

**Madison District Public Schools
Madison Heights, Michigan**

FINANCIAL STATEMENTS

June 30, 2013

Madison District Public Schools

Madison Heights, Michigan

BOARD OF EDUCATION AND ADMINISTRATION

June 30, 2013

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Madison District Public Schools

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Madison District Public Schools
Madison Heights, 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 District Public Schools (the District), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 Madison District Public Schools as of June 30, 2013, and the respective changes in financial position thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Changes in Accounting Principles

As described in Note M, during fiscal year 2013, the District implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The format and reporting of the financial statements has changed to reflect the new presentation as required by GASB Statements No. 63 and 65, as applicable. Our opinions are not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2013, on our consideration of Madison District Public Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Madison District Public Schools' internal control over financial reporting and compliance.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

October 25, 2013

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

Madison District Public Schools is a K-12 school district located in Oakland County, Michigan. The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Madison District Public Schools' overview of the financial results for the fiscal year ended June 30, 2013.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Madison District Public Schools financially as a whole. The *District-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and longer-term view of the finances. The *Fund Financial Statements* provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds - the General Fund, 2013 Capital Projects Fund and 2005 Debt Service individually, and the Food Service Fund, as other non-major governmental funds. The remaining statement, the Statement of Assets and Liabilities - Fiduciary Fund, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

District-Wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The Statement of Net Position and the Statement of Activities, which appear first in the basic financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. These statements are prepared to include all assets 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.

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

The Statement of Net Position and Statement of Activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, supporting services, community services, and food services. Property taxes, unrestricted State Aid (foundation allowance revenue), State and Federal grants, and other local dollars finance most of these activities.

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

Fund Financial Statements

The fund level financial statements are reported on the modified accrual basis. Only those assets that are "measurable" and "available" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Debt Service Funds, Capital Project Funds, and the Food Service Fund.

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

Summary of Net Position:

The following summarizes the net position as of June 30, 2013 and 2012:

Condensed Statement of Net Position
as of June 30, 2013 and 2012

	Governmental Activities 2013	Governmental Activities 2012
Assets		
Current and other assets	\$ 15,977,570	\$ 7,626,532
Capital assets	<u>10,931,704</u>	<u>11,165,630</u>
Total Assets	26,909,274	18,792,162
Liabilities		
Current liabilities	3,875,230	5,842,795
Noncurrent liabilities	<u>17,397,491</u>	<u>7,408,778</u>
Total Liabilities	21,272,721	13,251,573
Deferred Inflows of Resources	255,758	-
Net Position		
Net investment in capital assets	3,438,149	2,702,981
Restricted	765,315	1,015,953
Unrestricted	<u>1,177,331</u>	<u>1,821,655</u>
Total Net Position	<u>\$ 5,380,795</u>	<u>\$ 5,540,589</u>

Analysis of Financial Position:

As detailed above, the District shows a total net position value of \$5,380,795 for the fiscal year ended June 30, 2013. This statement has been affected by the following:

- Construction projects continued through the 2012-2013 year for the major building modification to update boiler systems and HVAC controls.
- The District continued to pay-down its long-term debt and has issued new debt for the remodeling and additions for a consolidated elementary building. This project is projected to start in the 2013/14 fiscal year.

Results of Operations:

For the fiscal year ended June 30, 2013 and 2012, the district-wide results of operations were:

Condensed Statement of Activities
Years Ended June 30, 2013 and 2012

	Governmental Activities 2013	Governmental Activities 2012
	<u>2013</u>	<u>2012</u>
Revenues:		
Program Revenues		
Charges for service	\$ 135,383	\$ 155,564
Operating and capital grants	3,818,337	4,158,956
General Revenues		
Property taxes	3,485,066	3,798,660
State school aid-unrestricted	7,149,033	7,022,475
Education jobs funds	-	24,290
Other	178,137	124,683
Total Revenues	14,765,956	15,284,628
Functions/Program Expenses:		
Instruction	7,828,656	7,300,213
Supporting services	5,586,704	5,162,037
Community services	60,190	9,354
Food service	815,724	623,873
Interest on long-term debt	288,251	456,842
Total Expenses	14,579,525	13,552,319
Change in Net Position	\$ 186,431	\$ 1,732,309

Analysis of Results of Operations:

During the fiscal year ended June 30, 2013, the District's net position increased by \$186,431.

A. Governmental Fund Operating Results

The District's revenues and other financing sources from governmental fund operations exceeded expenditures and other financing uses by \$10,340,601 for the fiscal year ended June 30, 2013. Further discussion of the District's operating results is available in the section entitled "Results of 2012-2013 Operations" located on the following pages.

B. Capital Outlay in Excess of Depreciation Expense

The cost of capital assets is allocated over the useful lives of the assets as depreciation expense. During 2012-2013, the District's current year depreciation was more than the investment in new or replacement assets, causing a decrease in net district assets. The District's overall net position were decreased by \$233,926 calculated as the difference between new capital investments of \$368,493, depreciation allocated against the useful lives of district assets of \$602,419.

C. Long-Term Debt Activities

The District increased its long-term debt obligations during 2012-2013 by making principal payments amounting to \$1,405,000 and issuing new debt of \$11,400,000. Also, compensated absences increased by \$35,068. As a result of these activities, net district long-term debt liabilities increased by \$10,030,068.

Results of 2012-2013 Operations

During the fiscal year ended June 30, 2013, the District's fund balances increased by \$10,340,601. A few additional significant factors affecting net position during the year are discussed below:

A. General Fund Operations

The General Fund is the main fund for the District and includes all the costs related to educating the students of the Madison District Public Schools such as: salaries and benefits for teachers, classroom aides, administrators, secretaries, custodians, maintenance staff, librarians, counselors, and other miscellaneous positions; teaching supplies, employee training, utilities, building maintenance supplies and other.

