengthen internal controls by June 30, 2018. However, the cost associated with adding additional staff to achieve a complete segregation is not justified by the expected benefits.

2017-002 – Preparation of Financial Statements in Accordance with GAAP

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

Criteria: Management is required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). During our audit of the Food Service Fund we have proposed several journal entries to conform with GAAP.

Condition: The School District has historically relied on its independent external auditors to assist the Food Service Director to prepare the financial statements of the food service fund in accordance with GAAP.

Cause: The School District Food Service Director does not have the level of knowledge to prepare financial statements of the Food Service Fund in accordance with GAAP.

Identification of repeat finding - This is a repeat finding from the immediate previous audit 2016-002.

Effect: As a result of this condition, the School District lacks internal control over the preparation of the Food Service Fund financial statements in accordance with GAAP that resulted to numerous journal entries proposed by the auditor.

Recommendation: We recommend that the Business Office will assist the Food Service Director in the preparation of the monthly and year end journal entries to conform with GAAP.

**MADISON SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

2017-002 – Preparation of Financial Statements in Accordance with GAAP (continued)

Individual Responsible for Corrective Action Plan: Ryan Rowe (Superintendent)

View of Responsible Official and Planned Corrective Action Plan: We agree with the auditor's recommendations the School District has evaluated the manner in which they prepare the financial statements and will attempt to follow the recommendation made to assist the Food Service Director in closing the monthly and year end records in accordance with GAAP. The corrective action plan will be in place before the year ending June 30, 2018.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported

**MADISON SCHOOL DISTRICT
SUMMARY OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017**

Findings related to internal control over financial reporting

Finding 2016 – 001 - Segregation of Duties

The School District has not achieved a complete segregation of duties among employees who have both access to assets and accounting responsibilities. The small size of the business office staff creates an inherent lack of segregation of duties. This is a repeat finding in the current year's audit as item 2017-001 in the accompanying schedule of findings and questioned costs. The School District will continue to pursue other measures to strengthen internal controls by June 30, 2018.

Finding 2016 – 002 – Financial Statement Preparation in Accordance with Generally Accepted Accounting Principles (GAAP)

The School District has no adequate design of internal control over the complete preparation of the financial statements and footnotes being audited. This finding has been partially corrected in the current year by the Business Office. However, the Food Service Fund financial statement was not prepared in accordance with GAAP that resulted to various proposed journal entries by the auditor. This is then considered a repeat finding in the current year's audit as item 2017-002 in the accompanying schedule of findings and questioned costs. The School District's business office will begin to assist the Food Service Director in the monthly and year end closing to ensure that the financial statement of the food service fund is prepared in accordance with GAAP. The School District will have this in place by June 30, 2018.

Findings related to noncompliance material to financial statements

No prior audit findings noted.

Findings related Compliance with Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance Required by the Uniform Guidance

No prior audit findings noted.

DARNELL & MEYERING, P.C.

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MEMBERS
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
MICHIGAN ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS

October 23, 2017

To the Board of Education
Madison School District
Adrian, Michigan

We have audited the financial statements of the governmental activities, each of the major funds and the aggregate remaining fund information of Madison School District (the School District) for the year ended June 30, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 8, 2017. Professional standards also require that we communicate to you the following related to our audit.

Significant Audit Findings

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. No new accounting policies were adopted and the application of existing policies was not changed during the current year. We noted no transactions entered into by the School District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the School District's financial statements were depreciation expense and the net pension liability.

Management's estimate of the depreciation expense is based on economic useful lives. We evaluated the key factors and assumptions used to develop the depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of Net Pension Liability for the fiscal year ended June 30, 2017 and computations of their deferred outflows of pension resources for the same year, was reviewed by us in determining the reasonableness in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. We did not identify any sensitive disclosures.

The disclosure of Fund Balance reporting in governmental funds in Note 1B to the financial statements provides the breakdown of the categories that may or may not be used.

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 trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 23, 2017.

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 Management’s Discussion and Analysis, the Major Fund Budgetary Comparison information, Schedule of Madison School District’s Pension Contributions, Schedule of Madison School District’s Proportionate Share of Net Pension Liability, and the Notes to Required Supplemental Information which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

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

Restriction on Use

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

Very truly yours,

Darnell & Meyering, P.C.

Darnell & Meyering, P.C.