The District's expenditures from General Fund operations exceeded revenues by \$666,679 for the fiscal year ended June 30, 2013. The General Fund as of June 30, 2013, had a fund balance of \$1,564,822 or 12% of expenditures for the 2012-2013 fiscal year. The School District continues to seek ways to become more efficient, as well as increase revenues to build fund equity, and deal with fluctuations in school funding at the State level, while still continuing to provide optimal educational services for children.

B. Debt Service Fund Operations

The Debt Service Fund consists of one (1) debt issue as follows: 2005 Refunding Bonds. At June 30, 2013, the Debt Service Fund had \$722,631 in fund balance available for future bond payments.

The District had bonds and compensated absences outstanding at June 30, 2013, which totaled \$18,818,291. A detailed presentation of the District's long-term debt is presented in Note E of the notes to the financial statements.

C. 2013 Capital Projects Fund

The 2013 Capital Projects Fund is designated for the disbursement of monies from the 2013 Building and Site Bonds to fund capital improvements. The fund will be kept open for as long as there are funds unspent from the Building and Site Bonds.

Net Investment in Capital Assets

The District's net investment in capital assets decreased \$233,926 during the fiscal year. This can be summarized as follows:

	<u>Balance June 30, 2012</u>	<u>Net Change</u>	<u>Balance June 30, 2013</u>
Capital Assets	\$ 23,991,115	\$ 358,493	\$ 24,349,608
Less: accumulated depreciation	<u>(12,825,485)</u>	<u>(592,419)</u>	<u>(13,417,904)</u>
Net investment in capital outlay	<u><u>\$ 11,165,630</u></u>	<u><u>\$ (233,926)</u></u>	<u><u>\$ 10,931,704</u></u>

IMPORTANT ECONOMIC FACTORS

1. State of Michigan Unrestricted Aid (Net State Foundation Grant)

The State of Michigan aid, unrestricted, is determined with the following variables:

- a. State of Michigan State Aid Act per student foundation allowance
- b. Student Enrollment - Blended at 90 percent of prior year's fall count and 10 percent of prior year's winter count
- c. The District's non-homestead property valuation

Per Student Foundation Allowance

Annually, the State of Michigan establishes the per student foundation allowance. The Madison District Public Schools foundation allowance was \$6,966 per student for the 2012-2013 school year.

Student Enrollment

The District's State Aid Membership for 2012-2013 was 1,313. The District's enrollment increased from the prior school year's Fall student count. Subsequent to June 30, 2013, preliminary student enrollments for 2013-2014 indicate that enrollments have increased by approximately 50 students from 2012-2013.

2. Property Taxes levied for General Operations (General Fund Non-homestead Taxes)

The District levies 18 mills of property taxes for operations (General Fund) on non-homestead properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or five (5) percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value. The District's non-homestead property tax revenue for 2012-2013 fiscal year was \$1,837,504.

GENERAL FUND BUDGET & ACTUAL REVENUES & EXPENDITURES

Listed below is an analysis of the original budget and final budget to the final actual.

General Fund Expenditures and Other Uses Budget vs. Actual

Fiscal Year	Original Budget	Final Budget	Actual	Variances	
				Actual & Original Budget	Actual & Final Budget
2012-2013	\$ 13,156,777	\$ 13,125,284	\$ 12,996,513	1.2%	1.0%
2011-2012	10,809,628	11,817,772	11,847,300	-8.8%	-0.2%

General Fund Revenues and Other Sources Budget vs. Actual

Fiscal Year	Original Budget	Final Budget	Actual	Variances	
				Actual & Original Budget	Actual & Final Budget
2012-2013	\$ 12,365,340	\$ 12,214,420	\$ 12,329,834	-0.3%	0.9%
2011-2012	10,720,949	12,625,288	12,796,791	19.4%	1.4%

Original vs. Final Budget:

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

Additional Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration considered many factors when setting the School District's 2013 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2013 fiscal year is 10 percent and 90 percent of the February 2014 and September 2013 student counts, respectively. The 2013 fiscal year budget was adopted in June 2013, based on an estimate of students that will be enrolled in September 2013. Approximately 80 percent of total General Fund revenues are from the foundation allowance. Under State law, the School District cannot access 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. For the school year 2013-2014, the District's foundation allowance will increase from \$6,966 to \$7,026. There will also be an equity payment for the District of \$50 per pupil. There will be one time funding available to the District of \$52 per pupil for best practices. Based on early enrollment data at the start of the 2013-2014 school year we anticipate that the fall student count will be over the estimates used in creating the 2014 fiscal year budget. Due to economic factors, the resident community of the District has become more transient so the District added a SOARCE virtual academy option at all grade levels to attract homeschooled students during the 2013-2014 school year, and continued to advertise in an attempt to stabilize and grow enrollment. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations.

Since the School District's revenue is heavily dependent on State Funding and the status of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts.

In fiscal year 2013, for those hired before July 1, 2010, the health and pension charge to employers in the District's retirement plan had been 25.36 percent of payroll, which was comprised of 9.11 percent for health and 16.25 for pension; on February 1, that rate changed to 24.36 percent of payroll, which was comprised of 9.11 percent health and 15.21 percent for pension and it remained this rate for the rest of the fiscal year. The contribution rate for fiscal year 2014 is set at 24.76 percent of payroll, which is comprised of 6.45 percent for health and 18.34 percent for pension.

Contacting the District's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, it can be obtained by contacting the following person:

Ms. Michelle Schurman
Business Manager
Madison District Public Schools
26524 John R Road
Madison Heights, MI 48071
Phone: (248) 399-7800

BASIC FINANCIAL STATEMENTS

Madison District Public Schools
STATEMENT OF NET POSITION
June 30, 2013

	Governmental Activities
ASSETS	
Current assets	
Cash and cash equivalents	\$ 13,223,869
Accounts receivable	981
Due from other governmental units	2,707,114
Prepays	27,394
Inventories	18,212
Total current assets	15,977,570
Noncurrent assets	
Capital assets not being depreciated	1,782,186
Capital assets, net of accumulated depreciation	9,149,518
Total noncurrent assets	10,931,704
TOTAL ASSETS	26,909,274
LIABILITIES	
Current liabilities	
Accounts payable	491,486
Accrued payroll	675,913
Accrued interest payable	54,638
Other accrued liabilities	406,749
Short-term notes payable	806,444
Current portion of compensated absences	30,000
Current portion of long-term debt	1,410,000
Total current liabilities	3,875,230
Noncurrent liabilities	
Noncurrent portion of compensated absences	338,291
Self-insurance	19,200
Noncurrent portion of long-term debt	17,040,000
Total noncurrent liabilities	17,397,491
TOTAL LIABILITIES	21,272,721
DEFERRED INFLOWS OF RESOURCES	
Deferred amounts on refunding and bond issuance	255,758
NET POSITION	
Net investment in capital assets	3,438,149
Restricted for debt service	667,993
Restricted for food service	97,322
Unrestricted	1,177,331
TOTAL NET POSITION	\$ 5,380,795

See accompanying notes to financial statements.

Madison District Public Schools

STATEMENT OF ACTIVITIES

Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Position
		Charges for Services	Operating Grants	
Governmental Activities				
Instruction	\$ 7,828,656	\$ -	\$ 2,113,802	\$ (5,714,854)
Supporting services	5,586,704	-	1,010,800	(4,575,904)
Community services	60,190	40,920	-	(19,270)
Food service	815,724	94,463	693,735	(27,526)
Interest on long-term debt	288,251	-	-	(288,251)
TOTAL	\$ 14,579,525	\$ 135,383	\$ 3,818,337	(10,625,805)
General revenues				
Property taxes, levied for general purposes				1,837,504
Property taxes, levied for debt service				1,647,562
State school aid - unrestricted				7,149,033
Interest and investment earnings				2,575
Other				175,562
				<u>10,812,236</u>
				CHANGE IN NET POSITION
				186,431
				Restated net position, beginning of year
				<u>5,194,364</u>
				Net position, end of year
				<u>\$ 5,380,795</u>

See accompanying notes to financial statements.

Madison District Public Schools

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2013

	General Fund	2013 Capital Projects	Debt Service
ASSETS			
Cash and cash equivalents	\$ 1,753,675	\$ 11,212,203	\$ 257,991
Accounts receivable	-	-	-
Due from other governmental units	2,692,522	-	-
Due from other funds	-	-	551,291
Prepays	27,394	-	-
Inventories	-	-	-
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 4,473,591</u>	<u>\$ 11,212,203</u>	<u>\$ 809,282</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 381,965	\$ -	\$ 86,651
Accrued payroll	675,913	-	-
Other accrued liabilities	405,067	-	-
Due to other funds	639,380	-	-
Short-term notes payable	806,444	-	-
	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES	2,908,769	-0-	86,651
FUND BALANCES			
Nonspendable			
Prepays	27,394	-	-
Inventories	-	-	-
Restricted			
Capital projects	-	11,212,203	-
Debt service	-	-	722,631
Food service	-	-	-
Assigned for subsequent period expenditures	954,704	-	-
Unassigned	582,724	-	-
	<u> </u>	<u> </u>	<u> </u>
TOTAL FUND BALANCES	<u>1,564,822</u>	<u>11,212,203</u>	<u>722,631</u>
	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 4,473,591</u>	<u>\$ 11,212,203</u>	<u>\$ 809,282</u>

See accompanying notes to financial statements.

<u>Nonmajor Food Service</u>	<u>Total</u>
\$ -	\$ 13,223,869
981	981
14,592	2,707,114
88,089	639,380
-	27,394
18,212	18,212
<u>\$ 121,874</u>	<u>\$ 16,616,950</u>

\$ 22,870	\$ 491,486
-	675,913
1,682	406,749
-	639,380
-	806,444
<u>24,552</u>	<u>3,019,972</u>

-	27,394
18,212	18,212
-	11,212,203
-	722,631
79,110	79,110
-	954,704
-	582,724
<u>97,322</u>	<u>13,596,978</u>
<u>\$ 121,874</u>	<u>\$ 16,616,950</u>

Madison District Public Schools

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
THE STATEMENT OF NET POSITION

June 30, 2013

Total fund balances - governmental funds \$ 13,596,978

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

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 24,349,608	
Accumulated depreciation is	<u>(13,417,904)</u>	
		10,931,704

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.

Long-term liabilities at year-end consist of:

Bonds payable	(18,450,000)	
Deferred amounts on refunding and bond issuance	(255,758)	
Self-insurance	(19,200)	
Compensated absences	(368,291)	
Accrued interest payable	<u>(54,638)</u>	
		<u>(19,147,887)</u>

Net position of governmental activities \$ 5,380,795

Madison District Public Schools

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS

Year Ended June 30, 2013

	General Fund	2013 Capital Projects	Debt Service
REVENUES			
Local sources	\$ 2,021,895	\$ 247	\$ 1,647,677
State sources	8,505,333	-	-
Federal sources	1,010,800	-	-
	<hr/>	<hr/>	<hr/>
TOTAL REVENUES	11,538,028	247	1,647,677
EXPENDITURES			
Current			
Instruction	7,633,160	-	-
Supporting services	5,304,333	-	-
Community services	59,020	-	-
Food service	-	-	-
Debt service	-	57,000	1,944,699
	<hr/>	<hr/>	<hr/>
TOTAL EXPENDITURES	12,996,513	57,000	1,944,699
EXCESS OF REVENUES (UNDER) EXPENDITURES	(1,458,485)	(56,753)	(297,022)
OTHER FINANCING SOURCES (USES)			
Payments from other districts	791,806	-	-
Bond proceeds	-	11,307,262	92,738
Bond premium	-	137,990	-
Bond discount	-	(176,296)	-
	<hr/>	<hr/>	<hr/>
TOTAL OTHER FINANCING SOURCES (USES)	791,806	11,268,956	92,738
NET CHANGE IN FUND BALANCES	(666,679)	11,212,203	(204,284)
Fund balances, beginning of year	2,231,501	-	926,915
	<hr/>	<hr/>	<hr/>
Fund balances, end of year	<u>\$ 1,564,822</u>	<u>\$ 11,212,203</u>	<u>\$ 722,631</u>

See accompanying notes to financial statements.

<u>Nonmajor Food Service</u>	<u>Total</u>
\$ 94,462	\$ 3,764,281
21,480	8,526,813
<u>672,256</u>	<u>1,683,056</u>
788,198	13,974,150
-	7,633,160
-	5,304,333
-	59,020
788,837	788,837
-	<u>2,001,699</u>
<u>788,837</u>	<u>15,787,049</u>
(639)	(1,812,899)
-	791,806
-	11,400,000
-	137,990
-	<u>(176,296)</u>
<u>-0-</u>	<u>12,153,500</u>
(639)	10,340,601
<u>97,961</u>	<u>3,256,377</u>
<u>\$ 97,322</u>	<u>\$ 13,596,978</u>

Madison District Public Schools

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2013

Net change in fund balances - total governmental funds **\$ 10,340,601**

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

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 368,493	
Depreciation expense	<u>(602,419)</u>	
Excess depreciation expense over capital outlay		(233,926)

Repayment and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayments reduce long-term liabilities and the borrowings increase long-term liabilities in the statement of net position. In the current period, these amounts consist of:

Bond proceeds	(11,400,000)	
Changes in deferred amounts on refunding and debt issuance	98,116	
Debt repayment	<u>1,405,000</u>	
		(9,896,884)

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. In the current period, these amounts consist of:

Decrease in accrued interest payable	11,708	
(Increase) in compensated absences	<u>(35,068)</u>	
		<u>(23,360)</u>

Change in net position of governmental activities **\$ 186,431**

Madison District Public Schools

Fiduciary Fund

STATEMENT OF ASSETS AND LIABILITIES

June 30, 2013

	<u>Agency Fund</u>
ASSETS	
Cash and cash equivalents	<u>\$ 63,446</u>
LIABILITIES	
Accounts payable	\$ 8,835
Due to student groups and activities	<u>54,611</u>
TOTAL LIABILITIES	<u>\$ 63,446</u>

See accompanying notes to financial statements.

Madison District Public Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statements No. 39 and 61); and Michigan Committee on Governmental Accounting and Auditing Standards No. 4, these financial statements present the financial activities of Madison District Public Schools. The District has no activities that would be classified as component units.

Based upon the application of these criteria, the financial statements contain all the funds controlled by the District.

2. Basis of Presentation

DISTRICT-WIDE FINANCIAL STATEMENTS

The statement of net position and the statement of activities (the district-wide financial statements) present information for the District as a whole. All nonfiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the district-wide financial statements). Interfund activity has been eliminated in the preparation of the district-wide financial statements.

The statement of activities presents the direct functional expenses of the District and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State aid payments and other general revenues and shows how governmental functions are either self-financing or supported by the general revenues of the District.

FUND FINANCIAL STATEMENTS

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The District utilizes governmental and fiduciary funds.

The governmental fund financial statements present the District's individual major funds and aggregated nonmajor funds. A separate column is shown for each major fund on the balance sheet and statement of revenues, expenditures, and changes in fund balances. The nonmajor fund is labeled in the financial statements as nonmajor. The fiduciary funds are reported by type.

The major funds of the District are:

- a. General Fund - The General Fund is used to account for money or other resources provided to the District to support the educational programs and general operations of the District, except those required to be accounted for in another fund.
- b. 2013 Capital Projects Fund - The 2013 Capital Projects Fund is used to account for capital projects related to the 2013 School Building and Site Bonds.
- c. Debt Service Fund - The Debt Service Fund is used to account for principal and interest payments related to the bonded debt of the District.

Madison District Public Schools
NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Measurement Focus

The district-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the district-wide financial statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets, deferred outflows of resources, current liabilities, and deferred inflows of resources generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in fund balance.

There is no measurement focus for the fiduciary agency fund since assets equal liabilities.

4. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The district-wide and fiduciary fund financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Property tax revenue is recognized in the fiscal year for which it is levied. Revenues for grants, entitlements, and donations are recognized when all eligibility requirements imposed by the provider have been met. Unearned revenue is recorded when resources are received by the District before it has legal claim to them, such as when grant monies are received prior to the incurrence of qualified expenditures.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues susceptible to accrual include property taxes, state and federal aid, and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt which are recorded when due.

The District reports unearned and unavailable revenue on its governmental funds balance sheet, when applicable. Unavailable revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Resources are considered available if they are collected during the current fiscal year or soon enough afterward to be used in payment of current year liabilities - defined as expected to be received within sixty (60) days of year-end. Unearned revenues also arise when the District receives resources before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, the liability for unearned revenue is removed from the balance sheet and the revenue is recognized.

If/when both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources if they are needed.

Madison District Public Schools
NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

5. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for all required governmental fund types. The District does not maintain a formalized encumbrance accounting system.

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

- a. 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 for financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to July 1, the budget is legally adopted by Board of Education 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 not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amounts appropriated.
- d. The budgets are legally adopted at the functional level; however, they are maintained at the object level for control purposes. Any revisions that alter the total expenditures at the functional level must be approved by the School Board.
- e. The Superintendent is authorized to transfer budgeted amounts for purposes of meeting emergency needs of the District; however, these transfers must be approved subsequently by the Board of Education.
- f. Formal budgetary integration is employed as a management control device during the year for the General Fund and all Special Revenue Funds.
- g. The budget, as presented, has been amended in a legally permissible manner.

6. Cash and Cash Equivalents

Cash and cash equivalents consist of checking and savings accounts, pooled investment accounts, and short-term investments with an original maturity of 90 days or less. Cash equivalents are recorded at market value.

7. Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" and "due to other funds" on the governmental funds balance sheet.

8. Due from Other Governmental Units

Due from other governmental units consists of various amounts owed to the District for grant programs and State Aid payments. The State of Michigan's funding stream of State Aid payments results in the final two (2) payments for the fiscal year ended June 30, 2013 to be paid in July and August 2013. The total amount of due from other governmental units of \$2,707,114 consists of \$1,628,949 related to State Aid and \$1,078,165 for other governmental grants.

9. Prepays

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Madison District Public Schools
NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

10. Inventories

Inventories are stated at cost on a first in first out basis. The Food Service Fund inventory consists of food and paper good. Inventory amounts are equally offset by nonspendable fund balance which indicates that they do not constitute "available spendable resources" even though they are a component of fund balance.

11. Capital Assets

Capital assets include land, land improvements, buildings and additions, equipment, furniture, and other assets, and vehicles and are recorded (net of accumulated depreciation, if applicable) in the district-wide financial statements. Capital assets are those with an initial individual cost greater than \$5,000 and an estimated useful life of more than one (1) year. Capital assets also include individual cost items that are less than \$5,000 if the items were part of a large purchase to equip buildings. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the district-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. 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 asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Land improvements	15 years
Buildings and additions	15 - 40 years
Vehicles	10 years
Equipment, furniture, and other assets	5 - 20 years

The District has no assets that would be classified as infrastructure assets.

12. Compensated Absences

Based on the requirements of GASB Statement No. 16, *Accounting for Compensated Absences*, the District has recorded all liabilities associated with compensated absences. Compensated absences consist of earned but unused accumulated vacation and sick leave benefits, early retirement incentives, and other severance benefits. Accumulated vested severance amounts and nonvested severance amounts that are probable to vest and be paid at termination are considered payable from future resources and are recorded along with the related payroll taxes as a long-term liability in the district-wide financial statements.

13. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and the balance sheet, when applicable, will sometimes report a separate section for deferred outflows of resources. This separate financial element, deferred outflows of resources, represents a consumption of net position/fund balance that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position and the balance sheet, when applicable, will sometimes report a separate section for deferred inflows of resources. This separate financial element, deferred inflows of resources, represents an acquisition of net position/fund balance that applies to a future period and will not be recognized as an inflow of resources (revenue) until then.

The District only has one item that qualifies for reporting in this category. It is deferred amounts on refunding and bond issuance reported in the government-wide financial statement of net position. The deferred amounts on refunding and bond issuance results from unamortized original issue premiums and discounts associated with bond issuance. This amount is deferred and amortized over the life of the related debt.

Madison District Public Schools
NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

14. Long-term Obligations

Long-term debt is recognized as a liability in the district-wide statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in a Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

15. Short-term Note Obligations

Short-term debt is recognized as a liability of a governmental fund and is included on the balance sheet of the applicable fund. During the current year the District borrowed funds to meet short-term cash flow needs. The final payment is due and payable in August 2013, and anticipated State Aid is expected to be sufficient to cover this commitment.

16. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are assessed as of December 31 and the related property taxes become a lien on July 1 of the following year for approximately 50 percent of the taxes that are due September 30, and December 1 for the remainder of the taxes that are due February 28 of the following year. At this time, penalties and interest are assessed and the total obligation is added to the county tax rolls. School District property tax revenues are recognized when levied to the extent that they result in current revenue (collected as of year-end). Amounts received subsequent to June 30 are recognized as revenue when collected.

The District levies taxes for the General Fund of \$18.00 per \$1,000 of taxable valuation on nonprimary residence exempt property (2012 value \$94,418,379) and \$6.00 per \$1,000 of taxable valuation on commercial personal property (2012 value \$11,484,950) for general governmental services and \$7.76 per \$1,000 of taxable valuation on the total applicable taxable valuation of all property within the District for debt service. The District is also permitted to levy additional amounts for enhancement and/or debt service if voter approval is obtained. Total 2012 taxable value of the District, which was used for the basis of the tax revenue for the applicable Debt Service Fund, was \$212,185,045.

17. State Foundation Revenue

Beginning with the fiscal year ended June 30, 1995, the State of Michigan adopted a foundation grant approach, which provides for a specific annual amount of revenue per student based on a statewide formula. Prior to the fiscal year ended June 30, 1995 the State utilized a district power equalizing approach. 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 districts. For the year ended June 30, 2013, the foundation allowance was based on the average of pupil membership counts taken in September 2012 and February 2012. The average calculation was weighted 90% for the September 2012 count and 10% for the February 2012 count.

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 nonhomestead property taxes, which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period (currently the fiscal year) and is funded through nine (9) payments made during the fiscal year and two (2) payments made subsequent to year-end. The local revenue is recognized as outlined above under Property Taxes.

Madison District Public Schools
NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

18. State Categorical Revenue

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received which are not expended by the close of the fiscal year are recorded as unearned revenue.

19. Interfund Transactions

Interfund transactions are reported as either loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers on the governmental fund financial statements. Transfers are netted as part of the reconciliation to the district-wide financial statements.

20. Restrictions of Net Position

Restrictions of net position shown in the district-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes.

21. Federal Programs

Federal programs are accounted for in the specific governmental fund to which they relate. The District has not integrated its Single Audit reports and financial data as part of the financial statements. The Single Audit reports and financial data will be issued under separate cover as supplementary information to the financial statements.

22. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumption that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the period. Actual results could differ from those estimates.

23. Comparative Data

Comparative data for the prior year has not been presented in the basic financial statements since their inclusion would make the statements unduly complex and difficult to read.

NOTE B: CASH AND CASH EQUIVALENTS

In accordance with Michigan Public Act 451 of 1976, Section 1223(1), as amended, the District is authorized to invest its surplus funds in the following types of investments:

1. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
2. Certificates of deposit issued by a State or National bank, savings accounts of a State or Federal savings and loan association, or certificates of deposit or share certificates of a State or Federal credit union organized and authorized to operate in this State.

Madison District Public Schools
NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

3. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
4. Securities issued or guaranteed by agencies or instrumentalities of the United States government.
5. United States government or Federal agency obligation repurchase agreements.
6. Bankers' acceptances issued by a bank that is a member of the Federal Depository Insurance Corporation (FDIC).
7. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a School District.
8. Investment pools, as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a School District.

Michigan Public Acts authorize school districts in Michigan to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations. Deposits of the District are at federally insured banks and credit unions in the State of Michigan in the name of the School District.

Deposits

There is custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2013, the carrying amount of the District's deposits was \$13,104,961 and the bank balance was \$13,355,316 of which \$250,000 was covered by Federal depository insurance. The balance of \$13,105,316 was uninsured and uncollateralized.

Investments

As of June 30, 2013, the carrying amounts and market values for the type of investments as reported in the cash and cash equivalents captions on the financial statements is as follows:

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Weighted Average Maturity</u>
Uncategorized - Pooled investment funds			
MILAF+ Cash Management Class	\$ 61,210	\$ 61,210	N/A
MILAF+ MAX Class	<u>120,144</u>	<u>120,144</u>	N/A
	<u>\$ 181,354</u>	<u>\$ 181,354</u>	

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). The District's investments listed above were rated at AAAm by Standard & Poors at June 30, 2013.

Madison District Public Schools
NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

Interest Rate Risk

The District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby, avoiding the need to sell securities in the open market and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Concentration of Credit Risk

The District places no limit on the amount the District may invest in any one issuer.

Custodial Credit Risk

The District will minimize custodial 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 authorized by the Board and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business in accordance with the Board-approved policy. The District does not hold any investments subject to custodial credit risk of investments at year end.

As of June 30, 2013, the District's deposits and investments were reported in the financial statements in the following categories:

	Governmental Activities	Fiduciary Fund	Total
Cash and cash equivalents	\$ 13,223,869	\$ 63,446	\$ 13,287,315

The District had \$1,000 of imprest cash on hand.

NOTE C: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013 was as follows:

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
Governmental activities				
Capital assets not being depreciated				
Land	\$ 1,782,186	\$ -	\$ -	\$ 1,782,186
Capital assets being depreciated				
Land improvements	2,440,920	-	-	2,440,920
Buildings and additions	19,198,755	272,618	-	19,471,373
Vehicles	46,160	-	-	46,160
Equipment, furniture, and other assets	523,094	95,875	(10,000)	608,969
Total capital assets being depreciated	22,208,929	368,493	(10,000)	22,567,422

Madison District Public Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE C: CAPITAL ASSETS - CONTINUED

	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2013</u>
Governmental activities - continued				
Less accumulated depreciation for:				
Land improvements	\$ (2,012,839)	\$ (150,841)	\$ -	\$ (2,163,680)
Buildings and additions	(10,389,901)	(413,384)	-	(10,803,285)
Vehicles	(36,160)	(2,500)	-	(38,660)
Equipment, furniture, and other assets	<u>(386,585)</u>	<u>(35,694)</u>	<u>10,000</u>	<u>(412,279)</u>
Total accumulated depreciation	<u>(12,825,485)</u>	<u>(602,419)</u>	<u>10,000</u>	<u>(13,417,904)</u>
Net capital assets being depreciated	<u>9,383,444</u>	<u>(233,926)</u>	<u>-0-</u>	<u>9,149,518</u>
Total net capital assets	<u>\$ 11,165,630</u>	<u>\$ (233,926)</u>	<u>\$ -0-</u>	<u>\$ 10,931,704</u>

Depreciation expense, when appropriate, was allocated to governmental functions. Depreciation was recorded on the statement of activities as follows:

Instruction	\$ 413,384
Support services	177,706
Food service	<u>11,329</u>
	<u>\$ 602,419</u>

NOTE D: SHORT-TERM NOTES

On August 20, 2011, the District borrowed \$3,045,000 with two State School Aid Anticipation Notes. The notes bore interest monthly at a rate of 0.311% and were due on August 20, 2012. The notes were paid in full in August 2012.

On August 20, 2012, the District issued short-term State School Aid Anticipation Notes in the amounts of \$800,000 for the purpose of funding operating expenditures during periods of low cash flows. This short-term note, which has a net outstanding balance of \$806,444 at June 30, 2013, is reported in the financial statements under the caption short-term notes payable, which includes interest payable of \$6,444. The funds to make the payment due will come from State Aid and other local sources. The outstanding balance was paid in August 2013.

NOTE E: LONG-TERM DEBT

The following is a summary of changes in long-term debt obligations of the District for the year ended June 30, 2013.

	<u>Restated Balance July 1, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2013</u>	<u>Amounts Due Within One Year</u>
2005 Refunding Bonds	\$ 8,455,000	\$ -	\$ (1,405,000)	\$ 7,050,000	\$ 1,410,000
2013 School Building and Site Bonds	-	11,400,000	-	11,400,000	-
Self-insurance	19,200	-	-	19,200	-
Compensated absences	<u>333,223</u>	<u>101,584</u>	<u>(66,516)</u>	<u>368,291</u>	<u>30,000</u>
Total	<u>\$ 8,807,423</u>	<u>\$ 11,501,584</u>	<u>\$ (1,471,516)</u>	<u>\$ 18,837,491</u>	<u>\$ 1,440,000</u>

Madison District Public Schools
NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE E: LONG-TERM DEBT - CONTINUED

Significant details regarding outstanding long-term debt (including current portions) are presented below:

General Obligation Bonds

\$12,750,000 2005 Refunding Bonds dated May 23, 2005, due in annual installments of \$1,410,000 through May 1, 2018, with interest ranging from 4.375 to 5.000 percent, payable semi-annually.	\$ 7,050,000
\$11,400,000 2013 School Building and Site Bonds dated June 27, 2013, due in annual installments ranging from \$150,000 to \$495,000 through May 1, 2043, with interest ranging from 1.50 to 4.25 percent, payable semi-annually.	<u>11,400,000</u>
	<u><u>\$ 18,450,000</u></u>

Annual Requirements for Bonded Debt

The annual requirements to pay the bond principal and interest outstanding are as follows.

Years Ending June 30,	2005 Refunding Bonds			2013 School Building and Site Bonds		
	Principal	Interest	Totals	Principal	Interest	Totals
2014	\$ 1,410,000	\$ 327,826	\$ 1,737,826	\$ -	\$ 374,284	\$ 374,284
2015	1,410,000	257,326	1,667,326	150,000	443,231	593,231
2016	1,410,000	186,826	1,596,826	175,000	440,981	615,981
2017	1,410,000	125,138	1,535,138	200,000	438,356	638,356
2018	1,410,000	63,450	1,473,450	225,000	434,356	659,356
2019-2023	-	-	-	1,875,000	2,026,981	3,901,981
2024-2028	-	-	-	2,000,000	1,656,031	3,656,031
2029-2033	-	-	-	2,125,000	1,249,994	3,374,994
2034-2038	-	-	-	2,250,000	799,001	3,049,001
2039-2043	-	-	-	2,400,000	309,400	2,709,400
	<u>\$ 7,050,000</u>	<u>\$ 960,566</u>	<u>\$ 8,010,566</u>	<u>\$ 11,400,000</u>	<u>\$ 8,172,615</u>	<u>\$ 19,572,615</u>

Self-Insurance

The self-insurance liability was set-up for claims that have been incurred but not reported at June 30, 2013.

Compensated Absences

In accordance with District personnel policies and/or contracts negotiated with various employee groups of the District, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in their respective personnel policies and/or contracts. The dollar amount of these vested rights, including payroll taxes, amount to \$368,291 as of June 30, 2013. This amount has been reported as a liability in the statement of net position, with applicable current and noncurrent portions.

Madison District Public Schools
NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE E: LONG-TERM DEBT - CONTINUED

Advance Refunding - Prior

On May 23, 2005, the District defeased a portion of the 1999 School Building and Site General Obligation Bonds, which were due and payable May 1, 2010 through May 1, 2018. This was accomplished by establishing an irrevocable trust with an escrow agent composed of cash and U.S. Government Securities sufficient to meet the applicable principal and interest payments. The District issued 2005 Refunding Bonds in the amount of \$12,750,000 to fund escrow amounts, pay the cost of issuance of the refunding bonds, and to pay a portion of the remaining balances of the 1999 School Building and Site General Obligation Bonds. Accordingly, the trust account assets and liabilities for the defeased bond are not included in the District's financial statements. At June 30, 2013, bonds due and payable May 1, 2014 through May 1, 2018 for 1999 School Building and Site General Obligation Bonds in the amount of \$7,215,000 are considered defeased.

NOTE F: INTERFUND RECEIVABLES AND PAYABLES

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

The amount of interfund receivables and payables at June 30, 2013 are as follows:

Due to 2005 Refunding Bonds from:	
General Fund	<u>\$ 551,291</u>
Due to nonmajor governmental funds:	
General Fund	<u>\$ 88,089</u>

NOTE G: EMPLOYEE PENSION AND OTHER POSTEMPLOYMENT BENEFITS

Plan Description

All of the District's employees, except students, are eligible to participate in the State wide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing, defined benefit, State wide public employee retirement system. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. The report for the fiscal year-end September 30, 2011, the last year available, may be obtained by contacting the State of Michigan Department of Technology, Management and Budget.

Funding Policy

Employer contributions to the pension system result from implementing effects of the School Finance Reform Act. Member contribution rates vary based on date of hire and certain voluntary elections. Employees who selected MIP on or before December 31, 1989, contributed 4% from January 1, 1987 to December 31, 1989 and 3.9% thereafter. Employees first hired on or after January 1, 1990 through June 30, 2008 are required to contribute based on a graduated rate: 3% of the first \$5,000 (up to \$150); \$150 plus 3.6% of \$5,001 through \$15,000 (up to \$510 total); \$510 plus 4.3% of all wages over \$15,000. Employees first hired on or after July 1, 2008 are required to contribute based on a graduated rate: 3% of the first \$5,000 (up to \$150); \$150 plus 3.6% of \$5,001 through \$15,000 (up to \$510 total); \$510 plus 6.4% of all wages over \$15,000. In addition, employees first hired on or after July 1, 2010 are required to enroll in the Pension Plus Plan, which includes a defined contribution component of 3% of all wages to a retiree health care fund and 2% to a hybrid defined contribution pension plan.

Madison District Public Schools
 NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE G: EMPLOYEE PENSION AND OTHER POSTEMPLOYMENT BENEFITS - CONTINUED

Pension Benefits

Each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits.

Other Postemployment Benefits

Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage through MPSERS. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10.0 percent of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rate to fund the benefits on a pay-as-you-go basis. Participating employers are required to contribute at that rate.

Contribution rates for the year ended June 30, 2013, are as follows:

	Pension Contribution Rate		Health Contribution Rate	
	Basic/MIP	Pension Plus	Basic/MIP	Pension Plus
July 1, 2012 - September 30, 2012	15.96%	14.73%	8.50%	8.50%
October 1, 2012 - January 31, 2013	16.25%	12.78-15.02%	9.11%	8.18-9.11%
February 1, 2013 - June 30, 2013	12.78-15.21%	12.78-15.02%	9.11%	8.18-9.11%

The District's required and actual contributions to the various plans for the last three fiscal years are as follows:

Fiscal Year Ended June 30,	Defined Benefit Plan		Defined Contribution Plan	
	Employer Retirement Contributions	Employer Health Contributions	Employer Contributions	Employee Contributions
2013	\$ 1,040,502	\$ 583,322	\$ 6,438	\$ 10,766
2012	906,305	482,682	Not Available	Not Available
2011	750,546	524,642	Not Available	Not Available

NOTE H: RISK MANAGEMENT

The District participates in a pool, the MASB-SEG Property and Casualty Pool with other school districts for boiler, property, fleet, liability, in-land marine, equipment breakdown, builder's risk, employee dishonesty, crime, and error and omissions. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self-insurance pool. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The District has not been informed of any special assessments being required.

The District also participates in a pool, the SEG Self-Insurer Workers' Disability Compensation Fund, with other school districts for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The District has not been informed of any special assessments being required.

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE H: RISK MANAGEMENT - CONTINUED

The District estimates the liability for dental and vision claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. The obligation is recorded on the statement of net position and is estimated at \$19,200.

NOTE I: DETAILS OF FUND BALANCE CLASSIFICATIONS

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The following are the five classifications of fund balance under this standard:

Nonspendable - assets that are not available in a spendable form such as inventory, prepaid expenditures, and long-term receivables not expected to be converted to cash in the near term. It also includes funds that are legally or contractually required to be maintained intact such as the corpus of a permanent fund or foundation.

Restricted - amounts that are required by external parties to be used for a specific purpose. Constraints are externally imposed by creditors, grantors, contributors or laws, regulations or enabling legislation.

Committed - amounts constrained on use imposed by formal action of the government's highest level of decision making authority (i.e., Board, Council, etc.).

Assigned - amounts intended to be used for specific purposes. This is determined by the governing body, the budget or finance committee or a delegated municipality official.

Unassigned - all other resources; the remaining fund balance after nonspendable, restrictions, commitments, and assignments. This class only occurs in the General Fund, except for cases of negative fund balances. Negative fund balances are always reported as unassigned, no matter which fund the deficit occurs in.

Fund Balance Classification Policies and Procedures

For committed fund balance, the District's highest level of decision-making authority is the Board of Education. The formal action that is required to be taken to establish a fund balance commitment has not been determined by the District.

For assigned fund balance, the District has not approved a policy indicating who is authorized to assign amounts to a specific purpose. As a result, this authority is retained by the Board of Education.

The District has not adopted a policy that defines the order of usage for fund balance amounts classified as restricted, committed, assigned, or unassigned. In the absence of such a policy, resources with the highest level of restriction will be used first.

NOTE J: CONTINGENT LIABILITIES

The District is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the District and its attorney, the resolution of these matters is not expected to have a material adverse effect on the financial condition of the District.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the Federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures, which may be disallowed by the grantor, cannot be determined at this time although the District expected such amounts, if any, to be immaterial.

Madison District Public Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE K: RELATED-PARTY TRANSACTIONS

The District has a vendor relationship with a company owned by the wife of one of the Board of Education members. The District currently orders uniforms from this company. The total amount purchased from this company for the 2012-13 school year was \$2,318. All transactions were conducted at arm's length.

NOTE L: SUBSEQUENT EVENT

In August 2013, the District received funds from the Michigan Municipal Bond Authority short-term cash flow borrowing program. The loan in the amount of \$935,000, plus interest of \$11,198, was for the purpose of funding operating expenditures until the fiscal year 2014 State Aid payments begin. Future anticipated State Aid and other local funds are expected to be sufficient to cover this commitment.

NOTE M: CHANGES IN ACCOUNTING PRINCIPLES

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, were implemented during the current year. These statements incorporate deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets, and fund balance, when applicable.

NOTE N: RESTATEMENT OF NET POSITION

Beginning net position of the government activities was restated by (\$346,225) due to the implementation of GASB Statement No. 65. This item resulted in a governmental activities net position being restated from \$5,540,589 to \$5,194,364 at the beginning of the year.

NOTE O: UPCOMING ACCOUNTING PRONOUNCEMENT

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. The statement requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The District is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the financial statements for the District's 2014-2015 fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION

Madison District Public Schools

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Local sources	\$ 2,231,965	\$ 2,003,096	\$ 2,021,895	\$ 18,799
State sources	8,228,425	8,429,593	8,505,333	75,740
Federal sources	1,074,661	1,017,816	1,010,800	(7,016)
TOTAL REVENUES	11,535,051	11,450,505	11,538,028	87,523
EXPENDITURES				
Current				
Instruction				
Basic programs	5,101,811	5,694,055	5,673,097	20,958
Added needs	2,117,756	1,950,665	1,960,063	(9,398)
Total instruction	7,219,567	7,644,720	7,633,160	11,560
Supporting services				
Pupil	726,592	780,745	773,415	7,330
Instructional staff	813,271	559,100	551,879	7,221
General administration	409,492	423,104	447,054	(23,950)
School administration	983,542	1,006,120	985,422	20,698
Business	529,099	407,610	410,776	(3,166)
Central	161,520	102,469	125,037	(22,568)
Pupil transportation	240,000	260,464	246,463	14,001
Athletics	115,780	115,780	136,001	(20,221)
Operations and maintenance	1,847,914	1,737,428	1,628,286	109,142
Total supporting services	5,827,210	5,392,820	5,304,333	88,487
Community services	110,000	87,744	59,020	28,724
TOTAL EXPENDITURES	13,156,777	13,125,284	12,996,513	128,771
EXCESS OF REVENUES (UNDER) EXPENDITURES	(1,621,726)	(1,674,779)	(1,458,485)	216,294
OTHER FINANCING SOURCES				
Payments from other districts	830,289	763,915	791,806	27,891
NET CHANGE IN FUND BALANCE	(791,437)	(910,864)	(666,679)	244,185
Fund balance, beginning of year	2,231,501	2,231,501	2,231,501	-0-
Fund balance, end of year	\$ 1,440,064	\$ 1,320,637	\$ 1,564,822	\$ 244,185

Madison District Public Schools

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30, 2013

NOTE A: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amount appropriated.

During the year ended June 30, 2013, the District incurred expenditures in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
Current			
Instruction			
Added needs	\$ 1,950,665	\$ 1,960,063	\$ 9,398
Supporting services			
General administration	423,104	447,054	23,950
Business	407,610	410,776	3,166
Central	102,469	125,037	22,568
Athletics	115,780	136,001	20,221